



Union Assurance PLC

30
15
135
220+

**A COLLECTIVE
PASSION
2012**

ANNUAL REPORT

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A COLLECTIVE PASSION 2012

Seconds, minutes, hours, days, months and years... the measurements through which we gauge success and achievement. Customers, innovation, awards, teamwork and values... the factors through which we have grown and created synergy in an ever-evolving industry.

This year as we celebrate time and history, we bring together a collective experience... of a team and its leaders who have brought with them the passion for achievement, skills to deliver and vision to dream that have helped Union Assurance become a trend-setter in the industry. Whether it's through introducing novel, high-tech methods to insurance or by creating comprehensive covers for a gamut of requirements, we have always based our success on a collective experience which has culminated to create a collective passion; a philosophy which has burned bright for 25 years.

25+

YEARS OF TRUSTED SERVICE

“ The success of Union Assurance is the collective effort by its entire team. Upon reaching 25 years of excellence, we have every intention to build on our strong corporate reputation to fully exploit the opportunities that will follow rapid economic development,” Dirk Pereira - CEO ”

Union Assurance PLC was incorporated in 1988 as an Insurance provider. Since then, we have continued to explore innovative methods in order to meet the changing needs of our clients and society so as to always be in line with contemporary trends. With our solid and consistent 25-year track record, comprising of 107 branches and over 4,500 employees and field staff, today we touch the lives of half a million Sri Lankans island-wide.

Our work has not gone unrecognised as the company has reaped a bounty of awards over the years. For years, Union Assurance had proven itself as a distinguished part of Sri Lanka's economy and society and has consistently ranked among the top 50 listed entities in Sri Lanka.

In 2012, Union Assurance celebrated its 25th anniversary and to mark this

milestone, the company felicitated 44 of its long standing staff for their committed service of 25 years. Most of the staff had advanced to key positions and were recognised for their dedicated loyalty and commitment to the company.

Union Assurance throughout its 25 years has maintained an impressive record in terms of its financial performance, which is attributed to the innovative and

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

UNION ASSURANCE

customised solutions and services it offers to life and non life insurance clientele. In addition to products and services, at Union Assurance, we have constantly interested in cutting-edge technology and take pride in nurturing people with structured training and development initiatives. This has enabled UA to secure new businesses and consolidate relationships with existing customers while contributing to the growth of the organisation and its people.

Building a strong position in both life and non life insurance, UA is consistently evolving to make insurance schemes more transparent and convenient for its customers.

Our brand is positioned on the promise of 'trust' and we will continue to deliver this promise by being transparent, convenient and respectful when dealing with all our stakeholders in the years to come.

EXCELLENT SERVICE OF YEAR 2012

JANUARY

Union Assurance received prestigious “Celent Model Insurer Award” for best product design and definition for Union eMotor solution. The award recognises the best insurance technology creativities in the Asia Pacific Region. Celent is a research and consulting firm focused on the application of information technology in the global financial services industry.

FEBRUARY

Entered into a bancassurance partnership with Union Bank to provide life and non life insurance solutions to bank customers.

UA's sustainability practices were recognised for the 4th consecutive year, as the 2011 Sustainability Report was awarded runner up position in the medium scale category at the Sustainability Awards ceremony conducted by the Association of Chartered Certified Accountants (ACCA).

APRIL

Launched improved range of unit linked products catering to the evolving protection, investment and saving needs of targeted customer segments. Also launched the Digital Advisor Toolkit (DAT), enabling the sales team to conduct fact finding interviews and generate quotations off their lap top or tablet PCs.

MAY

Enhanced the features and functionality of “Union Connect,” enabling life insurance customers to sms their policy number and receive updates regarding the status and history of insurance premium payments.

JUNE

Entered into a partnership with Abans to offer Union Motor Reload products at selected Abans outlets. Union Motor Reload is the only product in the market where customers can purchase their motor insurance for one, three or six month periods. Apart from the period of cover, the product retains all the features of a standard motor insurance policy.

JULY

Introduced an innovative pricing formula for “Union Motor Star” product based on a variety of risk factors which are actuarially validated in line with international best practices.

Expanded UA's presence in the North, by opening a fully fledged branch in Killinochchi. As at December, the company operates 16 branches and business development offices in the North.

AUGUST

UA's life fund exceeded Rs. 15 billion.

The company adopted the new accounting standards SLFRS / LKASs and published its first interim accounts under the new framework.

SEPTEMBER

Union Motor Reload was shortlisted for Innovation of the Year Award at the 16th Asia Insurance Industry Awards organised by the Asia Insurance Review. UA was the only Sri Lankan company to be shortlisted in any of the 13 categories, which had drawn 800 entries from insurance companies operating across the Asian region.

OCTOBER

Won the Silver Award for Service Brand of the Year at SLIM Brand Excellence Awards 2012. UA was the only insurance company to be recognised at the ceremony.

Enhanced the speed cash settlement process, enabling direct settlement of motor insurance claims to customers either at the accident site, or immediately when the repair estimate is finalised at the repair shop.

NOVEMBER

Union Assurance infrastructure received regional recognition – awarded “Best Insurer Technology Award 2012” for excellence and innovation from Celent, and Asia Insurance Review.

DECEMBER

The 2012 annual report won several accolades at the Annual Report Awards Ceremony conducted by the Institute of Chartered Accountants of Sri Lanka. Union Assurance won Gold for corporate governance, the best report in the insurance sector and a Silver award for Overall Excellence in Financial Reporting. These awards continue to highlight UA's commitment to transparency and good governance.

UA's business practices were recognised for the 5th consecutive year at the National Business Excellence Awards conducted by the National Chamber of Commerce.

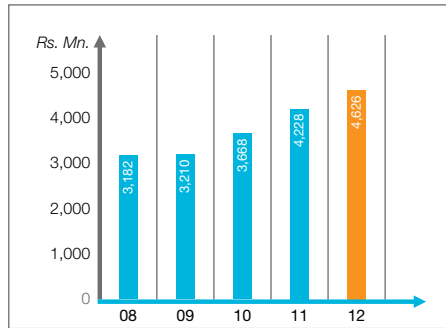
Won an award for Brand Excellence in the banking and financial sector at the 2012 Global Awards presented by the World Brand Congress.

The company successfully concluded a rights issue of one ordinary share for every seven shares held at a price of Rs. 70/- per share in order to increase the share capital by Rs. 750 million. The rights issue was fully subscribed.

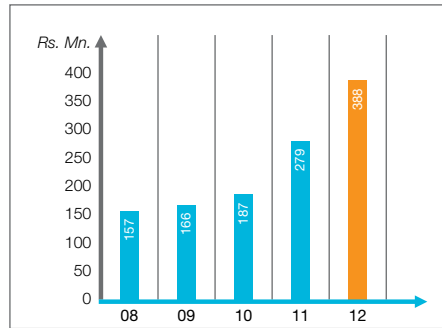
Reported the highest profit in the company's history crossing the Rs. 1 billion profit before tax mark, a 32% increase from the previous year. Life and non life revenues also increased by 12% from Rs. 8.7 billion in 2011 to Rs. 9.7 billion in 2012.

FINANCIAL HIGHLIGHTS

NON LIFE INSURANCE



Gross Written Premium - Non Life



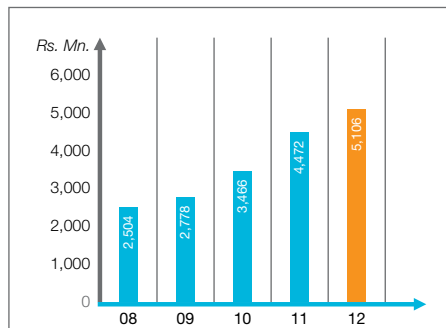
Non Life Insurance - Profit

Non life insurance gross written premium grew by 9% from Rs. 4.2 billion to Rs. 4.6 billion. All classes of non life insurance business contributed to this growth, and both retail and corporate distribution channels expanded their business volumes.

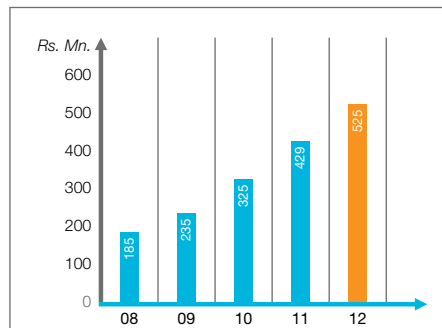
Net profit increased by 39% from Rs. 279 million to Rs. 388 million in 2012.

A COLLECTIVE PROGRESS

LIFE INSURANCE



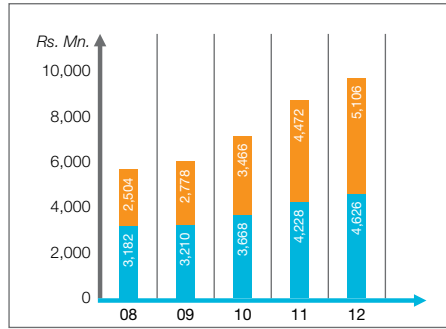
Gross Written Premium - Life



Life Surplus

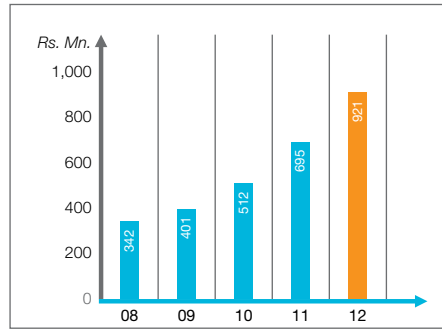
Life business grew by 14%. Based on an independent actuarial valuation, Rs. 525 million was transferred as surplus from the life fund. This was 22% higher than the 2011 surplus.

COMPANY



Gross Written Premium - Non Life and Life

■ Life
■ Non Life



Profit after Taxation

Combined life and non life gross written premium amounted to Rs. 9.7 billion, compared with Rs. 8.7 billion in the previous year, an increase of 12%.

Profit after tax, increased by 33% from Rs. 695 million in 2011 to Rs. 921 million in 2012.

RS. 921 MN

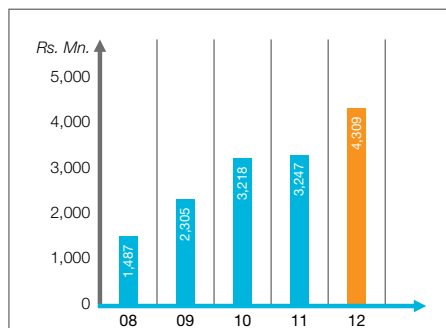
Profit for the year increased by 33% from Rs. 695 million in 2011 to Rs. 921 million in 2012

RS. 4,626 MN

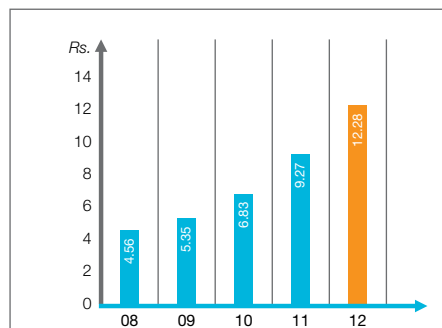
Non life gross written premium grew by 9% from Rs. 4.2 billion to Rs. 4.6 billion

RS. 5,106 MN

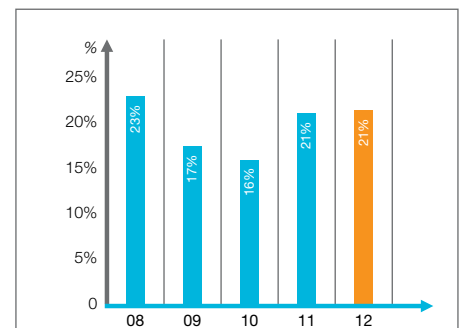
Life business grew by 14% from Rs. 4.4 billion in 2011 to Rs. 5.1 billion in 2012.



Net Assets



Earnings per Share



Return on Net Assets

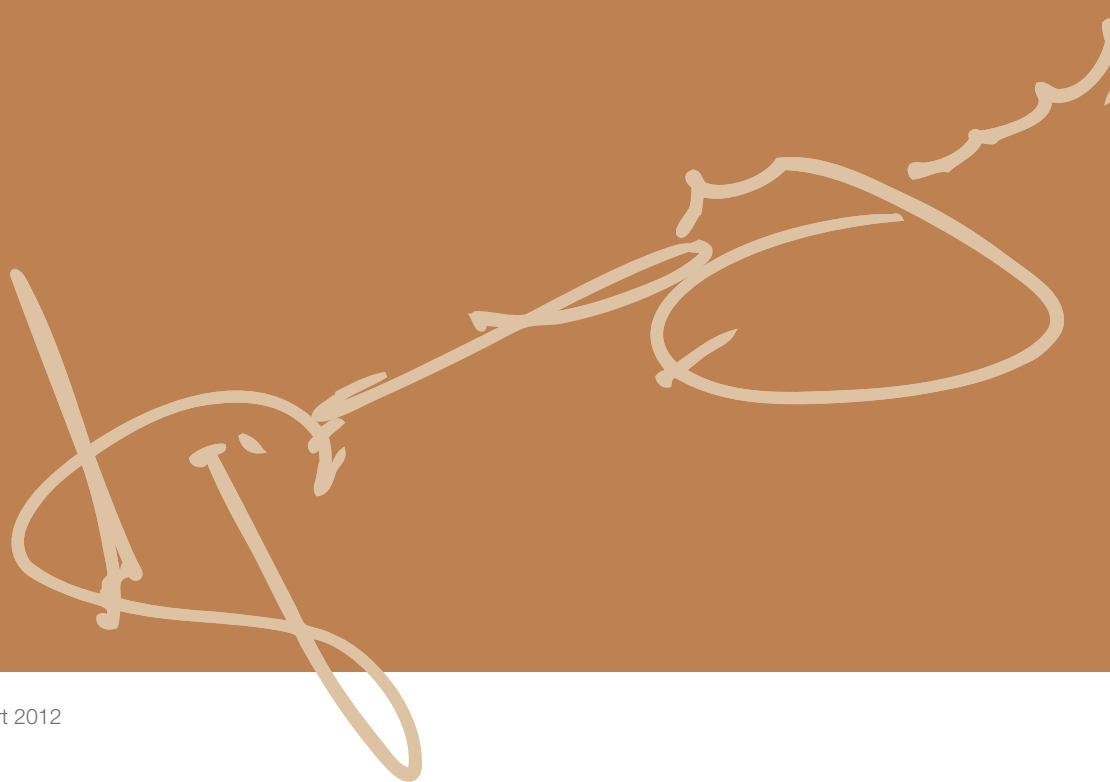
Net assets increased from Rs. 3.2 billion to Rs. 4.3 billion, due to improved profitability and the rights issue which increased the stated capital by Rs. 745 million (net of rights issue expenses). Earnings per share and return on net assets amounted to Rs. 12.28 and 21% respectively, compared with Rs. 9.27 and 21% recorded in 2011.



30+ YEARS OF ENTREPRENEURSHIP

“UA, with its strong brand image, professional team and distribution reach, is well positioned to step into the next phase of our journey.”

Ajit D. Gunewardene
Chairman



CHAIRMAN'S MESSAGE

It gives me great pleasure to present to you the Annual Report of your company for the year ended 31st December 2012. Union Assurance concluded its 25th year of operations on an extremely satisfactory note, reporting strong momentum in both turnover and profits from both the life and non life insurance businesses.

Macro Economic Environment

The economy continued to grow, albeit at a slower pace compared to the previous two years. For the full year of 2012, economic growth is expected to be around 6.5%, affected mainly by the high interest rate environment and the inclement weather which impacted agriculture and energy output. Large scale nationwide infrastructure projects continued to be rolled out ranging from power generation and roadways to ports and airports. However to sustain this growth momentum would require a sharp rise in FDI inflows and private investments. On the global front, the economic recovery continues to be fragile as new risks emerge.

Non Life Insurance Industry

Several new companies entered the industry in the recent past and as a result there are 19 companies providing non life insurance services. These comprise six stand alone companies and 13 companies that provide life and non life insurance services. The industry is expected to report a healthy growth rate in 2012 buoyed by new vehicle registrations, large scale infrastructure projects and organic growth.

The National Insurance Trust Fund (NITF) has been granted authority to increase their share of reinsurance placements from 20% to 30%. While we appreciate the steps taken by the authorities to bring the NITF under the purview of the Insurance Board of Sri Lanka (IBSL), it is imperative that robust risk management and reinsurance arrangements are in place

to meet NITF's obligations arising from the risks they carry.

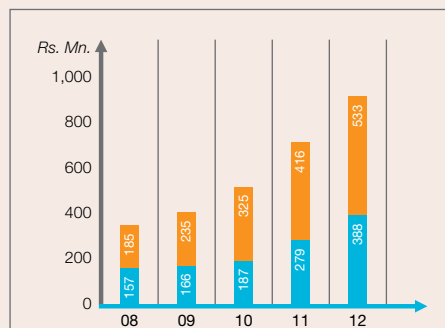
Life Insurance Industry

As per statistics published by the IBSL, 29% of the working population has some form of life insurance. However, life insurance premium as a percentage of GDP has stagnated around 0.5% which indicates the significant growth potential in the sector. The current economic development taking place in the country which is likely to increase the income levels of communities, presents the life insurance industry with a valuable opportunity. These factors combined with an increased awareness among the general public regarding the importance of life insurance, point to an exciting future for the industry.

Company Performance

UA continues to maintain a steady growth momentum in both turnover and profits. Non life insurance and life insurance premiums increased by 12% from Rs. 8.7 billion in 2011 to Rs. 9.7 billion in 2012. Profit after tax increased by 33% from Rs. 695 million in 2011 to Rs. 921 million in 2012.

More information on the company's performance is provided in the CEO's review, management discussion and analysis and the financial statements in the latter part of this report.



Profitability - Non life and Life

Life
Non life

Strength and Stability

In order to strengthen the capital position of the company in line with regulatory requirements, in October 2012, the company announced a rights issue of 1 ordinary share for every 7 ordinary shares held, at a price of Rs. 70/- per share. The rights issue was fully subscribed and together with the increase in the company's profitability, resulted in the net asset position increasing from Rs. 3.2 billion in 2011 to Rs. 4.3 billion in 2012. As reflected on page 122 the company's solvency position has also improved. UA's reinsurance programme continues to be led by reinsurers who have been assigned at least an "A" rating by international rating agencies. The details of our reinsurance panel are available on the inner back page. We have also obtained actuarial valuations of our life policyholder liabilities and provision for incurred but not reported claims. The reports of the actuaries are available on pages 207 and 206 respectively.

Regulations

The IBSL remains committed to ensure the growth and stability of the industry and has been receptive to the suggestions and concerns raised by all stakeholders. Several steps have been taken to address the risk arising from the mismatch of having to mark assets to market values while continuing to carry liabilities on a historical cost basis.

The IBSL is also following up with the tax authorities and the Securities and Exchange Commission with regard to several matters arising from the regulations to split composite companies (which transact both life and non life insurance) into separate entities by 2015.

Achievements

We are proud of the many accolades that Union Assurance has achieved throughout the year. At the awards ceremony held by the Institute of

Chartered Accountants of Sri Lanka, UA's 2011 Annual Report was placed first in the Insurance sector and received a Silver Award for Overall Excellence in Financial Reporting. UA's corporate governance disclosures secured first place as well. Our sustainability practices were recognised by the Association of Certified Chartered Accountants (ACCA) as we were placed Second in the Medium Scale category. These awards reflect UA's commitment to good governance and transparency.

In recognition of UA's business practices in the insurance sector, the company secured a Silver award at the National Business Excellence Awards 2012, conducted by the National Chamber of Commerce of Sri Lanka (NCCSL). This was the fifth consecutive year that UA has been recognised for this award.

UA also won a Silver Award in the category 'Service Brand of the Year' at the SLIM Brand Excellence Awards and received an accolade for Brand Excellence in Banking and Financial Services at the Global Brand Congress held in Mumbai.

UA's IT infrastructure also received regional recognition. The integrated customer service solution developed to handle motor claims received the 'Best Insurer Technology Award 2012' accolade from Celent and Asia Insurance Review. This prestigious award recognises excellence and innovation within the insurance industry in the Asia Pacific Region. Union Motor Reload, the only motor insurance product in the market which provides cover for one, three or six months was shortlisted for 'Innovation of the Year' at the Asia Insurance Industry Awards 2012 organised by the Asia Insurance Review. This is the flagship event of the Asian insurance industry.

Future Outlook and Strategy

We maintain a very positive outlook for both our non life and life insurance businesses. Growth in key economic sectors will result in improvements in the quality of life, which will fuel demand for protection, savings and investment solutions across all customer segments. UA with its strong brand image, professional team and distribution reach is well positioned to take advantage of this opportunity.

The regulatory changes requiring composite companies to separate their life and non life businesses, implement a risk based capital framework and maintain a minimum capital of Rs. 500 million per line of business will lead insurers to focus on service rather than price as a key differentiator in the non life insurance business.

While customer service has always been a key priority at UA, we have invested heavily in staff training in order to develop a motivated and dynamic workforce who will provide this exceptional customer experience.

We also encourage an innovation-oriented culture in the company. This will enable UA to develop customer centric products, processes and solutions which will enable us to differentiate ourselves further. We also believe that information technology and alternate distribution channels will play an important role in bringing customers closer to insurance solutions and we will continue to invest in these aspects to enhance customer convenience.

We have built a strong life business and we will continue to invest in distribution, product innovation and service excellence to aggressively exploit the opportunities in this segment.

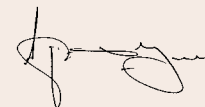
Dividends

The Board of Directors is pleased to declare a first and final dividend of Rs. 5.00 per share for 2012. The dividend payout for the year amounts to Rs. 429 million.

Acknowledgements

We appreciate the proactive approach taken by the IBSL to develop and ensure the stability of the insurance industry. We also acknowledge the role played by the Insurance Ombudsman to implement an efficient, independent grievance redress mechanism.

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



Ajit D. Gunewardene
Chairman

26th February 2013

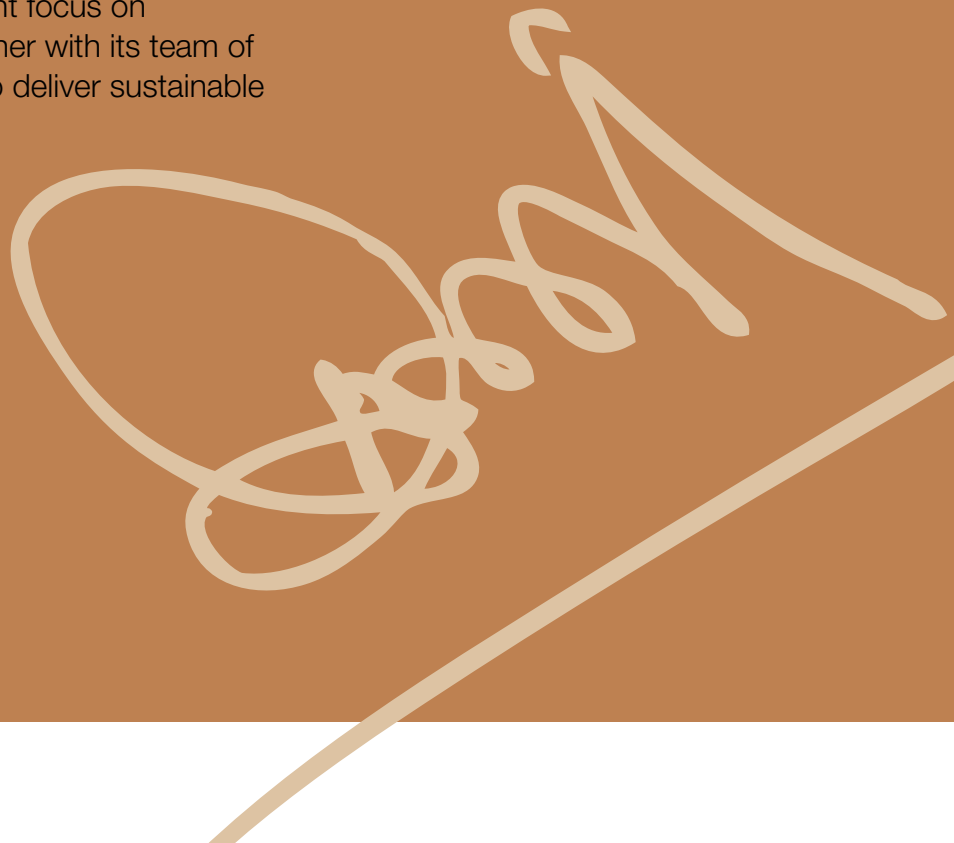


15+ YEARS OF LEADERSHIP

As we enter our 26th year of operations, UA is well positioned to capitalise on the growth opportunities that will follow rapid socio-economic development.

We believe that UA with its consistent focus on governance and transparency together with its team of dynamic professionals will be able to deliver sustainable value to all stakeholders.

Dirk Pereira
CEO



CHIEF EXECUTIVE OFFICER'S REVIEW

Union Assurance maintained a steady growth momentum in its 25th year of operations. Combined life and non life insurance premium increased by 12%, from Rs. 8.7 billion to Rs. 9.7 billion in 2012. Profit before tax crossed Rs.1 billion and profit after tax increased by 33% from Rs. 695 million in 2011 to Rs. 921 million in 2012.

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

- Deliver profitable growth in both life and non life insurance businesses,
- Provide consistent, high quality customer service,
- Increase profitability by managing claims and expenses,
- Develop products which meet customer needs, and
- Improve the morale, motivation and productivity of our staff

Focus on Profitable Growth in Non Life Insurance

Non life premiums increased by 9% from Rs. 4.2 billion in 2011 to Rs. 4.6 billion in 2012. Both corporate and retail distribution channels contributed to this growth.

The industry remains price competitive across most lines of business. As in previous years we actively pursued risks which were adequately priced while retracting from business where prices were not adequate.

This discipline and focus yielded the desired outcome since underwriting results in 2012 were in line with 2011, despite a significant investment in brand and distribution expansion which was charged to the P&L in 2012.

Achieve Sustainable, Profitable Growth in Life Insurance

Life insurance premiums grew by 14% from Rs. 4.5 billion in 2011 to Rs. 5.1 billion in 2012. Both traditional and investment linked products contributed to the growth momentum.

In 2012, UA paid significant attention to improving the quality of its field force, the results of which are reflected in the steady increase in the average case size of policies sold and field force productivity.

The bancassurance channel continued to report growth and we are positive that this line will contribute a significant share of life premium in the medium term.

Following an actuarial valuation, the life business generated a profit of Rs. 525 million which is a 22% increase over the 2011 profit of Rs. 429 million.

Provide Consistent High Quality Customer Service

We continued to focus on service as a key differentiator for both our internal and external customers. The 'on the spot' settlement process for motor insurance claims (where claims are settled at the place of accident) was further enhanced to enable customers to settle their claims at the garage of their choice as well.

We combined our underwriting and distribution resources to conduct risk improvement and portfolio reviews for key corporate clients in a structured manner. The recommendations and follow up activities are hosted on a customised web portal which enables regular monitoring and review.

Service parameters applicable to life insurance customers and field force were benchmarked in order to be on par or exceed industry standards. Service levels are monitored on a monthly basis across all customer touch points and improvements were introduced throughout the year to enhance service and productivity. Life call centre related infrastructure and resources were also revamped in order to increase engagement with our customers and field force.

Increase Profitability by Managing Claims and Expenses

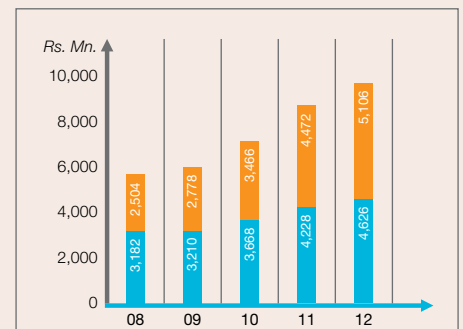
The overall claims ratio from non life insurance improved from 70.2% in 2011 to 65.8% in 2012 which was the third consecutive year the claims ratios declined. All classes contributed to the positive result, which is a noteworthy achievement considering the price competition prevailing in the industry.

As mentioned previously, we invested in the brand and expanding our distribution presence in 2012. As a result, the expense ratio of the non life insurance business increased from 25.0% in 2011 to 29.3% in 2012. However, the combined ratio (combination of claims and expense ratios) of 103.0% is lower than the 2011 ratio of 103.9%.

We expect the investments in brand and distribution, combined with disciplined underwriting, to have a positive impact on the combined ratio over the medium term.

We have profit tested our life products and are confident that future claims and benefit payments are adequately priced into the policies we sell.

UA launched a 'digital adviser toolkit' for investment linked products enabling the field force to conduct fact finding exercises and generate quotations via laptop or tablet PCs. This initiative will be expanded to include the traditional product range in the near future. This initiative, combined with UA's cost effective distribution



Gross Written Premium - Non Life and Life

Life
Non life

expansion model, resulted in the overhead expenses to GWP ratio declining from 32% in 2011 to 31% in 2012.

Develop Products which meet Customer Needs

As a response to the price competition prevailing in the motor segment UA re-priced the motor portfolio in line with international best practices based on a variety of risk factors which were actuarially validated. Acceptance of the new pricing methodology was slow, but the decision was vindicated by the year-on-year decline reported in the motor claims ratio.

The Union Family Health Net product which was launched in 2011 was also simplified in line with feedback from our customers and distribution channels.

The range of investment linked products was revamped in the 1st quarter of the year in order to cater to the evolving investment and protection needs of selected customer segments.

Improve Morale, Motivation and Productivity of Staff

We worked on a 10 point action plan based on the employee satisfaction survey which was conducted in 2010. We believe positive momentum has been achieved which will be reflected in the outcome of the next survey. A group of randomly selected staff members participated in the survey conducted by the Great Place to Work (GPTW) Institute and necessary steps are being taken to address the comments arising from the feedback.

We continue to invest in developing the technical, managerial and leadership competencies of our staff. Several structured programmes were launched covering staff from all functions / levels in order for them to contribute positively to the company's performance and / or develop them to take up greater responsibilities within the organisation.

A formal succession planning process has been implemented covering all

people management positions. As per the exercise, which is updated half yearly, we have identified internal successors for 48% people management roles within the company.

Outlook

We maintain a very positive outlook for both life and non life insurance businesses. As per information published by the Insurance Board of Sri Lanka approximately 29% of the working population has some form of life insurance. While this may appear relatively high, life insurance premium accounts for only 0.5% of GDP compared with 4% in India and approximately 3% in other regional economies. These statistics reveal the extent of under penetration as well as under insurance in the country, which is a significant opportunity for life insurers.

The current pace of economic development is likely to create greater opportunities for non life insurance as well. However, we believe the segment will continue to be price competitive in the medium term, with competition being fuelled by new entrants as well as existing players attempting to maintain their market share. In the medium term, large non life insurers will be more likely to have an in-house portfolio of business generated from other financial services related operations within their groups.

Future Strategy

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

We intend to use our team of well trained and experienced staff, differentiated service and IT infrastructure to build a balanced portfolio in the non life insurance

segment. We will maintain our pricing discipline and walk away from business when premiums are not commensurate with expected claims. To achieve our objectives, we will continuously review our pricing policies, claims management and service delivery mechanisms to provide 'value for money' products for our customers.

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

Conclusion

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

As we enter our 26th year of operations, UA is well positioned to capitalise on the growth opportunities that will follow rapid socio-economic development. As income levels rise and greater awareness regarding the value of insurance is created, we believe that UA with its consistent focus on governance and transparency together with its team of dynamic professionals will be able to deliver sustainable value to all stakeholders.



Dirk Pereira
Chief Executive Officer

26th February 2013



135+

YEARS OF FOCUS & DIRECTION

BOARD OF DIRECTORS

Union Assurance is set to step into the next phase, fully equipped with a strong governance framework, performance driven culture and unwavering commitment to professionalism.



Board of Directors Contd.

1. Ajit D. Gunewardene

Chairman

Mr. Ajit D. Gunewardene is the Chairman of Union Assurance PLC and has been a member of the Board since May 1992. He is the Deputy Chairman of John Keells Holdings PLC and has been a member of their Board for over 20 years. He is a Director of many companies in the John Keells Group. He is a member of the board of SLINTEC (Pvt) Ltd; a company established for the development of Nanotechnology in Sri Lanka under the auspices of the Ministry of Science and Technology. He has also served as the Chairman of the Colombo Stock Exchange and Nations Trust Bank PLC. Mr. Gunewardene has a degree in Economics and brings over 30 years of experience to your Board.

2. Gerald De Saram

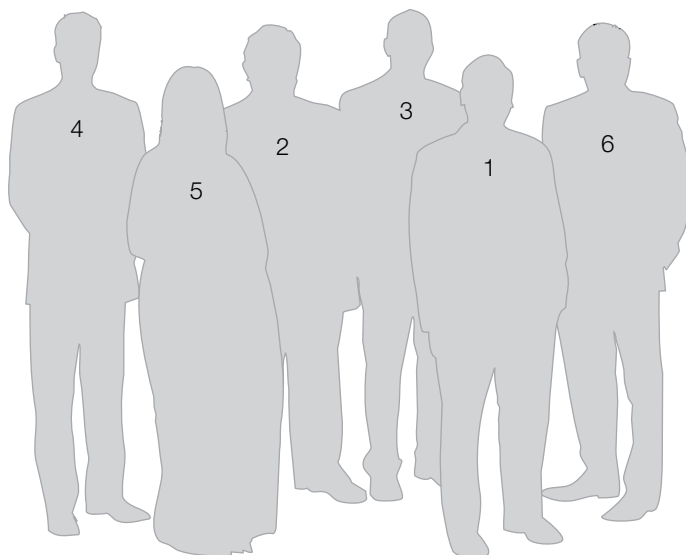
Director

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

3. Suresh Rajendra

Director

Mr. Suresh Rajendra was appointed to the Union Assurance Board on 16th August 2011. He is President, Property Group of John Keells Holdings PLC. He also serves as a Director in many companies of the John Keells Group. He has over 21 years of experience in the fields of finance, travel and tourism, and business development acquired both in Sri Lanka and overseas. Prior to joining the Group, he was the head of commercial and business development for NRMA Motoring & Services in Sydney, Australia, Director / General Manger of Aitken Spence Hotel Managements (Pvt) Ltd; and also served on the Boards of the hotel companies of the Aitken Spence Group. Suresh is a Fellow of the Chartered Institute of Management Accountants, UK.



4. Harin De Silva Wijeyeratne

Director

Mr. Harin De Silva Wijeyeratne was appointed to the Union Assurance Board on 7th September 2011. He is currently a consultant with the Sri Lanka Institute of Nano Technology (Pvt) Limited and also the CEO of Avastha Financial Advisory Services (Pvt) Limited. He is an Associate Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 23 years 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.

5. Dilani Alagaratnam

Director

Mrs. Dilani Alagaratnam was appointed to the Union Assurance Board on 16th August 2011. She is President, Group HR, Legal & Secretarial and has overall responsibility for the Group Human Resources, Legal & Secretarial and Corporate Communication functions and is also a Director of several companies within the John Keells Group. A Lawyer by profession, she has been with John Keells Holdings PLC for 21 years and is a law graduate and a holder of a Masters Degree in Law. Currently she is the Chairperson of the Steering Committee on Human Resources and Education of the Ceylon Chamber of Commerce and a member of the National Labour Advisory Committee.

6. Ashan De Zoysa

Director

Mr. Ashan De Zoysa was appointed to the Board on 01st April 2009. Mr. De Zoysa holds a Bachelor of Commerce Degree from the University of New South Wales. He has several years of overseas exposure, having worked in the fields of IT and derivative / commodity trading in Australia. Mr. De Zoysa currently serves on the Board of Associated Electrical Corporation Ltd and A. E. C. Properties (Pvt) Ltd. He has also served on the Board of AMW Group as a working Director.



MANAGEMENT TEAM

Dedication, team work and dynamism will enable UA to take that journey to the next phase.



220+

YEARS OF DEDICATION & TEAMWORK



Management Team Contd.

1. Dirk Pereira

Chief Executive Officer

Dirk has functioned as CEO of Union Assurance since 2010. He is a Fellow member of the Chartered Institute of Management Accountants UK and a member of the Institute of Chartered Accountants of Sri Lanka. He also holds an MBA from the University of Sri Jayawardenepura.

2. Jayaseeli Dissanayake

General Manager, Life Insurance

Jayaseeli has been with Union Assurance since April 2002. She started her insurance career in 1981 as a Management Trainee at the Insurance Corporation of Sri Lanka just after her graduation in Bio Science from the University of Colombo. Her engagement with the private sector was in 1989 when she joined Eagle Insurance. At the time of her departure from Eagle in 2002 she was the Head of Life Underwriting department. She had her initial Insurance training from College of Insurance of India and Swiss Insurance Training Center in Switzerland. She has had extensive training and overseas exposure in life Insurance and has won several awards of recognition for her expertise in the area. Jayaseeli is a Chartered insurer and an Associate the Chartered Insurance Institute of UK

3. Rukman Weeraratne

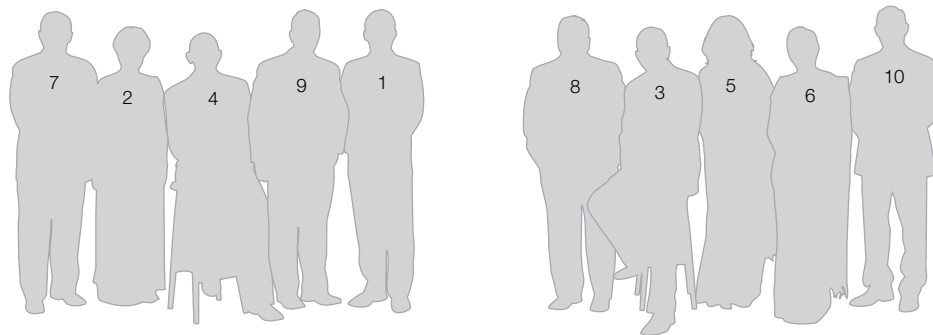
General Manager, Marketing & Life Distribution

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

4. Pushpakumar Gunasekera

General Manager, Actuarial

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



5. Sherin Cader

General Manager, Finance and Planning

Sherin joined UA in June 2012. She has been with the John Keells Group for over 13 years and serves in many capacities including serving as the Financial Controller at John Keells Holdings PLC. She has played diverse roles across finance and operations in the financial services, IT and IT Enabled Service Sectors.

Sherin is an Associate member of the Chartered Institute of Management Accountants, UK and the Association of Chartered Certified Accountants, UK.

6. Ruanthi Gooneratne

General Manager, General Insurance

Ruanthi joined Union Assurance in January 2007 as Assistant General Manager - General Insurance and was promoted as General Manager - General Insurance on 1 September 2009. Ruanthi served Union Assurance from 1989 to 1995 and then joined Janashakthi Insurance where she served for 11 years. She was holding the post of Assistant General Manager - Corporate at Janashakthi Insurance prior to rejoining Union Assurance. She is a Fellow of the Chartered Insurance Institute, UK and a Chartered Insurer.

7. Niranjana Nagendra

General Manager, Corporate

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

8. Ruwan Bakmedeniya

General Manager, Information Technology

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

9. Brigadier Rohan Jayasinghe

General Manager, Human Resources

Rohan joined UA in January 2009 as General Manager Human Resources. He was an Executive Group Director (Human Resources) at The Capital Maharaja Organisation Limited before taking up this assignment. He has had an exceptional career in the Sri Lanka Army where he served the country for 28 years and held many vital appointments in operations, training and in the staff. He also commanded the Armoured Brigade and retired prematurely as a Brigadier in 2006. He was the country's first Defense, Military, Naval and Air Attaché in Washington DC from 2003 to 2005 and is the recipient of one of the highest medals in the US military - The Legion of Merit. He is a graduate of the Malaysian Armed Forces Command and Staff College and is also a Fellow of the Certified Professional Managers.

10. Nihal Handunge

General Manager, General Distribution

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

A COLLECTIVE GROWTH

The economy is expected to achieve a +6% growth in 2013, which provides an ideal opportunity for UA to maintain its current growth momentum.

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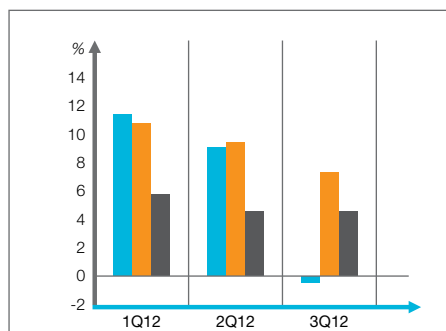
Overview

Economic Overview

Slowing Growth Amidst Challenges

Infrastructure development continued apace and during 2012 several new projects in tourism, residential / commercial properties and transport were inked with foreign collaborations. The economy, however expanded at a much slower rate compared to the last two years. More emphasis was placed on price stability and managing the external position created by excessive credit growth in 2011.

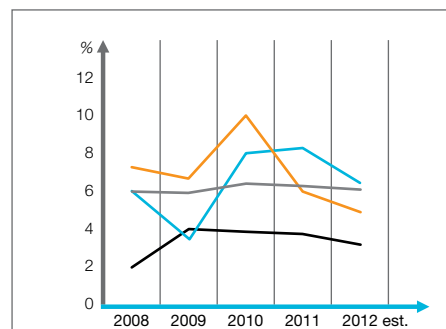
There was a progressive deceleration in GDP growth during the year with 3rd quarter growth slowing to 4.8% compared with 6.4% and 7.9% respectively in the preceding two quarters. Although strong growth was witnessed in agriculture during the 1st half of 2012, adverse weather conditions during the latter part of the year affected paddy production significantly. As a result, paddy output in the 3rd quarter contracted by 38% and led to an overall decline in agriculture sector output by 0.5%. The industrial sector performed well during the year with the 3rd quarter output rising 7.3% largely driven by increased construction and mining activities. Although growth in the hotels subsector was above 20% for 2012, the services sector recorded a lacklustre growth rate of 4.6% in the 3rd quarter. Full year growth is expected to be 6.5% for 2012.



Sectorial GDP Growth

■ Agriculture ■ Industries ■ Services

The economy is expected to grow at a steady pace of 6% in 2013 given the challenges imposed by global shocks and potential volatility in key macro variables. Globally, recessionary pressures persist with slowing demand from the EU region as well as the fiscal cliff crisis emerging from the US, which could hurt the recovery process. Overall the world economy is expected to grow by 3.3% in 2012 and 3.6% in 2013 as per the IMF's latest world economic outlook.



Regional Comparison of GDP Growth

— Sri Lanka — Pakistan
— India — Bangladesh

Focus on Fiscal Consolidation

The fiscal deficit expanded by 6% during the eight months to August 2012. According to the Treasury, there would be a significant increase in revenue as well as curtailment of expenditure in the final four months of the year to bring the deficit in line with the original target of 6.2%. However, capital expenditure will have to fall by over 30% in the remaining months to achieve the desired number, which in turn could dampen growth in the long term.

According to provisional data, revenue for 2012 is estimated to be 14% of GDP, a growth of 12.8% with tax revenue rising by 13.3%. This figure is below the budgeted figure of 14.7% of GDP as import related tax revenues were affected. Current expenditure is expected to be in line with the budgeted figure of 14.7% of GDP. However, capital expenditure which can be

viewed as discretionary spending has been curtailed to 5.6% of GDP from a budgeted 6.5%. Based on year to date performance, the actual deficit is likely to be 6.7% for 2012.

For 2013, total revenue is expected to grow by 19.2% with the major contribution coming from tax revenue, which is expected to grow by 22.9%. More tax revenues are expected from increased taxes on raw agricultural produce, steeper import levies as well as the Value Added Tax (VAT) on retail trade. On the expenditure side, current expenditure is planned to be contained at 14.6% of GDP. Capital spend is expected to be 6.1% of GDP for 2013, rising by an ambitious 21.3% YoY. However, the actual capital expenditure will be greatly influenced by the Government's ability to reign in the budget deficit, as witnessed in 2012.

There was increased reliance on foreign commercial borrowings to fund the fiscal deficit during 2012, with the figure rising by 133% to Rs.128 billion. Overall, 44% of the deficit was financed using foreign sources. In contrast, 83% of the budget deficit for 2013 is expected to be funded domestically, primarily through non-bank borrowings. Foreign funding is expected to decline from Rs. 205 billion in 2012 to Rs. 86 billion as the government attempts to restrain over reliance on foreign commercial borrowings.

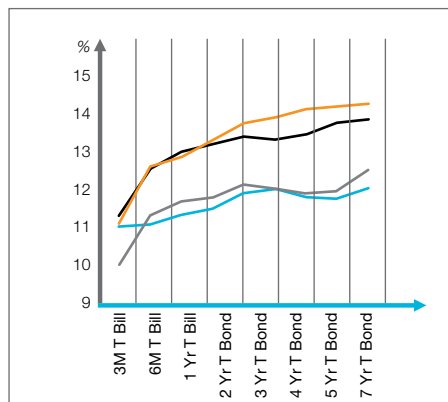
Increased Volatility in Interest Rates

There was continued upward pressure on interest rates during 2012 as efforts were made to control excessive credit growth and depreciation of the Rupee. The Central Bank's efforts to tighten monetary policy during the early part of the year saw policy rates being hiked by 50 basis points in February and a further 75 basis points in April. A credit ceiling of 18% on bank lending was also imposed in February. As a result, the one year Treasury bill, which began the year at 9.30% increased to 13.31% by August 2012, which is a rise of 400 basis points. This trend was

Management Discussion and Analysis Contd.

observed in longer term rates as well with the five year Treasury bond rate rising from 10.03% to 14.29% by August.

However, the successful conclusion of the USD 1 billion 10 year sovereign bond issue in July / August 2012 relieved pressure on domestic interest rates significantly. With the increased liquidity in the banking system, stemming from the bond proceeds as well as curtailment in lending activities, interest rates began to trend lower from the highs of 14% to 11% levels by the end of the year. This reduction was aided by a surprise 25 basis points cut in policy rates during December.



Government Securities Yield Curve

— 31-Mar-12 — 30-Sep-12
— 30-Jun-12 — 31-Dec-12

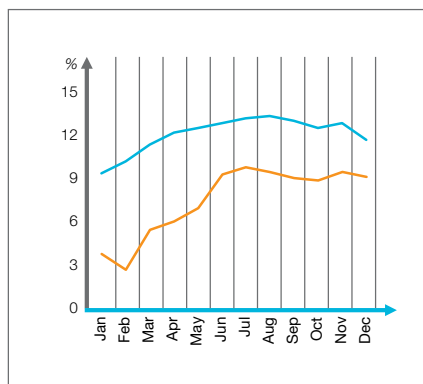
For 2013, the interest rate outlook remains hazy as more volatility is expected in fixed income and money markets. Although there is room for further easing given stabilisation in credit growth and the currency, increased reliance on non-bank borrowings to bridge the 2013 budget gap may lead to interest rates picking up in the latter part of the year.

Price Pressures Continue to Rise

The rise in price levels for 2012 was contained at 9.2% on a year on year basis, although this was below the initial target of 6-7% for the year. Untamed credit growth during 2011, which saw private sector credit rising 34% and State borrowings

increasing 37% for that year, exerted significant depreciation pressure on the currency during the first half of 2012. By May, the exchange rate depreciated to Rs. 130 from Rs. 110 levels and this led to a rise in prices of most imported items, including food and energy.

In keeping with the currency depreciation, there were periodic revisions with steep increase in prices in fuel, transport and electricity in February and increase in the prices of wheat flour, bread and milk powder in May. The result of the changes was a steady rise in inflation from 3.8% in January to 9.8% by July 2012. Although the currency stabilised in the latter months of the year, there were supply shocks as food crops such as rice and vegetables were affected by adverse weather and floods. Core inflation, which excludes food, energy and transport, continued to rise throughout the year to end at 7.6% from 4.7% in 2011.



Interest Rates vs. Inflation

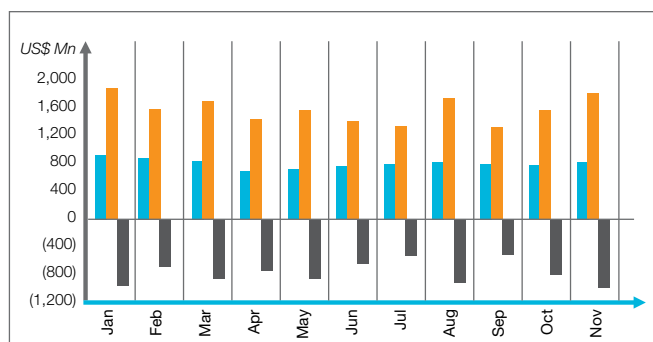
— Avg. one-year treasury bill rate (net)
— Inflation (CCPI (N) - annual average)

For 2013, inflation has been targeted at 7% and this number is to be reduced progressively in the coming years. Although such targets are vital for economic stability, they need to be supported by sound monetary policy and a stable currency regime.

A Correction in the External Sector

The ballooning trade deficit of USD 9.7 billion in 2011, led to a balance of payment deficit of USD 1.1 billion for the year. Several restrictions placed on imports during the 1st quarter of 2012 helped to arrest this trend and reign in import growth from double digits to a marginal reduction by the year end. These measures were primarily targeted at motor vehicle imports in the form of duty increases as well as restrictions on foreign currency trading. For the eleven months to November 2012, cumulative import expenditure declined by 4.5% with the highest fall seen in consumer goods of 17.2%. Petroleum imports continued to grow by 8.5% as geo-political tensions in oil exporting countries exerted pressure on global prices and supplies.

Slowing global demand and depressed prices for key inputs such as cotton and rubber continued to dampen export earnings during the year. Textile exports, which constitute almost 40% of total export earnings to the country, were acutely affected as were agricultural exports, especially tea exports. For the first eleven months, export earnings contracted by 6.6%. The overall impact on the trade account was however positive, with the deficit declining by 2.1% for the period to November 2012.



External Trade Performance

■ Exports ■ Imports ■ Trade Deficit

Strong growth was witnessed in worker remittances (+17%) and tourism earnings (+23%) during 2012, as the much anticipated target of 1 million tourists was achieved. Foreign inflows to the stock market and Government securities market also assisted in improving the external balance. Total foreign investments in Treasury bills and bonds increased significantly by 129% during the period with the foreign threshold being increased to 12.5% of the total outstanding debt stock. Proceeds from the sovereign bond issue of USD 1 billion and receipt of the final tranche of USD 415 million from the IMF pushed the overall balance of payment to a surplus of USD 269 million by September 2012.

Given the removal of restrictions on credit and foreign currency transactions in early 2013, it remains to be seen whether growth in imports can be controlled at desired levels. Although a global slowdown could reduce petroleum costs, it will significantly affect export and tourism revenues as well. As the Government is not planning a sovereign bond issue in 2013, FDIs and investment flows to the capital markets would become increasingly important to maintain stability in the external sector.

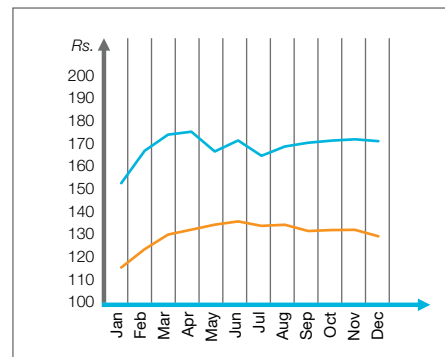
Rupee ends on a Weaker Note

The Sri Lankan Rupee, which ended 2011 at Rs. 113 to the US Dollar, was under severe depreciation pressure during most of 2012. The exchange rate as at August was Rs. 130.94 to the US Dollar, depreciating by almost 16% during the first eight months. Currency defence by the Monetary Authority leading to rising liquidity levels and increased credit in the domestic economy fuelled this depreciation. Large scale US Dollar borrowings by energy utilities due to domestic energy prices being artificially managed added further pressure to the Sri Lankan Rupee.

However, corrective actions were taken during the first half of the year such as

restrictions on consumer goods imports, imposition of a credit ceiling on bank lending and revision of fuel prices, which arrested this fall in the latter months. Proceeds from the sovereign bond issue added further strength in the second half of the year as foreign reserves reached comfortable levels. For the full year, the SLR depreciated by almost 12% to end at Rs. 127.50.

The currency outlook for 2013 would depend greatly on the external sector performance and foreign inflows to the country. Although there could be near term stability in the exchange at Rs. 127 levels, a 4% depreciation for the year can be expected if foreign inflows decline as a result of global pressures.

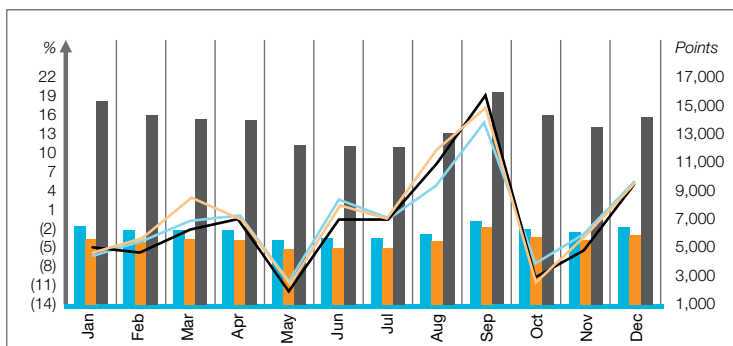


SL Rupee Vs. Euro / USD

— Rs/Euro — Rs/USD

Stock Market Continues to Dive

The CSE continued its bear run for the second consecutive year amidst regulatory upheavals, tighter credit and lack of confidence in the market. For the year, the All Share Price Index (ASPI) shed 7.1% and the Milanka Price Index (MPI) lost 2.1%. Average daily turnover for the year was Rs. 884 million, well below the Rs. 2.3 billion achieved in 2010 and 2011. Rising interest rates dampened market sentiment further as more investments were directed towards fixed income securities.



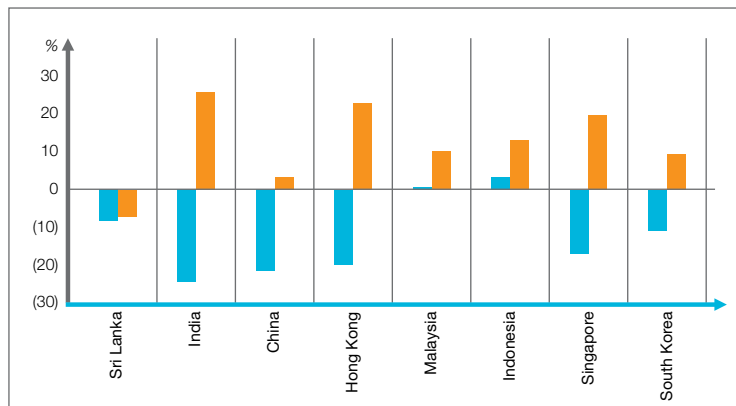
Stock Market Performance

■ ASPI ■ MPI ■ Banking & Finance
— ASPI — MPI — Banking & Finance

Management Discussion and Analysis Contd.

Despite the absence of local participation, foreign interest in the bourse picked up with a net foreign inflows of Rs. 38 billion compared to an outflow of Rs. 19 billion in 2011. Foreign interest was directed towards blue chips given the attractive valuations, especially on banks, diversified and telecom shares.

Several measures were taken to increase retail participation during the year such as relaxation of broker credit and lifting of the price band. However, these measures proved to have limited success as retailers were perturbed by conflicts between the broking community and the regulator as well as controversial deals by State banks and funds. To tackle these issues, the SEC and CSE launched a 10 point plan to be implemented over the next three years, aimed at encouraging listings and attracting foreign and local funds to the market. As part of this process, a new index was developed in collaboration with S&P Dow Jones, titled S&P Sri Lanka 20, which will replace the MPI in 2013.



Colombo Stock Exchange Vs. Regional Markets

■ 2011 ■ 2012

The 2013 Budget followed through with more incentives being offered for capital markets and listed entities. The outlook for the next year remains unclear with more volatility expected in the form of shorter rallies and faster recoveries, which will provide more trading opportunities in the coming year.

Summary

A summary of key economic indicators, 2012 data and likely trends as well as their impact on UA's business is as follows;

Economic Indicator	2012 Data and Trend	Impact to UA
GDP Growth	Less than expected growth in 2012 Similar growth rate predicted in 2013	A slower growth negatively affects business volumes.
Inflation	Increased during 2012 Targeted to reduce to 7% in 2013.	A reduction of inflation is beneficial for the business as real incomes would rise
Interest rates	Increased during 2012 Direction unclear for 2013	A rise in interest rates and the resulting slowdown of business activity would have a negative effect on the business.
Infrastructure development	Continued, and expected to continue further	Resulting increase in economic activity will have a favorable impact on UA

Company's Performance in Relation to Industry

The insurance industry maintained its growth momentum in 2011 with combined life and non life premiums increasing from Rs. 66 billion in 2010 to Rs. 79 billion in

2011. Life insurance premiums reported a 13% growth while non life premiums increased by 23%.

The industry is expected to maintain a steady growth rate in 2012. Based on available data, life insurance premiums are expected to grow by 5% to Rs. 37

billion in 2012. Non life premiums are also expected to report a healthy growth rate of 20% and increase to Rs. 52 billion in 2012.

The premium income generated by the two segments in the recent past and the estimated premium volume for 2012 is provided in table 1.

Premium Income	2006	2007	2008	2009	2010	2011	2012 (e)
Life insurance (Rs. millions)	17,104	20,706	23,613	24,005	31,152	35,181	37,046
Non life (Rs. millions)	25,931	31,184	34,588	33,548	35,101	43,331	51,979
Total Premium Income (Rs. millions)	43,035	51,890	58,201	57,553	66,253	78,512	89,025
Total premium as % of GDP	1.46	1.45	1.32	1.19	1.18	1.20	1.17
Growth rate in total premium (%)	16	21	12	(1)	15	19	13

Table 1

Non Life Insurance

As mentioned previously, the non life segment is expected to report a 20% growth in 2012. Despite the year on year decline in new vehicle registrations motor insurance is estimated to be the main contributor to industry volumes, accounting for approximately 62% of the total market. Refer Table 2.

Class Wise Distribution of Business (%)	2006	2007	2008	2009	2010	2011	2012 (e)
Fire	18	20	20	21	14	12	14
Marine	6	5	5	4	4	4	3
Motor	54	55	54	54	60	63	62
Miscellaneous	22	20	21	21	22	21	21
Total	100	100	100	100	100	100	100

Table 2

Union Assurance reported a 9% growth in non life premiums. The growth rate was below industry, due to the company's disciplined underwriting approach and consciously walking away from businesses where pricing was not commensurate with potential claims expenses. The size of the market, industry growth rate and UA's growth rate over the last 7 years is presented in Table 3.

Non life Insurance	2006	2007	2008	2009	2010	2011	2012 (e)
Market size (Rs. millions)	25,931	31,184	34,558	33,548	35,101	43,331	51,979
Market growth %	16	20	11	(3)	5	23	20
UA growth %	39	18	13	1	14	15	9

Table 3

Life Insurance

Life insurance premiums are expected to grow by 5% in 2012. While socio-economic factors remained strong, adverse weather patterns hampered growth prospects in some areas of the country.

UA reported a 14% growth in premium income, and is likely to retain 14% market share and maintain its position as the 4th largest life insurer in the country. Data related to the life insurance market, growth rate and UA's growth rate is provided in Table 4.

Life Insurance	2006	2007	2008	2009	2010	2011	2012 (e)
Market size (Rs. millions)	17,104	20,706	23,613	24,005	31,152	35,181	37,046
Market growth %	15	21	14	2	30	13	5
UA growth %	15	29	16	11	25	29	14

Table 4

Management Discussion and Analysis Contd.

Significant Features of Operating Performance

The following table illustrates UA's business segments, respective contributions to turnover and profitability, market differentiators, business strategies, highlights of 2012 and strategic priorities for 2013.

Segment	Product/Brand	Market Position	Financial Impact	Gross Written Premium (Rs. Mn.)
Life		4 th largest life insurer offering a comprehensive range of protection and long term savings products to corporate and individual customers	Financial Impact The life business contributes to 52% of UA's turnover (2011 - 51%) and 57% of profits (2011 - 62%)	
				
Motor		4 th largest motor insurer with an estimated market share of 7% (2011 - 8%)	Financial Impact Non life (motor and non-motor) contributes 48% of UA's turnover (2011 - 49%) and 43% of profit (2011 - 38%)	
Non Motor		3 rd largest non motor insurer with an estimated market share of 11% in 2012 (2011 - 11%)	Financial Impact Refer above	

<p>Market Differentiators</p> <ul style="list-style-type: none"> • Balance sheet strength and stability • Strong corporate governance framework • Comprehensive and competitive product range • Training capabilities and facilities • In-house actuarial support • Strong distribution structure and brand • Web based sales force management system 	<p>Business Strategy</p> <p>Expand our presence in the life insurance market in a cost effective manner by;</p> <ul style="list-style-type: none"> • Offering competitively priced protection products and long terms savings products which provide sustainable long term returns, • Enhancing the sales, customer servicing, underwriting and claims management skills of our people, and • Building a strong brand in our chosen market segments 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Life insurance premium increased by 14% • 22% increase in profits • Achieved strong momentum in bancassurance distribution channel • Realigned agency distribution channel to focus on quality • Successfully balanced sales of traditional and investment linked products 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Maintain growth momentum by expanding distribution reach in cost effective manner • Launch new products and augment existing products in line with customer needs • Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions including learning and development • Implement activities to operationalise new brand positioning • Manage lapsation
<p>Market Differentiators</p> <ul style="list-style-type: none"> • Technical expertise • Strong distribution network and alliances • Centralised management through integrated systems • Ability to leverage multiple IT platforms to enhance efficiency, effectiveness and customer convenience • Differentiated products and access to alternative distribution channels 	<p>Business Strategy</p> <ul style="list-style-type: none"> • Exploit profitable growth opportunities by offering competitively priced solutions to selected market segments • Build strong relationships across multiple distribution channels • Provide consistent, high quality customer service • Launch new products and augment existing products in line with customer needs 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Reported improved loss ratios • Implemented risk based pricing formula to manage profitability of motor portfolio • Expanded distribution in cost effective manner • Implemented fast track claims settlement process 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Expand distribution presence in cost effective manner • Consistently improve service standards • Enhance value added services to retail clients • Implement activities to operationalise brand positioning • Refine risk based pricing framework • Ensure 100% usage of e-motor solution by sales staff
<p>Market Differentiators</p> <ul style="list-style-type: none"> • Strong corporate image • Balance sheet strength and stability • High level of technical expertise • Reputation for superior service among corporate clients • Reinsurance arrangements with highly rated reinsurance partners • High reinsurance capacity • In-house risk engineering / survey capabilities 	<p>Business Strategy</p> <p>Exploit profitable growth opportunities by;</p> <ul style="list-style-type: none"> • Offering a competitive range of products across all segments of the market, • Building strong relationships across multiple distribution channels, • Providing superior customer service and leveraging our underwriting and claims management skills, and • Leverage structured learning and development initiatives and improve technical competencies of underwriting, claims and distribution channel staff 	<p>Highlights of Performance</p> <ul style="list-style-type: none"> • Non motor premiums increased by 12% from Rs. 2.0 billion in 2011 to Rs. 2.3 billion in 2012 • Improved loss ratios in all non-motor classes of business • Re-launched simplified health insurance product for retail market • Conduct portfolio / risk reviews in a structured manner 	<p>Strategic Priorities</p> <ul style="list-style-type: none"> • Consistently improve service standards • Manage claims ratios and profitability • Enhance value added services to corporate clients • Increase sales of non motor products to retail customers

Management Discussion and Analysis Contd.

Principal Risks and Uncertainties Facing the Business

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

Challenge	UA's response	Update 2012
<p>Pressure on Capital Insurers will have to ensure that they have adequate financial strength on a continuous basis. The concept of "risk based capital" will be the benchmark of regulators. The days when insurers could continue to remain in business by simply complying with the minimum capital requirements are numbered.</p>	<ul style="list-style-type: none"> Maintain net assets in excess of minimum requirements Monitor solvency position on a monthly basis Obtain annual verification of life solvency position from independent actuary Obtain regular updates regarding risk based capital models implemented in regional markets 	<ul style="list-style-type: none"> UA's net assets as at 31st December 2012 is Rs. 4.3 billion Solvency computations for the year are provided in page 122 Reviewed impact of risk based capital framework Rights issue generated Rs. 750 million capital in line with minimum capital requirements stipulated by IBSL
<p>Pressure on Volumes Fierce competition to increase volume and market share will prevail. Two avenues would be open to insurers: to be the least cost producer or to offer a differentiated product or service. The latter may appear easier. But developing new products is expensive and the advantage short lived since it can be quickly copied. Another option is to maximise customer retention. This can pay rich dividends since it is more cost effective to maintain current customer bases than to create new customers.</p>	<ul style="list-style-type: none"> Product development initiatives focus on creating differentiated products which meet customer needs which can be sold and serviced effectively Scan market to identify customer needs and new product opportunities Monitor life insurance premium persistency and general insurance renewal retention 	<ul style="list-style-type: none"> Generated balanced growth from traditional and unit linked life products Reported growth across most lines of non life insurance business Revamped e-motor solution utilising new IT platform, incorporating enhanced features and functionality Reviewed and revamped suite of pre-underwritten non motor products Launched range of unit linked products targeting mass affluent customer segment Simplified health insurance products catering to individual customers Monitored life insurance premium persistency and non life insurance renewal retention and took corrective action when adverse trends were noted
<p>Pressure on Margins Intense competition for business and the presence of competitors of different shapes, sizes and objectives will impact on the terms and conditions of insurance. Those who can adapt themselves to change will have the edge. Insurers will be driven to minimise their operating costs and raise performance standards to meet customers' rising expectations.</p>	<ul style="list-style-type: none"> Increase learning and development initiatives to enhance knowledge and capabilities of technical and distribution staff Use IT as a key differentiator to improve service as well as efficiency and effectiveness Initiate expense management initiatives Rationalise products / pricing based on profitability objectives 	<ul style="list-style-type: none"> Leveraged technology to implement cost effective distribution and underwriting models for life and non life insurance businesses Implemented risk based pricing for motor and health insurance products Profit tested life products Launched modular / case study based training programmes for underwriting and distribution staff to enhance their knowledge and keep abreast of latest trends / developments

Challenge	UA's response	Update 2012
<p>Pressure on Service In the context of increasing access to information and tougher competition, the customer will demand higher service standards. Technology will enable him to make comparisons quickly and accurately. High quality customer service will have to mean more than a customer service department. Customer care will have to be a state of mind and be accepted by all levels of management and staff.</p>	<ul style="list-style-type: none"> • Constantly monitor service standards and take corrective action as appropriate • Inculcate customer service culture across all levels in the organisation • Identify key technologies which will enhance customer services for both external and internal customers 	<ul style="list-style-type: none"> • Achieved 89% satisfaction among motor insurance customers who made claims on their policies • Used cross functional teams to review key processes and take corrective action / initiate changes to improve service levels • Developed monitoring mechanism to track service levels vis-à-vis pre agreed benchmarks • Initiated speedy claims settlement solutions for motor customers • Implemented structured risk / portfolio reviews as a value added service to corporate clients
<p>Pressure on Reinsurance Insurers will have to closely examine their own risk transfer mechanism i.e. reinsurance. Reinsurance capacity will be in short supply. Losses incurred by reinsurers will result in changes to terms and reduced commissions. Insurers with bad results may find it difficult to obtain any reinsurance.</p>	<ul style="list-style-type: none"> • Provide reinsurance partners with a balanced portfolio • Ensure reasonable retention levels 	<ul style="list-style-type: none"> • Reinsurance programme continues to be led by highly rated international reinsurers • Monitored business performance from the reinsurance partners' perspective • Streamlined processes to ensure that management information is available to reinsurers on a timely basis
<p>Pressure on Organisations The emergence of new economic models and new entrants with greater financial resources, management and technical expertise and access to research and development and other technology transfers on a global scale will pose great challenges to local operators. Training of staff to meet the challenges of a rapidly changing and fiercely competitive business environment will have to be one of the key strategies adopted by insurers.</p>	<ul style="list-style-type: none"> • Develop cost effective distribution and operating models • Learning and development is an on-going and focused area for the organisation • Consciously focus on developing technical competencies of staff as key differentiator 	<ul style="list-style-type: none"> • Leverage IT to deliver cost effective operating and business models • Provided staff with exposure to international best practices via participation in seminars, training programmes etc. • Developed structured leadership programmes for all levels of staff • Significantly increased usage of e-learning facilities to disseminate knowledge in a cost effective and convenient manner
<p>Pressure to Attract and Retain Quality People The key drivers of the future will be the quality and commitment of our people. Success will depend primarily on the ability to attract, motivate and retain the best people</p>	<ul style="list-style-type: none"> • Conduct employee satisfaction survey once every two years • Implement Great Place to Work initiatives • Increase employee engagement by conducting strategic planning process with representatives from all functions to ensure buy in and commitment to deliver corporate objectives • Launch skip level meetings with staff • Implement talent management and succession planning programmes 	<ul style="list-style-type: none"> • Next employee satisfaction survey is scheduled for June 2013 • Leadership academy launched in 2012 • Many Great Place To Work (GPTW) initiatives launched • GPTW survey was conducted by the GPTW Institute • Formal succession planning exercise conducted for the first time. Approximately 48% internal candidates identified for vital appointments. The staff identified as potential successors underwent a development centre programme to improve their managerial and leadership skills • The e-learning portal was further developed • Talent management and language skills programmes for Executives was conducted throughout the year

Management Discussion and Analysis Contd.

Challenge	UA's response	Update 2012
<p>Pressure on the use of Information Technology Insurers are entering an era where speed of response will be a key competitive differentiator. The organisations that will succeed will be those that can capture and exploit knowledge. Accelerated competitiveness will be a key issue, perhaps more important in the insurance industry than anywhere else. However, in the rush for technology, insurers will have to understand that IT can only be the enabler never the panacea.</p>	<ul style="list-style-type: none"> • Provide IT solutions on different platforms to enhance productivity and services offered to both internal and external customers • Expand IT infrastructure to maintain logical presence in different geographical locations, and thereby provide better services in a cost effective manner 	<ul style="list-style-type: none"> • Introduced mobile and wireless solutions as key components to improve customer service and enhance efficiency / effectiveness • Provided insurance products / solutions that are more targeted, less cumbersome and less expensive • Introduced a new web based solution to manage the non life sales force • Enhanced Union Reload solution • Enhanced the Integrated Insurance Solution (IIS) AS400 based core application to improve the productivity in non life segment • Implemented SAP investment management system to better manage investments • Introduced new unit linked products for life
<p>Pressure on Intermediaries Insurers will have to make sure that the persons representing them in the front end of the business, including agents, sales representatives and field officers, are well trained and equipped with the necessary skills to provide accurate advice to potential customers. These persons must be able to demonstrate that they can really add value through their intermediation</p>	<ul style="list-style-type: none"> • Enhance sales skills and technical competencies • Implement reward / recognition schemes to motivate sales staff • Use technology to improve productivity and enhance their professional image • Create career paths linked to performance, training attended and experience 	<ul style="list-style-type: none"> • Implemented programme to enhance technical and leadership competencies of staff • Empowered sales staff with e-motor / pre-underwritten product solutions and enabling technology • Upgraded features / functionality of web based sales force management system to improve productivity / enhance image of life insurance sales force • Implemented web based sales force systems for non life distribution team
<p>Pressure from Regulatory Authorities The ultimate aim of regulation is to protect policyholders and ensure the viability of the industry. On the one hand regulators will have to ensure that insurers adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities. On the other hand, they will be required to play a proactive role in developing the market and promoting competition and innovation</p>	<ul style="list-style-type: none"> • Work closely with relevant regulatory bodies • Work closely with other industry participants 	<ul style="list-style-type: none"> • Strengthened regulatory compliance processes • Quantified impact of risk based capital model as per available regulations • Transitioned from Sri Lankan Accounting Standards to newly converged international financial reporting standards • Active participation in all industry lobby groups and sub committees

Non Life Operational Review

Market Conditions

There are 21 insurance companies registered with IBSL as at 31st December 2012 and 19 companies transact non life insurance business. Of these six companies are stand alone non life insurance companies and thirteen companies transact both life and non life insurance business.

The current service providers could be broadly categorised into three main segments.

Companies with in-house portfolios

The majority of these companies have been formed recently to capitalise on the insurance business generated from the financial institutions operating within their respective groups. These companies have been able to capture a relatively large segment of the market in a short period of time. It is expected that this trend will continue into the future resulting in further fragmentation of the industry.

Companies with multinational affiliations

These companies generally compete in a selected segment of the market, and use their global presence / network as a key differentiator

Multi line, multi channel insurers

The majority of companies would fall into this category. These companies are generally locally owned and have a variety of distribution channels and offers a full spectrum of products targeting both corporate and retail customers

Industry Size

The non life insurance market is estimated to have grown by 20% from Rs. 43 billion in 2011 to Rs. 52 billion in 2012. Growth was driven mainly by the increase in new vehicle registrations, large scale infrastructure projects and organic growth.

Most classes of non life insurance continue to be price competitive, reflecting a prolonged soft market cycle, which is likely to prevail until 2015, when a risk based capital framework which requires a minimum share capital of Rs. 500 million per line of business is expected to be implemented.

As per published information of companies which account for 54% of non life insurance premiums, underwriting results improved from a loss of Rs. 1.4 billion in 2010 to a loss of Rs. 500 million in 2011. This could be attributed to the low investment rate climate that prevailed in 2011, which resulted in investment income declining from Rs. 3.4 billion in 2010 to Rs. 2.4 billion in 2011. This co-relation reflects that most non life insurers price their products to generate cash flows for investment purposes rather than focusing on the underwriting result per se.

Business Review

UA's non life gross written premium (GWP) increased by 9% from Rs. 4.2 billion in 2011 to Rs. 4.6 billion in 2012. Both retail and corporate distribution channels contributed to this growth. Premiums from the motor segment accounted for 52% of the total premium and health insurance premiums constituted a further 25% of the portfolio.

Net written premiums (GWP less reinsurance premiums) grew by 11% from Rs. 3.3 billion in 2011 to Rs. 3.7 billion in 2012. Net earned premium (net written premium adjusted for premium attributed to future risk periods) increased by 14% from Rs. 3.1 billion in 2011 to Rs. 3.5 billion in 2012.

The overall net claims ratio (claim net of reinsurance recoveries, divided by net earned premium) declined by 4.4 points to 65.8% in 2012. All classes contributed to this reduction which is a noteworthy achievement considering the price competition in the market.

The expense ratio (expenses divided by net earned premium) increased from 33.7% in 2011 to 37.2% mainly due to increases in marketing and distribution related expenses, which are expected to make a positive contribution to the company's earnings in the short term.

As a result of the above the combined ratio (total of loss and expense ratios) declined marginally from 103.9% in 2011 to 103% in 2012.

Underwriting losses for the year amounted to Rs. 104 million, a decrease from Rs. 120 million in 2011. The current year underwriting result includes significant increases in distribution and brand communication expenses.











Investment and other income reported a 24% growth from Rs. 466 million in 2011 to Rs. 579 million in 2012 due to prudent management of cash flows as well as the high interest rate environment.











Profit before tax from the non life insurance business amounted to Rs. 475 million which is a 37% increase on the Rs. 376 million profit reported in 2011. After providing Rs. 87 million taxes (2011 Rs. 67 million) profit after tax amounted to Rs. 388 million which is 39% higher than the Rs. 279 millions profit after tax reported in 2011.

Management Discussion and Analysis Contd.

Progress against Strategic Objectives - Summary

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

2012 Priority	Progress	Achievement
Expand Distribution Capabilities in Retail Segment		
Expand non permanent sales force to target opportunities in retail segment	<ul style="list-style-type: none"> Achieved increase in non permanent cadre Generated 38% of zonal GWP from non permanent cadre Streamlined processes, technology and training to enhance productivity and enabled them to provide better customer service Launched web based sales force management system 	
Leverage suite of e-based motor and non motor product solutions to provide convenience to sales staff and customers	<ul style="list-style-type: none"> Number of pre-underwritten policies increased by 16% Usage of e-motor system increased from 33% as at December 2011 to 64% as at December 2012 	
Continuously provide learning and development for existing and new recruits	<ul style="list-style-type: none"> Case study based training programmes conducted for senior distribution staff Streamlined learning and development path in line with business requirements 	
Expand corporate sales team in selected manner	<ul style="list-style-type: none"> Ongoing activity 	
Continuous Improvement in Service Standards		
Use motor claims work flow system to improve service standards	<ul style="list-style-type: none"> Increased number of technical executives responsible for conducting inspections at accident sites Improved technology enabling speedier delivery of documents from accident site to processing centre Expanded on the spot settlement process to settle claims directly from the repair shop once the claim estimate is finalised Used GPS technology to assign technical executives to accident sites in a speedy manner 	
Introduce workflow system for health related claims	<ul style="list-style-type: none"> System implementation postponed to 2013 	
Set up processes to monitor and improve service standards	<ul style="list-style-type: none"> System changes were implemented to facilitate speedier service Service levels tracked on a regular basis 	
Implement IT related changes to non motor underwriting and operations to increase staff productivity	<ul style="list-style-type: none"> Required changes implemented 	
Develop Alternative Distribution Channels		
Expand Reload sales points via new network partners	<ul style="list-style-type: none"> Reload sales outlets expanded with Abans System upgraded with user friendly features / functionality 	
Increase sales of Reload products via existing channels	<ul style="list-style-type: none"> Volumes from existing channels increased Number of outlets also increased 	
Increased sales from worksite marketing channels	<ul style="list-style-type: none"> Worksite marketing volumes reported growth Streamlined back office process to ensure greater segregation of duties 	

2012 Priority	Progress	Achievement
Develop New products and Augment Existing Products		
Ensure full usage of e-motor and non motor solutions by sales staff	<ul style="list-style-type: none"> E-motor and non motor pre underwritten systems usage increased Controls / back office processes also improved 	
Increase usage of speed cash solution for motor claims settlements	<ul style="list-style-type: none"> Increased volumes reported 	
Continuously monitor environment for new product ideas that meet customer needs	<ul style="list-style-type: none"> Conducted research with potential and existing customers to identify gaps in current products Product improvements / enhancements completed as appropriate 	
Increase sales of Union Family Health Net product	<ul style="list-style-type: none"> Simplified sales process / pricing / documentation requirements for Union Health Net product Reported year on year growth in sales volumes 	
Strengthen Underwriting Processes		
Use actuarially validated risk based pricing methodology to manage profitability of motor portfolio	<ul style="list-style-type: none"> Risk based pricing structure implemented in 2012 Motor claims ratio improved as a result of the change 	
Set “walk away” pricing levels for property risks	<ul style="list-style-type: none"> Ongoing. Improved pricing and ability to negotiate favorable terms and conditions resulted in improved loss ratios 	
Leverage risk based pricing methodology to grow individual health portfolio in a profitable manner	<ul style="list-style-type: none"> Product volume reported growth Risk based pricing formula simplified in line with customer / distribution requirements 	
Further simplify policy wordings in line with risk guidelines / appetite	<ul style="list-style-type: none"> In progress 	
Strengthen Claims Management Processes		
Focus on staff learning and development	<ul style="list-style-type: none"> Ongoing 	
Work with reinsurance partners to update knowledge	<ul style="list-style-type: none"> Key staff participated in training programmes conducted by reinsurance partners Implemented risk improvement recommendations appropriate to Sri Lankan market 	
Expand relationships with motor repair shops in selective manner to manage motor claims leakage	<ul style="list-style-type: none"> Garages identified in consultation with technical and distribution teams Structured follow up and monitoring process implemented 	
Use non motor claims work flow system to monitor / manage claims service and outgo	<ul style="list-style-type: none"> Web based system introduced to key corporate clients Claims service monitored on a continuous basis 	

Management Reports

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Corporate Governance

Sustainability Report

Financial Information

Management Discussion and Analysis Contd.

Progress against Strategic Objectives

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

Expand Distribution Capabilities

The strategy to create a non permanent sales force to capture new business opportunities especially in the retail segment of the market yielded positive results. GWP volumes from this segment reported a significant increase from 2011. The staff is equipped with UA's e-based motor and non motor solutions enabling them to issue policies / quotes as per the company's underwriting guidelines.

Processes, technology and training were further streamlined during the year in order to enhance the productivity of the sales force and improve customer service. The company also launched a web based sales force management system to manage and monitor the sales force in a consistent manner.

A breakdown of GWP between corporate and retail channels is as follows.

Distribution Channel Wise GWP	2012 Rs. Mn.	2011 Rs. Mn.	Growth %	2012 Mix %	2011 Mix %	Change in mix
Direct Corporate	619	611	1.3	13.4	14.5	(1.1)
Direct Commercial / Retail	1,212	1,017	19.0	26.2	24.1	2.1
Brokers	1,693	1,626	4.1	36.6	38.5	(1.9)
Agents	1,104	974	13.1	23.8	23.0	0.8
Total	4,626	4,228				

There was a marked increase in the number of pre-underwritten policies which were issued during the year, which reflected the growing acceptance among customers and sales force of the convenience and coverage provided by these policies. Following our efforts to synchronise training and availability of IT infrastructure, usage of the e-motor system also improved from 33% in 2011 to 64% in 2012.

The company continued to invest in upgrading the technical competencies of

the distribution team as a key differentiator in a price driven market. A modular case study based training programme for sales staff was completed and the learning and development path was streamlined in accordance with business requirements.

Improve Service Standards

The number of technical executives responsible for conducting inspections at an accident site was increased during the year as a response to customer feedback regarding our motor claims settlement process. We also enhanced the features and functionality of the mobile phone based technology used by motor assessors to ensure that documents required to process claims are transmitted from the accident site to head office in a speedy manner. The claims settlement process was also improved to allow customers an immediate settlement upon agreeing to the garage estimate.

The workflow system to monitor service standards related to selected types of non motor claims was fully utilised throughout the year, to ensure speedy settlement as well as monitor service levels.

Several IT system modifications and enhancements were implemented to increase staff productivity and customer services levels.

Develop Alternative Distribution Channels

Business volumes generated from non traditional channels reported a year on year growth. UA continued to invest in building these cost effective distribution channels by further expanding the sales points at which customers could purchase

UA products, and revamped the necessary IT systems to improve productivity.

Product Development

The Union Family Health Net product which provides cost effective surgical and hospitalisation insurance coverage was revamped during the year in line with customer feedback. The web based motor and non motor products gained acceptance with customers as reflected in the year on year growth in premiums from this line of business.

The company conducted several forums with existing as well as potential customers to identify any gaps or improvements to the range of motor insurance solutions available with the company. Following this research the motor pricing formula was revised in line with customer expectations for a high quality service at a competitive price.

Strengthen Underwriting and Claims

Despite intense price competition UA reported improved loss ratios across all classes of business mainly due to prudent underwriting and management of claim leakage. The risk profile based pricing formula adopted to achieve the twin objectives of selective growth and enhanced profitability in the motor segment delivered the desired result in terms of an improved loss ratio.

The company also implemented several pricing controls to manage the losses of the property portfolio, which once again delivered the desired results. Prudent pricing combined with hassle free but tightly controlled claims servicing created an ideal opportunity for the company to grow the surgical portfolio.

Investments in training and development for underwriting and claims staff continued throughout the year and we believe this was reflected in the quality of service and expertise that was delivered to both retail and corporate clients.

Expenditure to Enhance Future Results

	Rs. Mn.
Sales staff	15.4
Support staff	3.3
Infrastructure	2.2
Learning and development	16.2
Brand development	57.6
Total	94.7

Current Performance against Objectives

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

Key performance indicator	What does it show?	Presentation of results	Comments
Increase in gross written premium	The amount of business we were able to secure	<p>Increase in Gross Written Premium</p>	All classes and both retail and corporate channels reported growth. However, premium volumes fell short of expectations due to prevailing market conditions and intense price competition, which meant having to walk away from businesses where we could not charge a fair premium.
Net combined ratio	Our underwriting profit margin. A ratio less than 100% represent profits and vice versa.	<p>Net Combined Ratio</p>	The net combined ratio was marginally above budget but an improvement over the previous year. Both claims and expense ratios contributed to this positive development.
Profit for the year	The final bottom line result for the period	<p>Profit After Tax</p>	Profit for the year was higher than budget and the previous year. This was due to improved underwriting results as well as an increase in investment income.

Management Discussion and Analysis Contd.

Strategic Objectives – Highlights of 2012 Performance and 2013 Priorities

Expand distribution capability especially in retail segment	Continuous improvement in service standards	Develop alternative distribution channels to exploit cross marketing opportunities within the group
<p>Due to the prevailing price competition in the market, we chose to consolidate on the investments we made in the previous year, building capability and increasing resources in a selective manner, targeting profitable segments of the market. We also implemented a programme to increase non permanent distribution resources which we believe will be more cost effective.</p>	<p>We firmly believe that price competition cannot last and service will be the ultimate differentiator of the industry. We set high service standards and continuously improve on them.</p>	<p>We continuously seek more cost effective distribution channels that are convenient for existing and potential customers. We also have significant opportunities within the group which we could harness to improve our income and profitability.</p>
2012 Highlights	2012 Highlights	2012 Highlights
<ul style="list-style-type: none"> • Improved quality and generated year on year growth in premium from retail channels • Streamlined processes, technology and training to enhance productivity and customer service • Launched web based sales management system 	<ul style="list-style-type: none"> • Increased number of front line staff to provide support at motor accident site • Improved technology enabling speedier delivery of documents from accident site to processing centre • Implemented IT system change to improve staff productivity and customer service 	<ul style="list-style-type: none"> • Expanded sales of Union Motor Reload – only motor insurance policy which provides cover for 1, 3 or 6 months • Upgraded Reload system with user friendly features and functionality • Increased volumes from all distribution channels • Streamlined back office processes to ensure adequate control environment in light of increased premium volumes
2013 Priorities	2013 Priorities	2013 Priorities
<ul style="list-style-type: none"> • Expand non permanent sales force to target opportunities in retail segment • Leverage suite of e-based motor and non motor product solutions to provide convenience to sales staff and customers • Continuously provide learning and development for existing and new recruits • Expand corporate sales team in a selective manner 	<ul style="list-style-type: none"> • Leverage enhanced motor claims service features to improve time taken to settle claims • Review options to implement end to end workflow process for non motor claims • Enhance IT system features and functionality in cost effective manner 	<ul style="list-style-type: none"> • Expand volumes from all alternate channel operations • Review options to enhance sales process / resources at Keells supermarkets. • Enhance alternative channel resources in a selective manner • Review options to enhance existing relationships and develop tie ups with new partners

<p>Develop new products and augment existing products</p>	<p>Strengthen underwriting processes</p>	<p>Strengthen claims management processes</p>
<p>We need to constantly identify the needs of our existing and potential customers and upgrade our product portfolio to provide adequate solutions.</p>	<p>Underwriting and pricing of risks is at the heart of our business. We need to constantly upgrade the skills and competencies of our people to ensure we accurately price risks and comply with our underwriting philosophy of walking away when we cannot charge a fair premium.</p>	<p>Claims management is a vital aspect of our business, both from the perspective of managing our claims ratios as well as delivering a superior service. We need to constantly upgrade the skills and competencies of our people as well as the infrastructure available in the organisation to settle claims fairly and speedily.</p>
<p>2012 Highlights</p>	<p>2012 Highlights</p>	<p>2012 Highlights</p>
<ul style="list-style-type: none"> • Reported increased usage and volumes from web based motor and non motor products • Conducted structured research on existing and potential customer needs and revamped products accordingly • Simplified sales process / pricing documentation requirements for Union Family Health Net product 	<ul style="list-style-type: none"> • Implemented risk based pricing formula to ensure profitable growth in motor portfolio • Reported improvements in loss ratio from all classes of business • Enhanced technical competencies of technical distribution staff 	<ul style="list-style-type: none"> • Reported improvements in claims ratios • Revamped partner garage initiative and increased number of affiliated garages • Enhanced technical competencies of technical and distribution staff • Continued to use web based claims tracking system to monitor service standards in a transparent manner
<p>2013 Priorities</p>	<p>2013 Priorities</p>	<p>2013 Priorities</p>
<ul style="list-style-type: none"> • Ensure optimal use of web based motor and non motor systems • Continuously monitor environment for new product ideas that meet customers needs • Provide value added benefits to customers 	<ul style="list-style-type: none"> • Use risk based pricing methodology to manage profitability of motor portfolio • Set “walk away” pricing levels for property risks • Further simplify policy wordings in line with risk guidelines / appetite 	<ul style="list-style-type: none"> • Continue to focus on staff learning and development • Work with reinsurance partners to update knowledge • Expand relationships with motor repair shops in a selective manner to manage motor claims leakage • Use non motor claims work flow system to monitor / manage claims service and outgo

Management Discussion and Analysis Contd.

Analysis of Business Segments

Non life insurance business comprises several distinct classes of business, as follows.

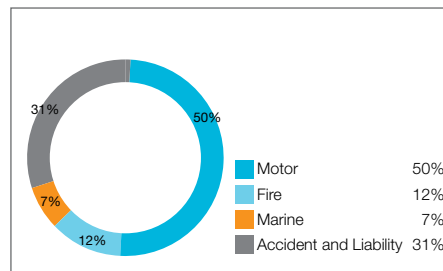
- Accident and liability
- Fire
- Marine
- Motor

An overview of each of the line of business, the market conditions in which they operate and their operational alignment with the company's strategic objectives are outlined below.

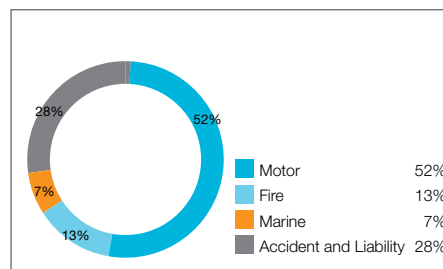
Accident and Liability

Accident and liability GWP contributed 31% of the total non life premium. This class comprises mainly surgical and hospitalisation related insurance for corporate clients. Personal accident, travel and workmen's compensation related premiums also contributed to a significant component of the GWP. The full range of products / covers offered under this class of business is provided on page 146.

The following table depicts the size of the accident and liability market, UA's market share and relevant growth rates



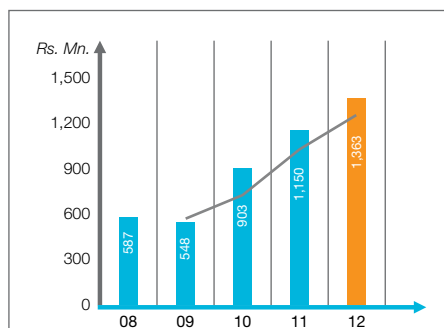
UA GWP Mix - 2012



UA GWP Mix - 2011

Accident and Liability	2008	2009	2010	2011	2012 (e)
Market size GWP (Rs. million)	7,187	7,158	7,641	9,123	10,934
UA GWP (Rs. million)	622	591	939	1,196	1,409
Market growth %	15%	0%	7%	19%	20%
UA growth %	21%	-5%	59%	27%	18%
UA market share%	9%	8%	12%	13%	13%
UA rank	3	4	3	3	3

As per the table above, accident and liability class of business has recorded a CAGR of 11% over the last 5 years compared with UA's CAGR of 23% over the same period. It is estimated that UA ranks as the 3rd largest accident and liability insurer in the market.



UA Accident and Liability GWP over past 5 years

Alignment with Strategic Objectives

The following table indicates how this line of business contributed to achieving the strategic objectives of the non life business.

Strategic Objective	Activities
Expand distribution capacity especially in retail segment	<ul style="list-style-type: none"> GWP from retail distribution channels more than doubled compared with 2011 Revamped Union Family Health Net product, which is specifically targeted at the retail market Formed alliances with travel agents to promote travel insurance Modified covers offered under pre-underwritten policies which cater to retail / SMI segments Re-launched low cost personal accident product for the benefit of less experienced sales staff
Continuous improvement in service standards	<ul style="list-style-type: none"> Developed paperless work flow to ensure hospitalisation related documents are delivered to head office processing centre in a speedy manner Improved service standards throughout the year Generated organic growth and acquired new accounts based on service standards offered to corporates and intermediaries Initiated customer service unit at head office to cater to all travel insurance needs of walk-in customers
Develop alternative distribution channels	<ul style="list-style-type: none"> Lunched web based travel insurance solution Initiated work site marketing campaigns to increase sales of personal accident products
Develop new products and augment existing products	<ul style="list-style-type: none"> As mentioned above, revamped pre-underwritten products Re-launched Union Family Health Net product and low cost personal accident product
Strengthen underwriting claims management processes	<ul style="list-style-type: none"> Reported improved claims ratios Conducted portfolio studies and risk surveys to identify any gaps in existing coverage and provide risk improvement recommendations Conducted open file reviews and knowledge sharing with underwriting staff to reinforce importance of following underwriting guidelines

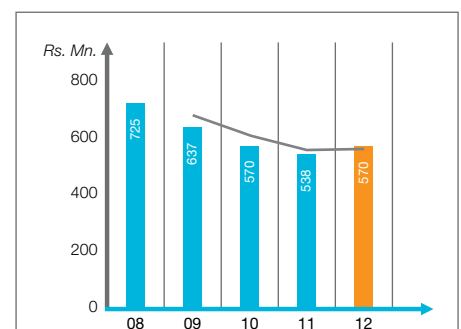
Fire

Fire class of business which contributed 12% of UA's total non life premiums comprises mainly property / machinery all risk covers, electronic / computer insurance and fire commercial insurance which are predominantly tailor made solutions for corporate clients. The product range includes home and shop insurance policies which cater to the personal and SMI segments of the market as well. The full range of products / covers offered under the fire class of business in provided on page 146.

The following table depicts the size of the market, UA's market share, and relevant growth rates.

Fire	2008	2009	2010	2011	2012 (e)
Market size GWP (Rs. million)	6,827	7,049	5,012	5,379	7,407
UA GWP (Rs. million)	725	637	570	538	570
Market growth %	9%	3%	-29%	7%	38%
UA growth %	-2%	-12%	-11%	-6%	6%
UA market share %	11%	9%	11%	10%	8%
UA rank	3	3	4	4	4

As per table above, fire class of business has reported a CAGR of 2% over the last 5 years compared with UA's CAGR of -6% over the same period. It is estimated that UA ranks as the 4th largest fire insurance provider in the market.



UA Fire GWP over past 5 years

Management Discussion and Analysis Contd.

Alignment with Strategic Objectives

The following table indicates how this line of business contributed to achieving the strategic objectives of the non life business.

Strategic Objective	Activities
Expand distribution capacity especially in retail segment	<ul style="list-style-type: none"> Conducted targeted training programmes to enhance distribution staff knowledge regarding specific insurance covers / solutions Targeted selected cross selling opportunities
Continuous improvement in service standards	<ul style="list-style-type: none"> Increased productivity by training staff on use of IT systems based features and functionality Conducted portfolio reviews for selected clients
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> Conducted audits of underwriting processes Participated in knowledge sharing / webinar programmes organised by reinsurance partners Participated in lectures conducted by loss adjustors and risk managers regarding their findings when investigating / adjusting claims Conducted structured training programmes and facilitated visits to risk sites (e.g. factories) to improve the practical knowledge and risk assessment capabilities of underwriting staff

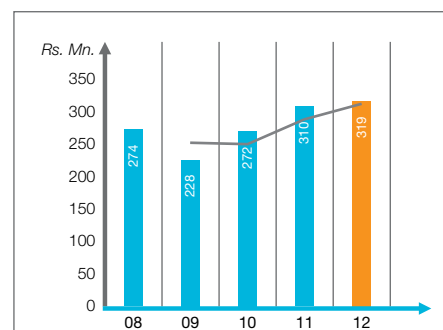
Marine

The marine portfolio which contributed 7% of UA's total portfolio consists mainly of covers provided to the corporate segment, with commercial / SMI segments contributing a relatively lesser share of volumes. Opportunities for marine insurance is dependent on import and export trade volumes. Hence, any changes either positive or negative in trade flows has a direct correlation with marine business volumes. The full range of products / covers offered under this class of business is provided on page 146.

The following table depicts the size of the marine market, UA's market share and relevant growth rates.

Marine	2008	2009	2010	2011	2012 (e)
Market size GWP (Rs. million)	1,827	1,443	1,499	1,691	1,666
UA GWP (Rs. million)	274	228	272	310	319
Market growth %	12%	-21%	4%	13%	-1%
UA growth %	21%	-17%	19%	14%	3%
UA market share %	15%	16%	18%	18%	19%
UA rank	3	2	3	3	2

As per table above, marine class of business has recorded a CAGR of - 2% over the last 5 years compared with UA's CAGR of 4% over the same period. It is estimated that UA ranks as the 2nd largest marine insurer in the market.



UA Marine GWP over past 5 years

Alignment with Strategic Objectives

The following table indicates how this line of business contributed to achieving the strategic objectives of the non life business.

Strategic Objective	Activities
Expand distribution capacity especially in retail segment	<ul style="list-style-type: none"> • Provided web based e-marine facility to selected SMI / commercial customers • Enabled selected customers to generate pdf copies of marine certificates, which could be forwarded to the relevant financial institutions to speed up processing of letters of credit
Continuous improvement in service standards	<ul style="list-style-type: none"> • Implemented productivity improvements to enhance efficiency and effectiveness of existing operations • Conducted training programmes to enhance technical skills of distribution staff, enabling them to provide better customer service • Conducted pre-shipment surveys as a value addition for clients involved in the tea export industry
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> • Leveraged panel of internal surveyors to verify and settle claims in a speedy manner • Negotiated improved terms and conditions from reinsurance partners on strength of consistent underwriting results • Initiated review of marine policies to ensure consistency with international trading requirements

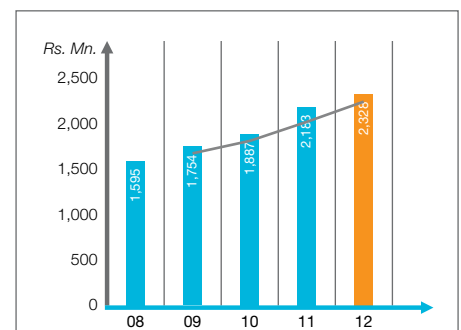
Motor

The motor class of business contributed 50% of UA's total non life premiums. As an industry, motor business is estimated to account for 62% of the total premium. With all nineteen service providers offering motor insurance solutions, this segment is one of the most price competitive in the non life industry. Nevertheless, as depicted below, the segment has reported a 14% CAGR over the past 5 year period. UA's CAGR over the same period is 7%, as the company has applied a selective underwriting approach to balance growth with underwriting results.

The following table depicts the size of the motor insurance market, UA's market share and relevant growth rates.

Motor	2008	2009	2010	2011	2012 (e)
Market size GWP (Rs. million)	18,718	17,898	20,949	27,138	31,972
UA GWP (Rs. million)	1,595	1,754	1,887	2,183	2,328
Market growth %	10%	-4%	17%	30%	18%
UA growth %	19%	10%	8%	16%	7%
UA market share %	9%	10%	9%	8%	7%
UA rank	4	4	4	4	5

As per table above, motor class of business has recorded a CAGR of 14% over the last 5 years compared with UA's CAGR of 10% over the same period. It is estimated that UA ranks as the 5th largest motor insurer in the market.



UA Motor GWP over past 5 years

Management Discussion and Analysis Contd.

Alignment with Strategic Objectives

The following table indicates how this line of business contributed to achieving the strategic objectives of the non life business.

Strategic Objective	Activities
Expand distribution capacity especially in retail segment	<ul style="list-style-type: none"> GWP from retail channels increased by 12% Web based e-motor system usage increased from 33% in 2011 to 64% in 2012 Product and IT training aligned with expansion in sales force
Continuous improvement in service standards	<ul style="list-style-type: none"> Increased numbers of technical executives responsible for conducting inspections at accident sites Improved technology enabling speedier delivery of documents from accident site to processing centre Expanded on the spot settlement process to settle claims to customers once repair costs are finalised directly from the repair shop Used GPS technology to assign technical executives to accident sites in a speedy manner
Develop alternative distribution channels	<ul style="list-style-type: none"> Increased GWP from alternative distribution channels Formed partnership with Abans to promote sales of Reload policies Upgraded Reload IT system with user friendly features
Develop new products and augment existing products	<ul style="list-style-type: none"> Conducted structured research on existing and potential customer needs and revamped products accordingly Reported increased usage and volumes from web based motor insurance product
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> Implemented risk based pricing model to standardise motor pricing based on risk factors Reported improvements in loss ratios from motor portfolio Enhanced technical competencies of distribution staff Revamped partner garage network and increased number of affiliated garages

Opportunities and Threats

The key opportunities identified for the non life businesses are summarised as follows;

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

The threats faced by the business are outlined below;

Threat	UA's Response
Soft market cycle not taking account of increasing economic / insurance losses due to natural disasters	<ul style="list-style-type: none"> Manage pricing in light of increased likelihood of natural disasters and attempt to compete on basis of "value for money" rather than price
Lack of transparency regarding NITF's reinsurance arrangements and risk management processes in light of the institution being granted authority to increase their share of reinsurance placements from 20% to 30%	<ul style="list-style-type: none"> Lobby relevant authorities to increase transparency and provide certainty to industry
Lack of distribution and technical expertise	<ul style="list-style-type: none"> Increase learning and development initiatives and continue talent management programme to identify high potential employees and develop short / medium term strategies to bridge capability gaps

Future Outlook

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

It is likely that the changes in regulation, i.e. requirement to separate non life and life insurance companies, introduction of risk based capital and strict implementation of the Premium Payment Warranty (PPW)

clause (which states that an insurance policy is invalid if premium is not paid within 60 days) will also ensure pricing and credit discipline in the market.

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

Management Discussion and Analysis Contd.

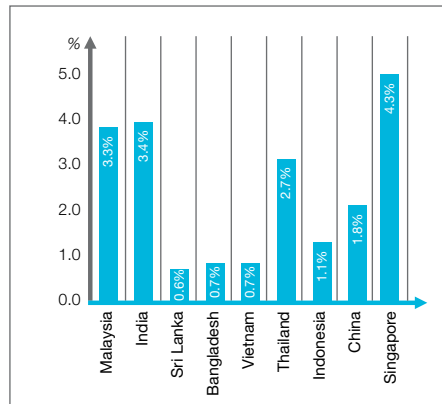
Life Insurance Operational Review

Market Conditions

The life insurance industry comprised of fifteen service providers as at December 2012. Three companies function as stand alone life insurance companies and the others provide non life services in addition to life insurance.

The life insurance industry is expected to report a 5% growth in 2012. Despite the consistent growth momentum over the recent past, life insurance penetration measured by premiums as a percentage of GDP has stagnated around the 0.5% levels.

In the backdrop of improving socio-economic conditions, the relatively low level of penetration is indicative of the significant “catch up” potential of the sector. As graphically illustrated in the next column, Sri Lanka lags the penetration levels achieved by many of its regional neighbours including India.



Life Insurance Penetration 2011

As depicted in the table below 587,916 new life policies were sold during 2011, an increase of 14% compared with 2010. As at December 2011 2.4 million life insurance policies were in force, compared with 2.2 million policies in 2010. Life insurance penetration as a percentage of the labour force increased marginally from 27.3% in 2010 to 29.2% in 2011.

Business Review













UA's life insurance premiums crossed the Rs. 5 billion mark increasing by 14% from Rs. 4.5 billion in 2011. Both traditional and investment linked products contributed to the growth momentum. There was a noteworthy increase in the productivity of the sales force and the average case size per policy sold.

As in previous years, the life fund was actuarially valued in 2012. Following actuarial advice, Rs. 525 million was transferred to shareholders as profit from the life business. This is a 22% increase over the Rs. 429 million profits reported in 2011. The actuary approved an increase in dividends to participating policyholders and declared a higher than guaranteed rate for non participating dividend based products as well. Following these adjustments the life fund increased by 18% from Rs. 14.0 billion in 2011 to Rs. 16.5 billion in 2012.










Life Insurance Statistics	2005	2006	2007	2008	2009	2010	2011
Number of policies issued	366,132	409,933	490,454	567,621	468,317	516,319	587,916
Number of in force policies	1,629,061	1,740,648	1,867,981	2,082,358	2,068,548	2,214,976	2,408,202
Penetration as a % of the labour force	22.3	22.9	24.9	25.8	25.6	27.3	29.2

Progress against Strategic Objectives - Summary

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

2012 Priority	Progress	Achievement
Expand Distribution in Cost Effective Manner		
Restructure distribution network to exploit new business opportunities	<ul style="list-style-type: none"> Distribution structure aligned with business opportunities Added 12 new regions and 1 zone to distribution structure 	
Continue cost effective expansion by opening new business development offices	<ul style="list-style-type: none"> Opened business development offices and 1 branch office during the year 	
Enhance features / functionality of web based sales force management system	<ul style="list-style-type: none"> Upgraded management information available via system Developed functionality to capture training related information e.g. attendance, training history etc. Conducted several knowledge sharing initiatives to enhance awareness regarding features / functionality 	
Improve Service Standards		
Implement automated underwriting process for selected risk profiles	Project implementation deferred to 2013	
Implement web portal for customers with unit linked policies	Ongoing	
Enhance initiatives to ensure transparency in sales process	<ul style="list-style-type: none"> Implemented web based financial needs analysis and quotation modules Web enabled documentation available in tri-lingual formats Continued initiatives to simplify policy documents Implemented “welcome call” initiative to educate customers regarding features of the insurance plan they purchased and other services Developed video on equity investments to highlight the long term nature of such investments 	
Enhance Learning and Development		
Enhance features / functionality of e-learning solution	<ul style="list-style-type: none"> Increased the number of audio / video programmes to 93 and developed material in Sinhala and Tamil languages as well 	
Streamline learning and development inputs in line with business performance	<ul style="list-style-type: none"> Launched leadership academy for distribution heads to blend strategic business management skills with distribution competencies Conducted joint programme with Post Graduate Institute of Management for senior level distribution leaders Continued to enhance technical skills of underwriting staff 	
Roll out leadership academy for selected sales management staff	Refer above	
Streamline learning and development initiatives to fast track career and income of new recruits	<ul style="list-style-type: none"> Implemented “Brilliant Starter” scheme to recognise new recruits who achieve productivity and income goals within a short period of time Implemented reward and recognition scheme for “Brilliant Starter” coaches as well 	
Expand Alternative Distribution Channels		
Increase volumes from bancassurance channel	<ul style="list-style-type: none"> Achieved year on year increase from bancassurance channel Restructured operation in light of expanding network and distribution resources Overall productivity from channel met expectations Streamlined recruitment and retention programmes 	
Increase productivity of sales force	<ul style="list-style-type: none"> Achieved productivity improvements through focused monitoring and learning and development inputs Sales force productivity increased by 8% 	

Management Discussion and Analysis Contd.

2012 Priority	Progress	Achievement
Modify web based sales force management systems to suit bancassurance operations	On hold	
Implement strategies to retain key staff	<ul style="list-style-type: none"> Created motivational reward and recognition schemes to drive performance and retain key employees Created career progression for experienced sales staff by expanding network 	
Increase learning and development resources for bancassurance staff	<ul style="list-style-type: none"> Increased learning and development initiatives for bancassurance staff as well as bank staff 	
New Product Development		
Expand suite of unit linked products to cover health, protection and savings needs	<ul style="list-style-type: none"> Launched pre-packaged suite of unit linked products catering to customer needs Developed on-line, customised needs analysis tool to better analyse customers' risk vs. reward appetite 	
Continue to maintain clear distinction between traditional and unit linked products	<ul style="list-style-type: none"> On going. Unit linked products contributed to approximately 17% of total premium volumes Conducted internal certification programme to ensure only selected life insurance advisors are licensed to sell unit linked products 	
Strengthen underwriting and Claims Management Processes		
Roll out advanced financial / medical underwriting programme for staff	<ul style="list-style-type: none"> 21 UA staff participated in four sessions covering medical and financial underwriting Developed a video based presentation to educate clients regarding equity investments and unit linked products 	
Utilise Prophet system to implement actuarial control cycle	<ul style="list-style-type: none"> Actuarial control cycle implemented 	
Leverage reinsurance partnerships to update knowledge of internal staff	<ul style="list-style-type: none"> UA staff participated in programmes conducted by reinsurance partners during 2012 	
Invest in IT platform to expand unit linked product range with adequate productivity and process controls	<ul style="list-style-type: none"> Implemented 	

Progress against Strategic Objectives

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

Expand Distribution

The life distribution network was strengthened during 2012 with several new regions and zones being created to provide focused leadership attention to high potential areas. Combined with UA's low cost distribution model, this enabled several high potential leaders to be positioned to take on greater responsibility and drive the growth of the business.

Several new features and functionalities were added to the web based life sales force management system. The management information available from the system was upgraded to enable detailed analysis of revenues and product mix. A learning and development related module was also implemented enabling advisors to view their own training history, attendance at training programmes etc. Several learning and development initiatives were also conducted during the year to raise awareness among the distribution staff regarding the system.

Improve Service Standards

The call centre infrastructure was expanded during the year to contact life policyholders and update them regarding the features of the product they have purchased as well as educate them regarding the convenient service options available to them. Initiatives to further simplify policy documents continued, and steps were taken to ensure that important documents were available in all three languages.

The company launched an ambitious plan to create e-based documents which could be accessed via laptops or tablet PCs in order to enhance the productivity of the sales force and provide greater transparency to customers.

In addition, all service parameters were monitored on a monthly basis and corrective action taken where appropriate.

Enhance Learning and Development

Several initiatives were launched to develop the leadership as well as technical competencies of the staff. A leadership academy programme was conducted for senior members of the distribution staff mainly based on case studies developed in-house and by faculty members of the Postgraduate Institute of Management.

The e-learning system was also expanded and 81,819 training hours were conducted on the platform. The company is currently reviewing options to further enhance the user friendliness of the system, to encourage greater usage.

The company launched the “Brilliant Starter” initiative during the year to encourage and motivate new advisors to achieve a minimum level of productivity and annualised premium. Approximately 25% of new recruits achieved “Brilliant Starter” status which is an encouraging trend. Supervisors who supported these new recruits were also recognised as “Brilliant Starter Coaches”.

Develop Alternative Distribution Channels

UA's bancassurance operation gathered momentum during the year, with business from all partner banks reporting growth. It is likely that this channel will make a sizable contribution to new business in the medium term. In line with expanding business opportunities the distribution channel structure was expanded, enabling leadership positions to be created for

experienced staff. In addition several rewards and recognition schemes were launched throughout the year to improve productivity and retain performing sales staff.

New Product Development

The unit linked range of products were revamped and a suite of pre-packaged products catering to various customer needs was launched during the year. UA maintained a clear distinction between traditional products and unit linked products and developed a video highlighting the key differences from a customer perspective, enabling a informed purchase decision to be made by prospective clients.

Strengthen Underwriting and Claims Management Processes

We continued to implement the actuarial control cycle, conducting experience investigations for hospital cash and critical illness. Lapse and mortality investigations were also conducted. Several initiatives were taken to update underwriting and claims management procedures, including the launch of a modular training programme for technical staff. We also leveraged our reinsurance partnerships to enhance the knowledge and skills of the technical staff by nominating selected staff to an advanced medical / financial underwriting programme conducted by one of our reinsurance partners, and utilised a platform provided by another reinsurer to streamline medical underwriting.

Expenditure to Enhance Future Results

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

	Rs. Mn.
Sales staff	15.0
Support staff	2.2
Infrastructure	15.2
Learning and development	43.7
Brand development	76.8
Total	152.9

Management Discussion and Analysis Contd.

Current Performance against Objectives

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

Key Performance indicator	What does it show?	Financial Result	Comments										
Increase in gross written premium	The amount of business we were able to secure in terms of new business and renewals	<p>Increase in Gross Written Premium</p> <table border="1"> <tr><th>Year/Type</th><th>Value (%)</th></tr> <tr><td>11 Act</td><td>29</td></tr> <tr><td>12 Obj</td><td>33</td></tr> <tr><td>12 Act</td><td>14</td></tr> <tr><td>13 Obj</td><td>20</td></tr> </table>	Year/Type	Value (%)	11 Act	29	12 Obj	33	12 Act	14	13 Obj	20	GWP was 14% higher than 2011 but lower than budget due to relatively sluggish economic conditions
Year/Type	Value (%)												
11 Act	29												
12 Obj	33												
12 Act	14												
13 Obj	20												
Increase in new business premium on an annualised basis	The amount of business we were able to secure	<p>Increase in New Business Premium on an Annualised Basis</p> <table border="1"> <tr><th>Year/Type</th><th>Value (%)</th></tr> <tr><td>11 Act</td><td>27</td></tr> <tr><td>12 Obj</td><td>31</td></tr> <tr><td>12 Act</td><td>(1)</td></tr> <tr><td>13 Obj</td><td>28</td></tr> </table>	Year/Type	Value (%)	11 Act	27	12 Obj	31	12 Act	(1)	13 Obj	28	Annualised new business premiums were below budget. There was a significant increase in the average premium per policy sold, but a lower than anticipated sales force and productivity hampered growth
Year/Type	Value (%)												
11 Act	27												
12 Obj	31												
12 Act	(1)												
13 Obj	28												
Profit from life insurance	The final bottom line result for the period	<p>Profit on Life Insurance</p> <table border="1"> <tr><th>Year/Type</th><th>Value (Rs. Mn.)</th></tr> <tr><td>11 Act</td><td>418</td></tr> <tr><td>12 Obj</td><td>516</td></tr> <tr><td>12 Act</td><td>532</td></tr> <tr><td>13 Obj</td><td>599</td></tr> </table>	Year/Type	Value (Rs. Mn.)	11 Act	418	12 Obj	516	12 Act	532	13 Obj	599	Profitability exceeded budget by a wide margin. Several initiatives have been taken to ensure the long term sustainability of the business and based on projections, it is likely that life profits will continue to grow.
Year/Type	Value (Rs. Mn.)												
11 Act	418												
12 Obj	516												
12 Act	532												
13 Obj	599												

ONE+ BILLION

Profit Before Tax

120%

Growth in Revenue

330%

Growth in Profit After Tax

Management Discussion and Analysis Contd.

Strategic Objectives – Highlights of 2012 Performance and 2013 Priorities

Expand distribution network in a cost effective manner	Continuous improvements in service standards	Improve / enhance training and development initiatives
<p>We have aggressively invested to enhance distribution capability and resources in the life insurance business. We intend to continue this trend, by rolling out cost effective Business Development Offices (BDOs)</p>	<p>We continuously monitor the service levels we provide our customers as well as our field staff, while at the same time ensuring optimal efficiency and effectiveness.</p>	<p>As life insurance products are not intuitively purchased by Sri Lankan consumers, providing learning and development inputs of our field force is a key focus of our business.</p>
2012 Highlights	2012 Highlights	2012 Highlights
<ul style="list-style-type: none"> • Distribution structure expanded in line with market opportunities • Enhanced features / functionality of web based sales force management system • Streamlined recruitment processes • Used cost effective distribution model to expand sales offices 	<ul style="list-style-type: none"> • Implemented web based financial need analysis, and quotation models • Continued initiatives to simplify policy documents • Implemented “welcome call” for new customers to educate them regarding product features and service options 	<ul style="list-style-type: none"> • Enhanced features / functionality of e-learning solutions • Launched leadership academy for sales management cadre • Implemented “Brilliant Starter” scheme to motivate new recruits to accelerate their sales careers
2013 Priorities	2013 Priorities	2013 Priorities
<ul style="list-style-type: none"> • Restructure distribution network to exploit new business opportunities • Continue cost effective expansion by opening new business development offices • Streamline recruitment processes 	<ul style="list-style-type: none"> • Implement automated underwriting process for selected risk profiles • Implement web portal for customers to access policy details, obtain updates regarding their policies etc. • Enhance initiatives to ensure transparency in sales processes 	<ul style="list-style-type: none"> • Enhance features and functionality of e-learning solution • Streamline learning and development inputs in line with business performance • Continue to roll our leadership academy for selected sales management staff • Focus on fast tracking new recruits to increase productivity and income

<p>Expand alternative channels and cross marketing activities</p>	<p>Develop new products and augment existing products</p>	<p>Strengthen underwriting and claims management processes</p>
<p>In addition to the traditional agency channel, we continuously seek cost effective distribution channels in order to approach our target markets.</p>	<p>We need to constantly identify the needs of our existing and potential customers and upgrade our product portfolio to provide adequate solutions.</p>	<p>Underwriting and claims management are at the heart of our business. We need to constantly upgrade the skills and competencies of our people to ensure we accurately price risks and settle claims fairly.</p>
<p>2012 Highlights</p>	<p>2012 Highlights</p>	<p>2012 Highlights</p>
<ul style="list-style-type: none"> • Increased volumes from bancassurance partners • Expanded distribution structure in line with business opportunities • Enhanced learning and development as well as motivational programme to boost productivity • Launched reward and recognition schemes to accelerate channel performance 	<ul style="list-style-type: none"> • Launched suite of pre-packaged unit linked products catering to a wide variety of customer needs • Reported growth from both traditional and unit linked products • Maintained clear distinction between traditional and unit linked products 	<ul style="list-style-type: none"> • Rolled out advanced financial / medical underwriting programme for staff • Utilised Prophet system to implement actuarial control cycle • Leveraged reinsurance partnerships to update knowledge of internal staff • Invested in IT platform to expand unit linked product range with adequate productivity and process controls
<p>2013 Priorities</p>	<p>2013 Priorities</p>	<p>2013 Priorities</p>
<ul style="list-style-type: none"> • Increase volumes from all bancassurance partners • Increase productivity of sales force • Implement strategies to retain key staff • Identify opportunities to target new bancassurance partnerships 	<ul style="list-style-type: none"> • Upgrade health insurance products • Review options to revamp unit linked product range 	<ul style="list-style-type: none"> • Utilise Prophet system to implement actuarial control cycle • Leverage reinsurance partnerships to update knowledge of internal staff • Invest in web based sales process to enhance underwriting controls and productivity of sales staff

Management Discussion and Analysis Contd.

Opportunities and Threats

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

Opportunity	UA's Response
Inadequate post-retirement medical and pension schemes in the context of an ageing population	Develop innovative investment and financial products to fulfill market needs
Growth potential in North and East	Increase distribution, learning and development and communication resources to tap emerging business opportunities
Low penetration levels and growth potential in mass affluent market segment	Introduce products specifically targeting this segment and improve acquisition and closing skills across all distribution channels

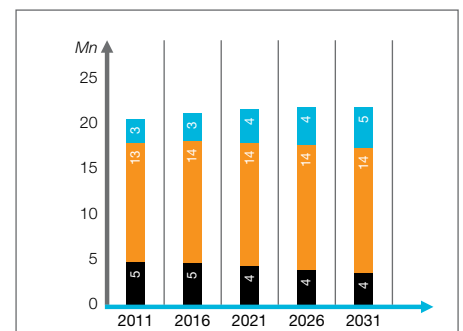
The threats faced by the business are outlined below;

Threat	UA's Response
Inadequate long term assets to match long term liabilities	Selectively diversify into long term assets other than government bonds, corporate paper, etc (e.g. property, equities)
Threat of new entrants	Enhance brand visibility, distribution reach and service standards to maintain / grow position in life insurance market
Lack of skilled staff to manage distribution and technical functions	Increase learning and development initiatives Commence talent management programmes to identify high potential employees Develop short / medium term strategies to bridge capability gaps

Future Outlook

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

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



Aging Population in Sri Lanka

■ Elderly (60+ yrs)
■ Working Age (15-59 yrs)
■ Children (<15 yrs)

Financial Review

Overview of Financial Performance

Five Year Financial Highlights

Results Overview	2012 Rs. Mn	2011 Rs. Mn	2010 Rs. Mn	2009 Rs. Mn	2008 Rs. Mn
Gross Written Premium (GWP)	9,733	8,700	7,133	5,989	5,686
Net earned premium	8,385	7,351	5,691	4,882	4,339
Net finance and other operating income	2,333	1,658	2,229	1,795	1,249
Net revenue	10,718	9,010	7,920	6,677	5,588
Net benefits, claims and expenses	(9,710)	(8,248)	(7,327)	(6,210)	(5,231)
Profit before income tax	1,008	762	593	467	357
Income tax expense	(87)	(67)	(81)	(67)	(15)
Profit for the year	921	695	512	401	342
Equity	4,309	3,247	3,169	2,305	1,487
Dividends	429	375	234	188	122

Results Overview

During the year, the company continued to sustainably manage its top line growth with strong increases in profit after tax while expanding its customer base.

Combined life and non life insurance premium increased by 12% from Rs. 8.7 billion to Rs. 9.7 billion in 2012. Consolidated net revenue saw a growth of 19% from Rs. 9 billion in 2011 to Rs. 10.7 billion in 2012. Consolidated profit before taxation crossed the billion rupee mark recording a 32% growth from Rs. 762 million in 2011 to Rs. 1,008 million in 2012.

Gross written premium

The company wrote gross premiums totaling Rs. 9.7 billion in 2012, an increase of 12% from Rs. 8.7 billion recorded in 2011. This was mainly due to a 14% growth in life insurance premiums, which increased from Rs. 4.5 billion in 2011 to Rs. 5.1 billion in 2012. In addition, non life insurance premium grew by 9% from Rs. 4.3 billion in 2011 to Rs. 4.6 billion in 2012.

Net earned premium

Overall, in the year under review, net earned premium increased by 14% from Rs. 7.3 billion in 2011 to Rs. 8.4 billion in 2012.

During the year, Rs. 218 million (2011 - Rs. 320 million) and Rs. 32 million (2011 - Rs. 58 million) transferred to unearned premium reserve and unearned reinsurance premium reserve respectively. This is an accounting adjustment required to match non life insurance premiums over the period that insurance cover is provided.

Consequent to this adjustment, non life insurance net earned premium increased by Rs. 446 million. This increase together with the growth of Rs. 588 million in life insurance net written premium, boosted net earned premium by 14%, from Rs. 7.4 billion in 2011 to Rs. 8.4 billion in 2012.

Net revenue

Overall, total net revenues of the company increased by 19% from Rs. 9.0 billion in 2011 to Rs. 10.7 billion in 2012.

All components of revenue i.e. non life insurance net earned premium (GWP net of reinsurance adjusted for premium earned during the year), life insurance premium net of reinsurance and finance and other operational income contributed to this growth.

The continued strong growth in net revenue is a result of strategic investments made over the years in terms of developing multiple distribution channels, maintaining effective pricing discipline, developing innovative products with improved technology, focused in training for the sales force together with prudent management of the investment portfolio.

Management Discussion and Analysis Contd.

Net finance and other operating income

The net finance income for the year by major categories of investments is as follows.

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000	Change %
Financial assets at fair value through profit or loss			
-Held for trading			
Interest income	7,238	4,574	58%
Dividend income	43,567	27,070	61%
-Designated upon initial recognition	11,887	259	4490%
Interest Income from held to maturity financial assets	1,289,401	624,106	107%
Available-for-sale financial assets			
Interest income	503,424	894,679	-44%
Dividend income	94	-	100%
Interest Income from loans and receivables	454,288	387,149	17%
Interest Income accrued on impaired loans and receivables	-	-	
Finance cost	(54,409)	(29,131)	87%
Net finance income	2,255,490	1,908,705	18%

Following IFRS / LKASs convergence, investments were classified into available for sale, fair value through profit and loss, held to maturity and loans & receivable based on the nature of the instrument. The 142% increase in interest income from held to maturity financial instruments was due to maturing of debentures. Income from available for sale financial assets reported a year on year decline of 38% due to the short term nature of the instruments and the volatility of the rates experienced during the year.

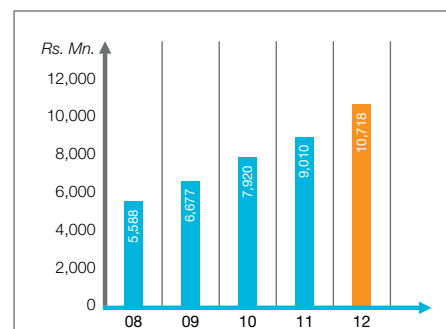
Investment portfolios are managed with the objective of maximising after-tax returns on a risk adjusted basis. However, the overall net finance income increased by 16% from Rs. 1.9 billion in 2011 to Rs. 2.3 billion in 2012.

Net benefits, claims and expenses constitute

- Net benefits and claims
- Underwriting and acquisition costs and
- Other operating and administrative expenses

A summary of these expense items is as follows

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000	Change %
Net benefits and claims	5,892,876	4,956,195	19%
Underwriting and acquisition cost	1,169,233	1,087,919	7%
Other operating and administration expenses	2,504,651	2,075,216	21%
Total	9,566,760	8,119,330	18%



Net Revenue

Net benefits and claims

Insurance benefits and claims increased by 19% from Rs. 5.0 billion in 2011 to Rs. 5.9 billion in 2012. Life insurance contract liabilities increased by Rs. 2.5 billion compared to Rs. 2 billion increased in 2011 as a consequence of increased business volumes. Non life insurance claims (net of reinsurance recoveries) increased by Rs. 155 million and life insurance net claims and benefits increased by Rs. 393 million. These factors contributed to the overall increase in insurance claims and benefits.

Underwriting and acquisition costs

Underwriting and acquisition costs increased by 7%, mainly due to an increase in life insurance commission expenses on account of new business generated during the year.

Other operating and administrative expenses	2012	2011	Change %
	Rs. '000	Rs. '000	
Employee benefits expenses	1,090,331	874,794	25%
Administration and establishment expenses	956,694	838,049	14%
Selling expenses	457,633	362,373	26%
Total	2,504,658	2,075,216	21%

Other Operating and Administrative Expenses

Other operating and administrative expenses increased by compared with the same period in 2011 mainly due to increased investment in the brand and expanding distribution as reflected in the 26% and 25% increase in selling and employee benefit expenses respectively. The company has taken several steps to contain expenses by leveraging information technology to enhance productivity and changing existing operating models and business practices.

Profit before income tax

The company has recorded a remarkable growth of 32% in profit before income tax in 2012 surpassing the one billion mark. Both life and non life insurance segments contributed to this growth. Profit from life business increased from Rs. 429 million in 2011 to Rs. 533 million in 2012. Profit from non life insurance increased from Rs. 279 million to Rs. 388 million during the same period.

Income tax expense

As per current tax regulations, life and non life insurance businesses are taxed separately. The non life insurance tax charge for 2012 has increased by 30% mainly due to the increase in taxable profit. The company is taxed at the rate of 28%.

Profit for the year

In the financial year 2012, UA's profit for the year increased by 33% from Rs. 695 million in 2011 to Rs. 921 million in 2012. As mentioned above, both life and non life insurance segments contributed to the highest profit after tax recorded by the company. The underlying return on average equity is 21%.

Dividends

UA recognises the importance of a clear, stable and coherent dividend policy. Dividend payments to shareholders depend on the company's cash flow and capital position. The Directors declared first and final dividend of Rs. 5.00 per share and the dividend payout amounted to Rs. 429 million for 2012.

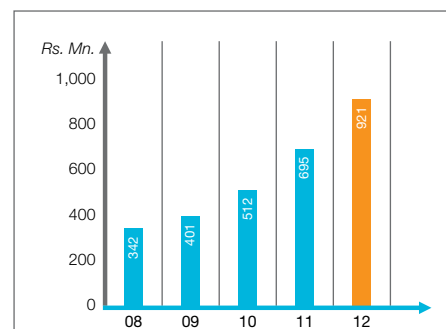
Dividend payout ratio is 41% in 2012 compared to 54% in 2011. The company's earnings per share increased by 33%, from Rs. 9.27 in 2011 to Rs. 12.28 in 2012.

Segmental Performance - Non Life Insurance

Non Life Insurance Result	2012 Rs. Mn	2011 Rs. Mn	Change %
Gross written premium	4,626	4,228	9%
Net earned premium	3,528	3,083	14%
Net claims incurred	(2,320)	(2,165)	7%
Net commission	(279)	(269)	4%
Other operating and administrative expenses	(1,034)	(769)	34%
Underwriting result	(104)	(120)	-13%
Net finance and other income	579	466	24%
Income tax expense	(87)	(67)	30%
Profit for the year	388	279	39%

Non life GWP grew by 9% from Rs. 4.2 billion in 2011 to Rs. 4.6 billion in 2012. Both retail and corporate distribution channels maintained a steady growth momentum in business volumes in 2012.

The industry remains intensely price competitive across all classes of non life insurance business. UA was able to leverage the professionalism of the distribution and technical teams as well as our reputation for customer service to extract increases from selected lines of business.



Profit for the Year

Management Discussion and Analysis Contd.

Break up of GWP achieved by each channel is given below;

Distribution Channel Wise GWP (Rs. Mn)	2012	2011	2010	2009	2008
Direct Corporate	619	611	897	826	1,089
Direct Commercial / Retail	1,212	1,017	683	510	437
Brokers	1,693	1,626	1,507	1,223	1,156
Agents	1,104	974	581	651	500
Total	4,626	4,228	3,668	3,210	3,182

Accident and liability premiums reported the highest year on year growth mainly due to the increase in surgical and hospitalisation premiums. All classes grew compared to last year. Out of all classes, 18% growth was from accident and liability business, Marine business class premiums reported a 3% growth whereas fire business class and motor business class recorded 6% and 7% growth rates respectively.

Business class wise GWP (Rs. Mn)	2012	GWP Mix	2011	GWP Mix	Growth %
Motor	2,328	50%	2,183	52%	7%
Fire	570	12%	538	13%	6%
Marine	319	7%	310	7%	3%
Accident and Liability	1,409	30%	1,197	28%	18%
Total	4,626	100%	4,228	100%	9%

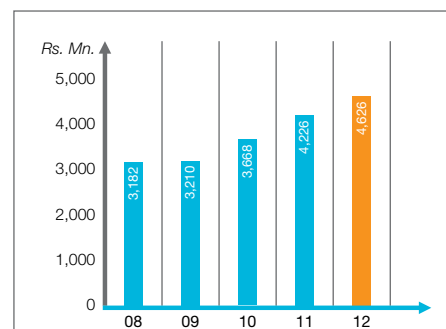
Premium ceded to reinsurers as a percentage of GWP declined from 21% in 2011 to 20% in 2012. This was consistent with UA's strategy of growing retail business volumes and retaining more risks within the balance sheet.

Net written premium increased by Rs. 370 million, but Rs. 186 million was transferred to the unearned premium reserve as income to be accounted in 2013. In the previous year, the company transferred Rs. 261 million as unearned premiums. Following this adjustment, net earned premiums increased by 15% from Rs. 3.1 billion in 2011 to Rs. 3.5 billion in 2012.

The claims ratio (computed as a % of net claims over net earned premium) decreased from 70.2% in 2011 to 65.8% in 2012. Net claims expense includes Rs. 27.7 million charge on account of incurred but not reported (IBNR) claims which has been actuarially valued. The net expense ratio of 37.2% in 2012 (computed as a % of commission and overhead expenses over net earned premium) was higher than the 33.7% reported in 2011.

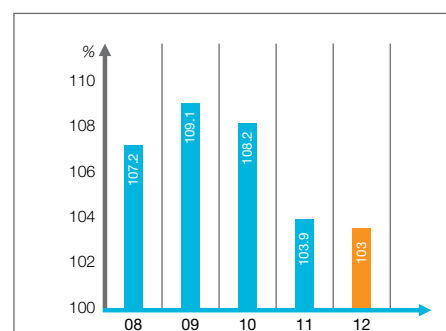
The combined ratio which is the key measure of underwriting profitability (total of the claims and expense ratios) of 103.0% in 2012 was lower than the 103.9% reported in 2011.

The decrease in underwriting losses and increase in investment income in 2012 resulted in the profit before tax from non life insurance business increasing from Rs. 346 million in 2011 to Rs. 475 million in 2012 whereas profit after tax grew by 39% from Rs. 279 million to Rs. 388 million in 2012.



Gross Written Premium - Non Life

Five year compound growth stands at 10%, and the year-on-year growth of the business was 9% (2011:15%)



Net Combined Ratio

The combined ratio in 2012 was 103%, an improvement over the 103.9% reported in 2011

Segmental Performance - Life Insurance

Life Insurance Result (Rs. Mn.)	2012	2011	Change %
Gross written premium	5,106	4,471	14%
Net written premium	4,857	4,269	14%
Net finance and other income	1,663	1,256	32%
Increase in life policyholder liabilities	(2,409)	(2,120)	14%
Net benefits and claims	(1,141)	(748)	53%
Net commissions	(891)	(819)	9%
Other operating and administrative expenses	(1,554)	(1,409)	10%
Surplus from life insurance fund	525	429	22%

Life insurance premiums which generated revenues through sales of individual and group life insurance policies increased by 14% from Rs. 4.5 billion in 2011 to Rs. 5 billion in 2012.

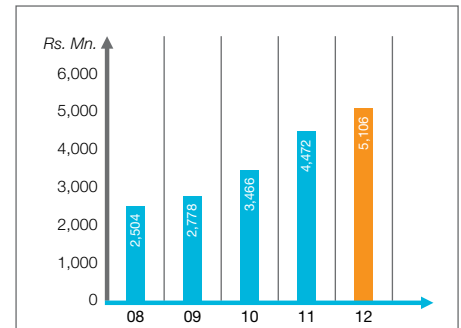
The total regular premiums grew by 14%, while GWP from group life policies recorded an 18% growth. As a result, the net written premium (after deducting premium due to reinsurers) increased by 14% from Rs. 4.3 billion in 2011 to Rs. 4.9 billion in 2012.

Following actuarial advice, Rs. 2.4 billion was transferred to the life fund (compared with Rs. 2.1 billion transferred in 2011), to reflect the liabilities to our life policyholders. Claims, benefits and maturity payments increased from Rs. 748 million in 2011 to Rs. 1,141 million in 2012. This increase is mainly due to increase in maturity payments of which the details are as follows.

Analysis of Net Claims	2012 (Rs. Mn.)	2011 (Rs. Mn.)	Change %
Death / disability	168	118	42%
Surrenders	136	103	32%
Stage payment	44	36	22%
Maturities	787	486	62%
Annuity	6	4	50%
Total net claims	1,141	748	53%

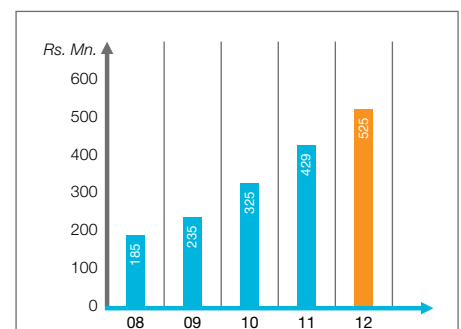
The life investment portfolio which includes government securities, corporate securities, bank deposits and equity investments increased by 16% from Rs. 12.9 billion in 2011 to Rs. 15 billion in 2012. The increase in the investment portfolio enabled in life segment to record a 32% increase in net finance and other income for the year.

As per independent actuarial advice, Rs. 525 million was transferred as surplus from the life fund, after providing for bonuses to policyholders. In 2011, Rs. 429 million was transferred as life surplus.



Gross Written Premium - Life

Five year compound growth stands at 20%, and the year-on-year growth of the life business was 14% (2011 - 29%)



Life Surplus

Life surplus grew by 22% (2011 - 32%)

Management Discussion and Analysis Contd.

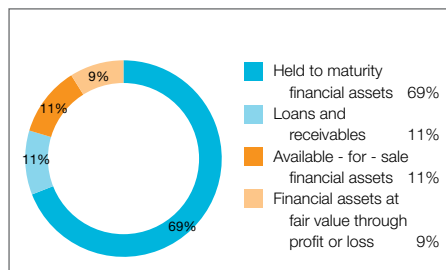
Financial Position

Investments

The investment portfolio which includes government securities, corporate securities, bank deposits and equity investments has increased by 21%, from Rs. 16.6 billion in 2011 to Rs. 20.1 billion in 2012.

With the first time adoption of the new Sri Lanka Accounting Standards (SLFRS / LKASs), the company categorised financial instruments into four broad segments namely Held to Maturity Instruments, Loans and Receivables, Available for Sale Assets and Fair Value Through Profit and Loss.

The composition of the investment portfolio based on these categories is given below;

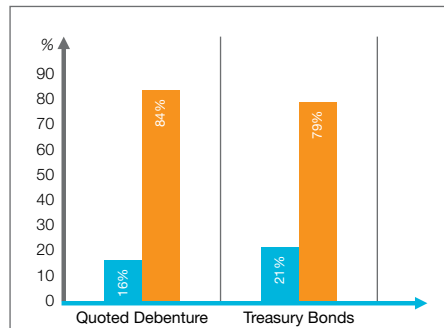


Financial Instruments by Category

Held-to maturity financial assets (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company intends to hold it to maturity. Accordingly the company has categorised those financial instruments which fulfills within this criteria under the category of HTM.

Quoted debentures and Treasury bonds have been classified under HTM. The chart below illustrates the quantum of instruments appearing under the HTM category for the current as well as the preceding year.



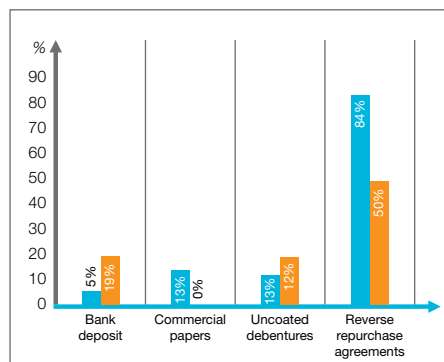
HTM Investments

■ 2012
■ 2011

There had been a growth of approximately 86% from 7.4 billion in 2011 to 13.8 billion in 2012 in HTM investments.

Loans and receivables (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not traded in an active market. The investments under the L & R Category are bank deposits, commercial papers, reverse repurchase agreements and unquoted debentures. The graph below illustrates how each instrument under the L & R category has varied over the last two years.



Change in L&R Investments

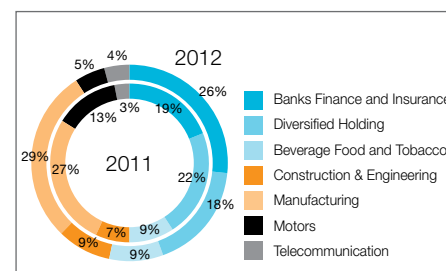
■ 2012
■ 2011

The Total Loans and Receivables has increased by 13% from Rs. 1.9 billion in 2011 to Rs. 2.1 billion in 2012.

Fair value through profit or loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. UA's equities and unit linked investments are classified as FVTPL.

The equity portfolio is divested by investing in different industries across the stock market. The below chart provides an understanding of how the organisation has invested its equity portion in different industries during the years.



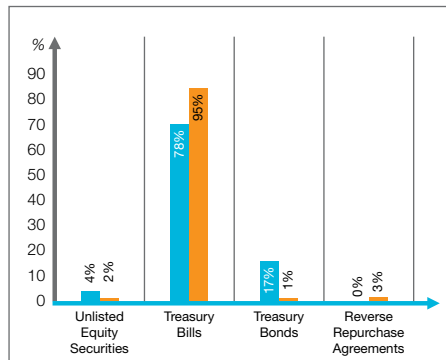
FVTPL Investments by Sector

Investments made through the unit linked segment is also categorised as FVTPL. The unit linked investments comprises equity as well as debt instruments including Treasury bills and reverse repurchase agreements. Investments from unit linked policies has also increased by 108% from Rs. 0.5 billion in 2011 to Rs. 1.1 billion in 2012.

Available for sale financial assets (AFS)

Available-for-sale financial assets are financial assets that are designated as available-for-sale and those that are not classified in any of the previous categories.

AFS debt securities such Treasury bills, Treasury bonds, reverse repurchase agreements with fixed interest rates and unquoted equity investments.



AFS Investments

■ 2012 ■ 2011

Instruments under AFS has shown a decrease of 60% to Rs. 2.3 billion in 2012 from Rs. 5.7 billion in 2011. As the investments are kept for any immediate disposals within 1 - 2 years, the investments has shown a decrease in value.

The accounting treatments with reference to the above financial instruments are explained in the note 20 to the financial statements.

Property, Plant and Equipment

Net book value of property plant and equipment in 2011 and 2012 were Rs. 1.30 billion and Rs. 1.37 billion respectively. Land and buildings account for 67% of this asset class, with computer equipment accounting for 20% of the net book value.

Reinsurance Receivable

Reinsurance receivables comprise Rs. 47 million receivable on paid claims (2011 - Rs. 83 million) and Rs. 358 million (2011 - Rs. 468 million) receivable on claims outstanding but not paid. Adequate provision has been made in the financial statements for reinsurance receivables where recovery is considered doubtful.

Premium Receivable

Premium receivable on non life insurance policies written during the year increased by 18% .

Life Insurance Provision

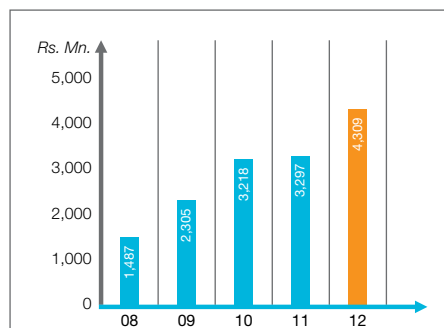
Following the annual valuation of life policyholder liabilities, the life insurance provision increased from Rs. 13.4 billion in 2011 to Rs. 15.5 billion in 2012. The life insurance provision includes Rs. 338 million unclaimed benefits due to policyholders.

Non Life Insurance Provision

Non life insurance provisions, which include net (after reinsurance) unearned premiums, net deferred acquisition costs and gross (before reinsurance) outstanding claims increased by 5% from Rs. 3.05 billion in 2011 to Rs. 3.2 billion in 2012.

Equity

Improved profitability and proceeds from the rights issue resulted in equity increasing from Rs. 3.2 billion in 2011 to Rs. 4.3 billion in 2012.



Net Assets

Cash Flow Analysis

The cash inflows from operating activities remained positive overall. Net cash from operating activities increased by 12%, from Rs. 3.5 billion in 2011 to Rs. 3.9 billion in 2012 mainly due to increased premium income.

The bulk of these funds along with net proceeds from rights issue (Rs. 4.4 billion) were channeled into investing activities. As a result, the overall investment portfolio grew to Rs. 20 billion from Rs. 16.5 billion as at end 2012.

Following this transfer and Rs. 339 million dividend payment to shareholders, cash and cash equivalents recorded a decrease of Rs. 52 million as at December 2012.

Impact of Changes in Sri Lanka Accounting Standards

The Institute of Chartered Accountants of Sri Lanka issued a new volume of Sri Lanka Accounting Standards (SLFRS / LKASs) which became effective for financial periods beginning on or after 1st January 2012.

UA opted to report its interim financial statements with effect from the second quarter 2012 in line with the new standards.

These financial statements, for the year ended 31st December 2012, are the first comprehensive financial statements published in compliance with SLFRS / LKASs.

Major changes to the accounting policies arise from SLFRS 4 - Insurance contracts, SLFRS 7 - Financial instruments, Disclosures, LKAS 39 - Financial Instruments, Recognition and Measurement, LKAS 32 - Financial Instruments, Presentation, SLFRS 8 - Operating Segments and LKAS 1 - Presentation of Financial Statements, Details are provided in note 3 to the financial statements.

In addition, SLFRS 1 - First Time Adoption of Sri Lanka Accounting Standards is provided in detail in note 4 to the financial statements.

Management Discussion and Analysis Contd.

Summary of Key Financial Data

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

Description	Financial Data (in Rs. bn)			Life Business	
	2012	2011	Change (%)	Contribution from Segment	Strategic Issues
GWP	9.7	8.7	12%	Life contributes 52.5% of total GWP	<ul style="list-style-type: none"> Limited awareness regarding the benefits of life insurance Lack of premium collection mechanisms resulting in high lapsation
Premium receivable	1.5	1.2	25%	N/A	N/A
Premium ceded to reinsurers	1.2	1.0	20%	Life contributes 25% of total premium ceded to reinsurers	<ul style="list-style-type: none"> Ensure high quality reinsurance support across business cycle Inadequate transfer of risk
Reinsurance receivables	0.4	0.5	(20%)	Life reinsurance receivables amount to 22% of the total	Inability of reinsurers to meet their commitments due to insufficient financial strength
Net benefits and claims	5.9	4.9	20%	Life insurance claims, benefits and maturity payments account for 39% of the total	<ul style="list-style-type: none"> Ensure pricing is adequate to cover future claims payments Ensure delivery of guaranteed maturity value Minimise policy surrenders
Insurance contract liabilities - life	16.5	14.0	18%	N/A	Ensure value covers present and future life policyholder liabilities
Insurance contract liabilities - non life	3.2	3.1	5%	N/A	N/A
Other operating and administrative expenses	2.5	2.0	25%	Life related expenses account for 60% of the total	Manage expenses to ensure sustainability of business

Non Life Business			
Action Plans	Contribution from Segment	Strategic Issues	Action Plans
<ul style="list-style-type: none"> Leverage distribution, actuarial, underwriting and marketing resources to grow volumes Lobby regulators and financial institutions to implement mechanisms to facilitate collections e.g. direct debit system 	Non life contributes 47.5% of total GWP	Intense price competition resulting in unviable pricing and UA having to walk away from business	<ul style="list-style-type: none"> Offer differentiated products in terms of service Manage claims and expenses to deliver target price points Develop multiple distribution channels to compete for business
N/A	Premium receivable comprises amounts due on general insurance policies written during the year	<ul style="list-style-type: none"> Risk of non payment of premium Cash flow implications of not receiving premiums on timely basis 	<ul style="list-style-type: none"> Strict implementation of premium warranty clause Increase credit control resources Review and modify credit control practices in light of increased volumes
<ul style="list-style-type: none"> Build relationships with reinsurers of international repute Formalise reinsurance arrangements based on business requirements and monitor implementation 	Non life contributes 75% of total premium ceded to reinsurers	<ul style="list-style-type: none"> Ensure high quality reinsurance support across business cycle Inadequate transfer of risk 	<ul style="list-style-type: none"> Manage underwriting and claims processes to ensure positive contribution to reinsurance partners. Formalise reinsurance arrangements based on business requirements and monitor implementation
<ul style="list-style-type: none"> Build relationships only with reinsurers with minimum ratings Monitor ratings on a regular basis 	Non life reinsurance receivables amount to 88% of the total	Inability of reinsurers to meet their commitments due to insufficient financial strength	Refer life action plans
<ul style="list-style-type: none"> Implement actuarial control cycle Launch products with annual / minimal guarantees Ensure constant communication with customers to minimise lapsation 	Non life insurance claims account for 61% of the total	<ul style="list-style-type: none"> Manage claims leakage Manage underwriting results by ensuring that pricing is adequate to cover ultimate losses 	<ul style="list-style-type: none"> Set up audit function / review claims procedures to minimise leakage Develop management information to monitor pricing, claims experience
<ul style="list-style-type: none"> Conduct independent actuarial valuation at year end Conduct mid year reviews internally Increase internal actuarial resources and IT capability 	N/A	N/A	N/A
N/A	N/A	Ensure accuracy of reserves	Obtain actuarial sign off of unexpired risk reserve and incurred but not reported (IBNR) claims reserves
<ul style="list-style-type: none"> Leverage IT and implement cost effective business model Expand alternative distribution channels Develop benchmarks to monitor / manage expenses 	Non life related expenses account for 40% of the total	Manage expenses to ensure sustainability of business and deliver competitively priced solutions	Refer life action plans

Management Discussion and Analysis Contd.

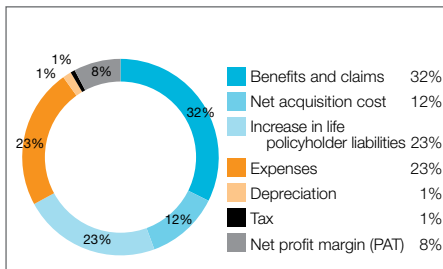
Graphical presentation of Statement of Income - year on year comparison



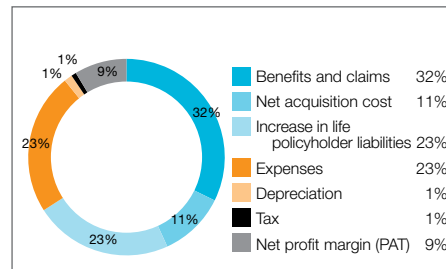
Where; Year on Year increase (2012 vs 2011)

Expense / profit as a % of revenue 2012 Outgoing (Rs. Mn.)

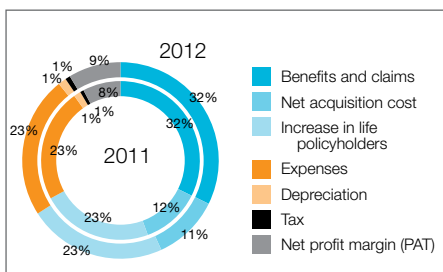
Expense / profit as a % of revenue 2011 Incoming / residual (Rs. Mn.)



Composition of revenue and expenses - 2011



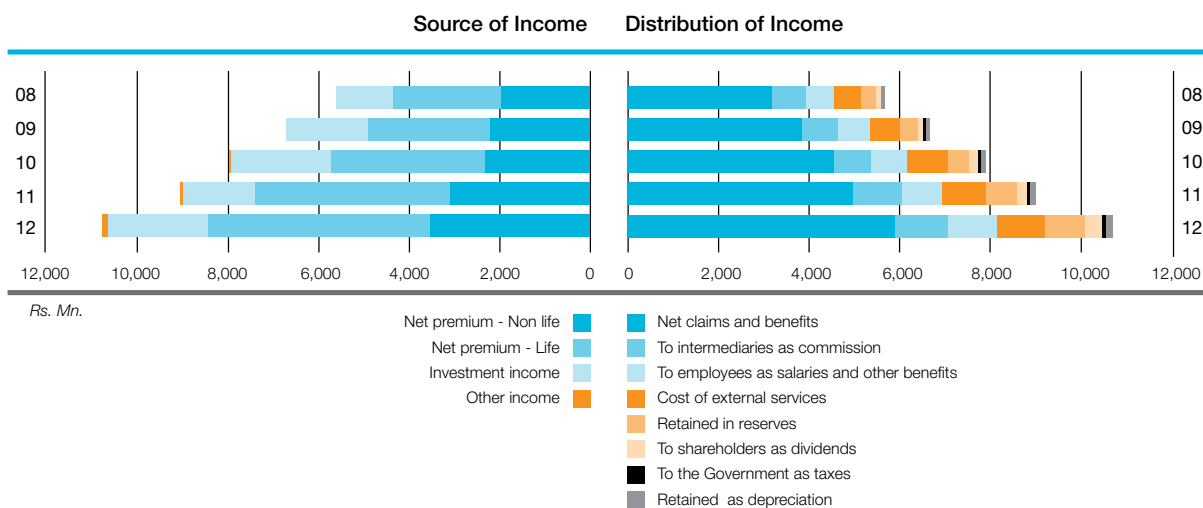
Composition of revenue and expenses - 2012



Composition of revenue and expenses - 2011 vs. 2012

Contribution to National Economy

	2012 Rs. Mn	%	2011 Rs. Mn	%	2010 Rs. Mn	%	2009 Rs. Mn	%	2008 Rs. Mn	%	2007 Rs. Mn	%
Net earned premium	8,385	-	7,351	-	5,691	-	4,882	-	4,337	-	3,674	-
Net finance and other income	2,333	-	1,658	-	2,229	-	1,795	-	1,249	-	929	-
Net benefits and claims	(3,461)	-	(2,912)	-	(2,393)	-	(2,204)	-	(1,861)	-	(1,458)	-
Cost of external services	(1,041)	-	(824)	-	(833)	-	(664)	-	(524)	-	(421)	-
Total value added	6,216	-	5,273	-	4,694	-	3,809	-	3,201	-	2,724	-
Value distributed												
To employees as salaries and other benefits	1,090	18	875	17	787	17	648	17	586	18	492	18
To intermediaries as commission	1,169	19	1,088	21	848	18	799	21	746	23	620	23
To the Government as taxes	87	1	67	1	81	2	67	2	23	1	1	0
To shareholders as dividends	375	6	375	7	234	5	188	5	122	4	103	4
To Life policyholders as increase in Life fund	2,431	39	2,044	39	2,123	45	1,619	43	1,318	42	1,192	44
Retained with the business												
- as depreciation	143	2	129	2	108	2	87	2	71	2	62	2
- in reserves	921	15	695	13	512	11	401	11	335	10	254	9
Total value added	6,216	100	5,273	100	4,694	100	3,809	100	3,201	100	2,724	100

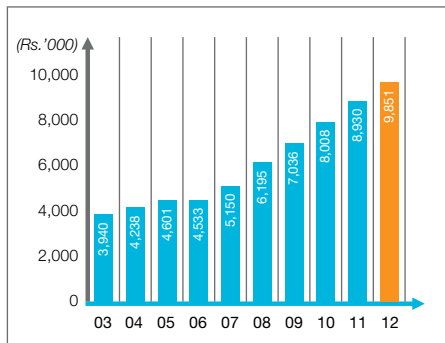


Staff Distribution by Province	2012		2011	
	No.	%	No.	%
Central	43	4%	37	4%
Eastern	31	3%	42	4%
North Central	42	4%	46	5%
North Western	44	4%	39	4%
Northern	17	2%	14	1%
Sabaragamuwa	21	2%	22	2%
Southern	57	5%	63	6%
Uva	35	3%	43	5%
Western	798	73%	683	69%
Total	1088	100%	989	100%

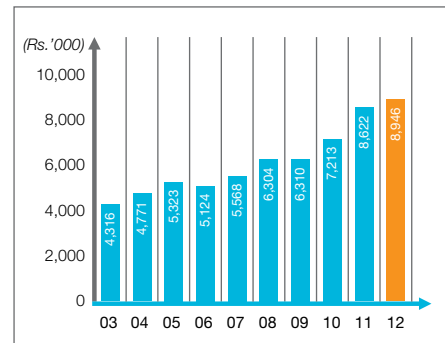
Management Discussion and Analysis Contd.

Employee Productivity

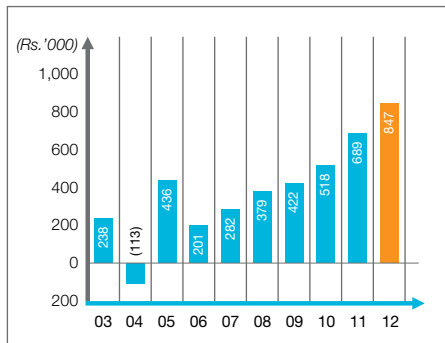
Employee Productivity (Rs.'000)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenue per employee	3,940	4,238	4,601	4,533	5,150	6,195	7,036	8,008	8,930	9,851
Gross written premium per employee	4,316	4,771	5,323	5,124	5,568	6,304	6,310	7,213	8,622	8,946
Profit per employee	238	(113)	436	201	282	379	422	518	689	847
Value added per employee	2,569	2,583	2,812	2,707	3,047	3,549	4,014	4,746	5,227	5,714
Number of employees	547	537	597	792	894	902	949	989	1,009	1,088



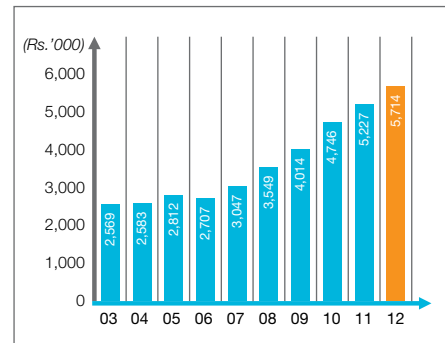
Revenue per Employee



Gross Written Premium per Employee



Profit per Employee



Value added per Employee

Employee Indicators

Staff Strength

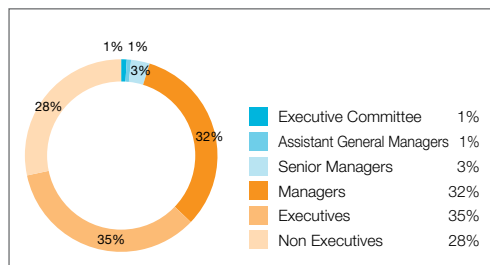
As at 31 st December	2012	2011	2010	2009	2008	2007
Executive Committee	10	9	9	9	10	10
Assistant general managers	8	7	7	8	9	10
Senior managers	34	33	31	29	27	32
Managers	352	338	332	315	264	251
Executives	376	330	340	300	279	293
Non executives	308	292	270	288	313	298
Total	1,088	1,009	989	949	902	894

Age Analysis of Staff - 2012

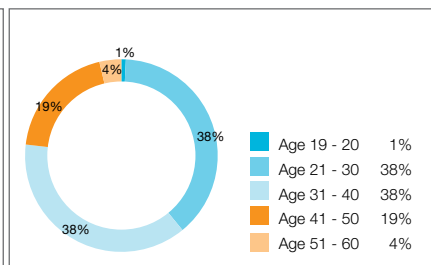
Age group (Years)	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2012 Total
19 - 20					2	6	8
21 - 30				45	163	209	417
31 - 40	2		13	197	150	49	411
41 - 50	4	7	17	99	51	34	212
51 - 60	4	1	4	11	10	10	40
Grand Total	10	8	34	352	376	308	1,088

Service Analysis of Staff - 2012

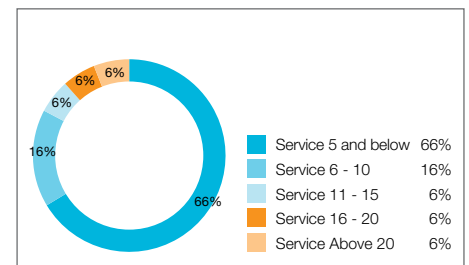
Years	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2012 Total
5 and below	4	1	17	213	276	211	722
6 - 10	5	4	5	69	56	39	178
11 - 15	0	1	5	34	13	9	62
16 - 20	0	1	1	19	15	25	61
Above 20	1	1	6	17	15	25	65
Grand Total	10	8	34	352	375	309	1,088



Staff Strength 2012



Age Analysis of Staff - 2012



Service Analysis of Staff - 2012

Management Discussion and Analysis Contd.

Brand Valuation and Brand Building Process

Brand Building Process

The UA brand is positioned on the basis of Trust. Trust is delivered through the key brand values of providing “convenience” to customers, driving “transparent” solutions and being “respectful” to all stakeholders.

Life insurance is a long term investment where clientele place their trust in an insurance organisation and pay premiums that run up to 30 years. Insurers must meet their commitments in terms of investing these premiums in a manner that will enable them to pay the maturity proceeds and other benefits at the end of the policy.

Life Insurance Customers

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

Activity	2012 Progress
Identify customer needs and sell products to suit individual needs.	<ul style="list-style-type: none"> • Products are sold based on a “fact find” of customer requirements where customers needs are clearly identified. • Products have been made available to suit individual customer needs e.g. investment, protection, child education and retirement plans • The range of unit linked products was revamped in the 1st quarter of the year in order to cater to the evolving investment and protection needs of selected customer segments
Customers’ money will be invested in a manner that will ensure that the promise (in terms of death / maturity benefits) will be delivered and sound risk management practices are in place.	<ul style="list-style-type: none"> • Investments are in accordance with regulatory requirements • The company’s solvency position is published on page 122 of this report • Investment decisions are delegated by the Board to the Board Investment Committee (BIC), which conducts its activities in accordance with the Investment policy statements approved by the Board • The following types of risks are monitored by the Board / BIC with regard to investments made. Further details are available on pages 125 to 135 <ul style="list-style-type: none"> • Concentration risk • Liquidity risk • Credit risk • Market risk
Deliver high quality service	<ul style="list-style-type: none"> • Several initiatives have been taken to improve service levels as outlined on page 145
Ensure transparency in all business documentation (e.g. training materials, marketing brochures, policy documents, etc.)	<ul style="list-style-type: none"> • Unit linked quotations are now issued in all three languages. • Insurance documents are usually complicated or are difficult to understand. Therefore, the unit linked product policy documents were simplified to make them more customer-friendly. • An equity video was developed to educate customers on the stock market, investments and unit linked products.
Train sales / support staff to act with responsibility in a professional manner.	<ul style="list-style-type: none"> • On-going initiatives • A digital toolkit was introduced enabling the sales staff members to identify need gaps and present the most appropriate solution when selling unit linked policies.

Non Life Insurance Customers

Non life is a mechanism where an individual's or an organisation's assets are protected from an unforeseen occurrence for a nominal premium. The activities to operationalise the brand positioning of "trust" and progress made in 2012 is as follows.

Activity	2012 Progress
Sell products which meet customer needs i.e. in terms of coverage, value covered etc.	<ul style="list-style-type: none"> Details of non life insurance products are available on page 146. Details of new products and service improvements are detailed on pages 146 to 149 As a response to the price competition prevailing in the motor insurance segment, UA re-priced the motor portfolio and enabled sales agents to issue policies at the customer's doorstep to further support the brand pillars of transparency and convenience The Union Family Health Net product was re-launched with a simplified proposal form
Obtain reinsurance support from high quality reinsurers	<ul style="list-style-type: none"> The company's reinsurance panel is summarised on the inner back cover
Implement sound risk management practices to ensure that UA delivers on its commitments	<ul style="list-style-type: none"> Details of the company's risk management practices are provided on pages 125 to 135 of this report
Offer convenience to customers when purchasing policies / lodging claims and delivering high quality service	<ul style="list-style-type: none"> Introduced a 'customer welcome call' programme enabling motor customers to verify policy details, the claims process, covers purchased and clarify any queries they may have on the services offered A customer satisfaction survey is carried out for customers who have made claims, in order to gauge their satisfaction levels and to further improve service standards Further details of products service improvements are available on pages 146 to 149
Train sales / support staff to act with responsibility	<ul style="list-style-type: none"> On-going initiative

Employees and Field Force

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

The activities undertaken in line with this commitment is provided in the employee section of the sustainability report.

Community

UA has pledged to conduct its business affairs in a responsible manner, by organising programmes and activities which will add value to the communities it interacts with. The details of the community activities are provided in the community section of the sustainability report.

Shareholders

The sustainability report on pages 172 to 174 outlines UA's commitment to ensure that the company operates in a manner which will generate sustainable results to shareholders.

Environment

Activities undertaken to ensure the preservation and protection of the environment is outlined in the environment section of the sustainability report.

Management Discussion and Analysis Contd.

Brand Valuation

The UA brand was valued at Rs. 1.9 billion in 2012 (2011 - Rs. 1.4 billion). This value was derived from the valuation conducted by Brand Finance (UK) in association with Sting Consultants, using the “relief of royalty” approach, which assumes that the company does not own the brand and calculates how much it would need to license it from a third party.

In 2012, the UA brand was ranked 32nd among top brands in Sri Lanka and maintained an AA- rating in terms of its “brand power” from Brand Finance (UK). Brand power determines the ability of the brand to continue delivering the revenue streams expected in the future. It is based on a number of objective criteria including growth rates, market share, brand awareness etc., which are detailed below.

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

Attribute	Developments in 2012
Market share	<ul style="list-style-type: none"> It is estimated that UA has maintained its market positions in both the life and non life insurance segments
Sales growth	<ul style="list-style-type: none"> Non life insurance premium growth rate is 9% whereas industry growth rate is 20%. Life insurance premium grew by 14% and is expected to exceed the industry growth rate of 5%
Brand awareness	<ul style="list-style-type: none"> Based on research conducted as part of the overall brand strategy, awareness regarding the UA brand remains high in chosen market segments
Advertising spend	<ul style="list-style-type: none"> The company incurred Rs. 134 million in advertising expenses in 2012
Brand loyalty	<ul style="list-style-type: none"> The company measures brand loyalty by reviewing general insurance renewal retention rates and life insurance persistency ratios on a monthly basis
Brand outlook	<ul style="list-style-type: none"> Given the growth potential of the life and non life insurance businesses, the brand outlook remains positive
Brand management	<ul style="list-style-type: none"> UA takes a holistic approach to brand management. It enables UA to focus resources and all its products and related initiatives to deliver the brand of “trust”
Brand accolades	<ul style="list-style-type: none"> The following accolades and recognitions have endorsed the effectiveness of the brand development and management process: <ul style="list-style-type: none"> SLIM Brand Excellence 2012. Service Brand of the Year Silver Award. Global Brand Excellence Award in the Financial and Service Category at the World Brand Congress.
Distribution	<ul style="list-style-type: none"> Life insurance products are distributed mainly by tied agency force (field sales staff), which numbered over 4,066 (including development officers) as at December 2012. Non life insurance business is distributed via brokers, agents and UA staff. We also invest in alternative distribution channels and leverage cross marketing opportunities between the life and non life businesses as well as within the group. As at December 2012, UA sold life and non life insurance products through 110 branches spread throughout the island.
Brand heritage	<ul style="list-style-type: none"> The brand “Union” was derived from the union of strength that was forged by merging the insurance businesses of Aitken Spence, Carsons, ACW and Whittal Boustead. UA continues to enjoy a superior reputation especially among corporate customers who value the company’s corporate governance practices and commitment to transparency.

Intellectual Capital Report

Overview

UA considers intellectual capital as an essential and key component in providing sustainable earnings. In recent years UA focussed a great deal of effort to visualise and more meaningfully describe these assets, in order to manage intellectual capital more productively.

A clearer and more balanced report of UA's performance will not only make it easier to value our operations, it also becomes an effective tool to manage and develop our hidden assets. The more tangible we can make our hidden assets, the better they can be managed to generate more value to our stakeholders.

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

This serves to broaden and balance reported results and depicts a more

systematic description of the company's ability and potential to transform intellectual capital into financial capital.

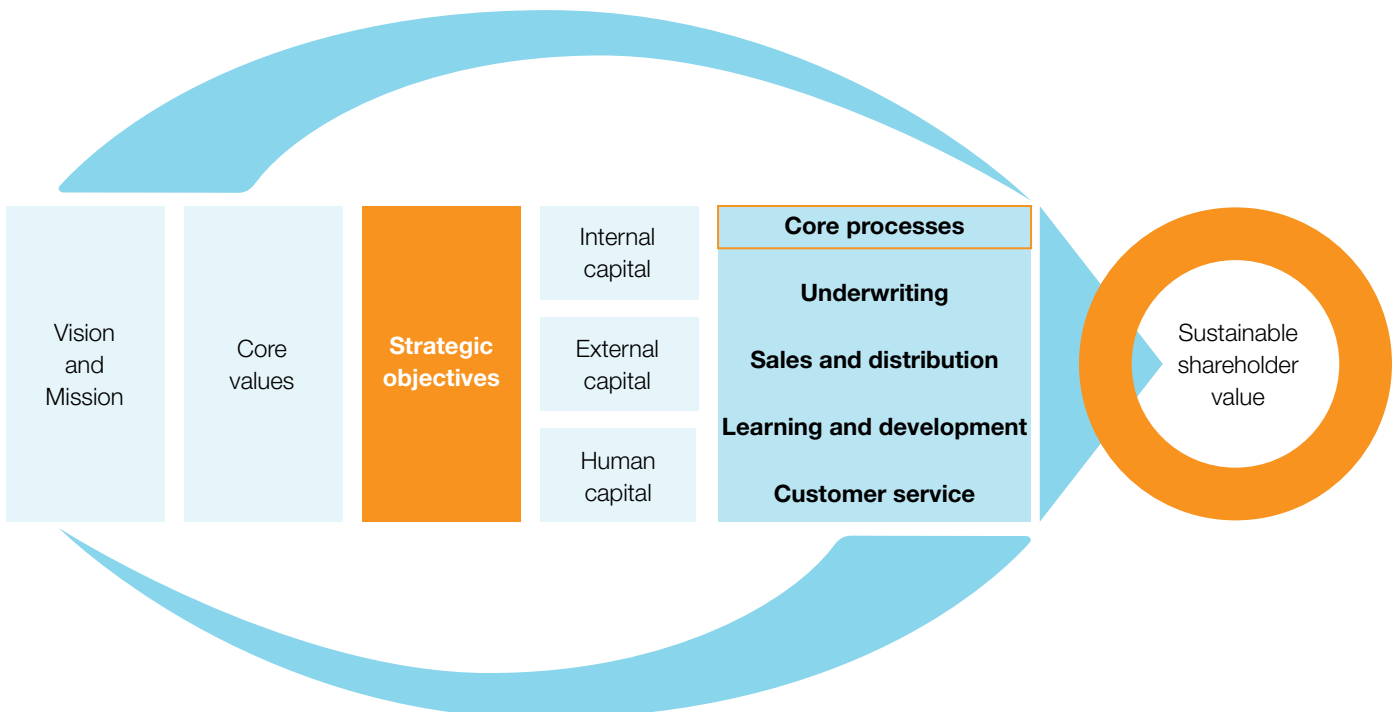
Intellectual Capital Structure

The starting point of UA's value creation process is the organisation's vision, mission and core values. These define the long term context of our business and set the tone for our dealings with all stakeholders. The company's strategic objectives as outlined on pages 40 to 41 and pages 54 to 55 of this report are derived from this perspective.

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

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

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



Management Discussion and Analysis Contd.

Internal Capital

Internal Capital Goals	Commentary
Update corporate governance practices in line with best practices	<ul style="list-style-type: none"> Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups During the year, the scope and resourcing of the internal audit function was enhanced to increase frequency of audit coverage and escalate any control issues on a timely basis. Additional spot audits were carried out as per operational requirements
Constantly optimise business processes	<ul style="list-style-type: none"> Increased usage of the revamped e-motor solution with adequate infrastructure, features and functionality Increased content in the e-learning platform to provide learning and development to larger number of staff in a cost effective manner. Extended 'speed cash' service to settle claims at any garage using sms technology Equipped the distribution network with a digital advisor toolkit which facilitates trilingual quotations and illustrations Re-launched Union Travel Insurance as a web based product

Internal Capital Indicators

a. Organisational Framework	Indicators	Annual Report Reference	
	Formalised corporate governance structure	Corporate Governance (page 84)	
	Board Committees <ul style="list-style-type: none"> Board Audit and Compliance Committee Board Remuneration Committee Board Nominations Committee Board Investment Committee 	Corporate Governance (page 90)	
	Separation of corporate management from the Board of Directors	Corporate Governance (page 84)	
	Branch network	Distribution network (pages 332 to 335)	
b. Technical Infrastructure	Indicators	Value 2012	Value 2011
	Number of IT applications	83	39
	Investment in IT infrastructure during the year	Rs. 107 million	Rs. 93 million
	Value of IT infrastructure as a percentage of long term assets	20%	17%
c. Philosophy and Culture	Indicators		
	Employee perception of philosophy and culture <ul style="list-style-type: none"> Employee satisfaction survey 2010 	<p>In the employee satisfaction survey conducted during the 2010, the company scored 86% for the statement "We are proud to work for our company." This survey is conducted once every two years. The next survey will be conducted in mid 2013.</p> <p>Randomly selected sample of employees took part in the survey conducted by Great Place to Work® Institute in Sri Lanka and LMD</p>	
d. Financial Relations	Indicators	Annual Report Reference	
	Company ownership	Shareholder Information (pages 318 to 323)	
	Reinsurer ratings	Panel of reinsurers (inner back cover) and ratings (Page 132)	
	Risk management initiatives	Risk Management report (pages 125 to 135)	

Organisational Framework

To handle UA's core tasks successfully and efficiently, the company continuously optimises its organisational framework and technical structure. The corporate governance framework ensures the highest standards of business integrity, ethical values and professionalism. Further details are available in the Corporate Governance report on pages 82 to 135.

Technical Infrastructure

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

to our customers. Both IT systems are maintained in-house. The non life insurance system was an off the shelf package which was purchased and modified to suit the requirements of the local market, while the life system was developed internally. These systems are integrated with SAP financial system as well as several other work flow and e-insurance systems.

Speed cash, GOTS, iFlex, mFlex, introduction of Digital Advisor Toolkit are some of the key initiatives taken to enhance customer service during the year.

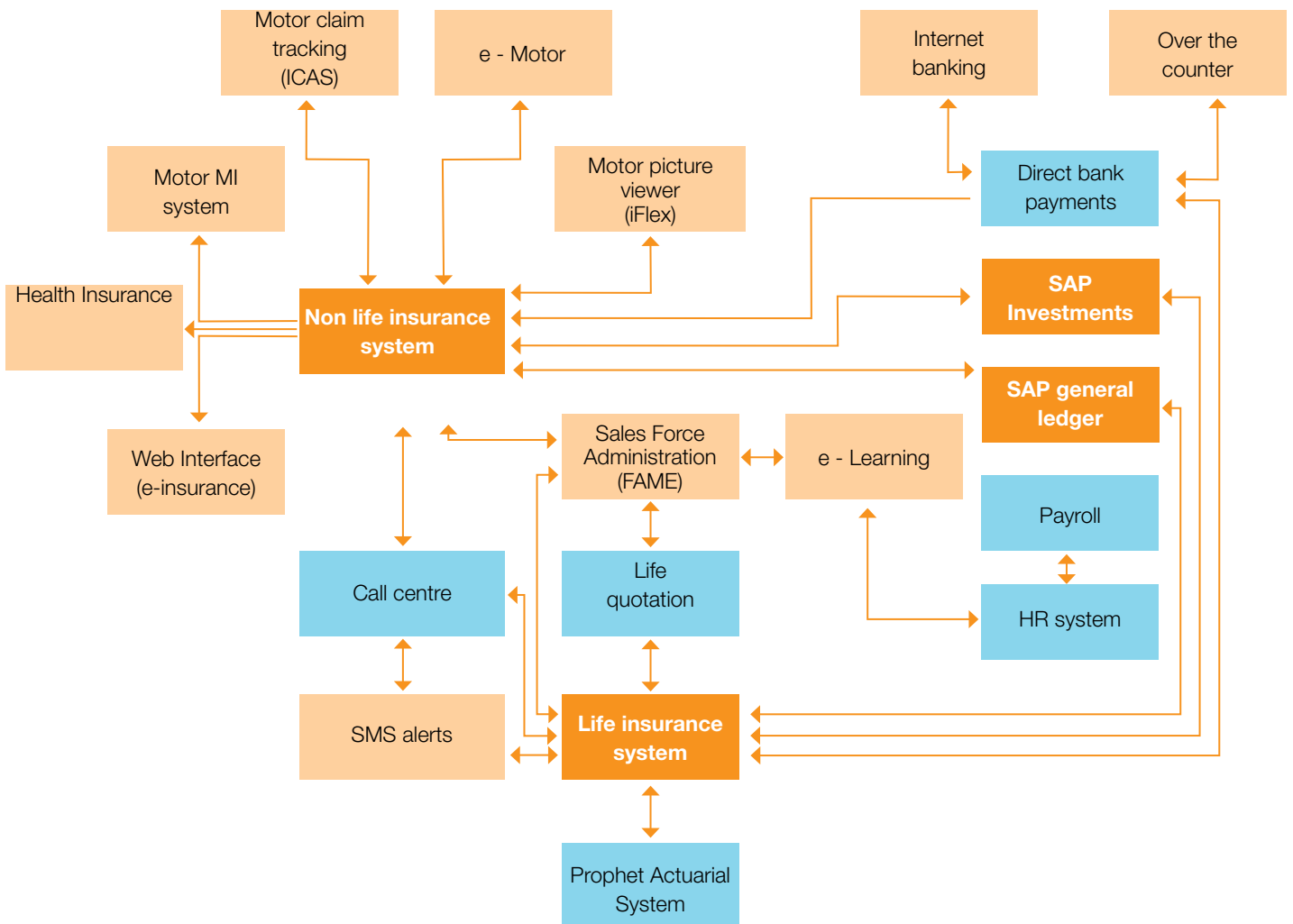
In addition to providing e-mail, internet / intranet facilities to our staff, we have also

automated several HR processes, e.g. performance appraisals, attendance, leave applications, etc.

Total IT infrastructure investment during the year 2012 was Rs. 107 million.

During the year 2012 the company received the CELENT Asia Pacific Award for Information Technology for delivery excellence. This is in recognition of the excellence and innovation in use of technology in the Asia Pacific insurance industry.

Our IT infrastructure is diagrammatically presented as follows



Management Discussion and Analysis Contd.

IT infrastructure	Investment (Rs. Mn)	
	2012	2011
Hardware	32	54
Software	75	39
Total	107	93

Philosophy and Culture

A good indicator of our organisational philosophy and culture is the response we received from the employee satisfaction survey which is conducted once in every two years. In the latest survey which was conducted in 2010 the company achieved a score of 86% when employees affirmed that “We are proud to work for our company.” This attribute was ranked as the 6th highest among more than 110 attributes included in the survey. The company also scored 73% for the attribute “Maintenance of a good overall culture (within the organisation).” The next employee satisfaction survey is scheduled in mid 2013.

During the year, a randomly selected sample of our employees took part in the survey conducted by Great Place to Work® Institute in Sri Lanka and LMD. By participating in this study we are able to benchmark employee perceptions of our workplace environment with selected benchmarks from our industry and elsewhere. This would enable us to better appreciate our strengths and identify focus areas for improvement.

Financial Relations

The company is backed by the corporate strength of one of Sri Lanka’s largest conglomerates, John Keells Holdings PLC. The company also reinsures its risks with financially stable reinsurers whose security ratings are either on par or better than the minimum ratings stipulated by the Insurance Board of Sri Lanka. Together with appropriate risk management activities, the company is able to provide the protection, financial security and wealth creation opportunities as we promise to all our customers.

External Capital Indicators

External Capital Goals	Commentary
Increase the brand equity of the company	<ul style="list-style-type: none"> The UA brand was valued in 2012 at Rs. 1.9 billion and the brand rating was AA-
Build customer confidence through ethical business practices and prudent risk management	<ul style="list-style-type: none"> The company adopts effective corporate governance practices The company strives to ensure transparency and accountability in all its dealings The company has a formal risk management process
Maintain strong business relationships with external service providers	<ul style="list-style-type: none"> UA has strong relationships with 38 financial institutions
Constantly improve service standards	<ul style="list-style-type: none"> Increased number of front line staff to provide support at motor accident site Improved technology enabling speedier delivery of documents from accident site to processing centre Implemented IT system changes to improve staff productivity and customer service Implemented web based financial need analysis and quotation models for unit linked products Continued initiatives to simplify life and non life policy documents Implemented “welcome call” for new motor and life insurance customers to educate them regarding product features and service options Achieved 89% satisfaction among motor insurance customers who made claims on their policies Enhanced the on-the-spot motor insurance claim settlement process enabling customers to receive their settlements in cash at the accident site or from the garage, when the claim value is confirmed by the repairer

	Indicators	Value 2012	Value 2011
a. External Capital Indicators			
	Brand value	The UA brand was valued at Rs. 1.9 billion by Brand Finance (UK) in association with Sting Consultants	The UA brand was valued at Rs. 1.4 billion by Brand Finance (UK) in association with Sting Consultants
b. Corporate Image Building			
	Number of press releases	22	18
	Number of press conferences	2	1
c. Internet Based Communication			
	Number of visits to the web site	339,605	500,620
d. Business Partnering			
	Partnering with pharmacies and hospitals	Maintained partnerships with over 44 hospitals	Maintained partnerships with over 43 hospitals, 2 opticians and a chain of pharmacies
	Partnering with banks and financial services providers	Strong relationships with 38 financial institutions	Strong relationships with 38 financial institutions
e. Distribution Channels			
	Field staff	We employ over 5,100 field staff members, refer page 163 to 167 for more details	We employ over 4,400 field staff members
	Brokers	We work with over 54 registered brokers	We work with over 50 registered brokers
f. Market Share			
	Non life	9% (e)	9.5%
	Life	14.3% (e)	12.8%
g. Focus on Customer Satisfaction			
	Motor insurance claimants satisfaction level.	89% (survey conducted by internal R&D division)	90% (survey conducted by internal R&D division)
h. Addressing Customer Complaints			
	Number of customer complaints received	982	559
	Resolved	790	347
	Resolution in progress	192	212
i. Service Enhancements			
	Life	5	1
	Non life	6	4

Management Discussion and Analysis Contd.

Brand Building

The UA brand was valued at Rs.1.9 billion in 2012 by Brand Finance (UK) in association with Sting Consultants using the “relief of royalty” approach. The brand rating received was AA-.

Corporate Image Building

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

Internet based Communication

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

UA was the first insurance company in Sri Lanka to launch a trilingual website, enabling customers to view content in the language of their preference. In addition concepts such as speed cash, digital advisor tool kit etc. enable advisors to provide speedy customer solution.

Non life insurance products are mainly sold through the company’s sales staff, brokers and agents. UA maintains a web based motor insurance system “Click & Go,” enabling customers to print their own motor certificate from the comfort of their home or office 24 x 7 x 365.

Market Share

We have approximately 9% of the non life insurance market and 14.3% of the life insurance market. This makes UA the 4th largest insurer in each of these segments.

Focus on Customer Satisfaction

The company has commissioned a monthly process to monitor satisfaction

levels of motor insurance claimants. As per the findings of this survey 89% of the motor insurance customers polled were satisfied with the service they received.

Addressing Customer Complaints

The company has developed an on-line complaint management system to manage customer dissonance. As at year end, there were 982 customer complaints updated in the system. We have resolved 790 and 192 are being followed up.

Service Enhancements

Details of our service enhancements are provided in the Management Discussion and Analysis (pages 36 and 49) as well as in the Sustainability Report (pages 149 to 154).

Business Partnering

UA has also entered into arrangements with 44 hospitals whereby “Union Health Cash” customers’ hospitalisation and medication bills are directly settled by the company. In addition, we have built strong relationships with banks and financial institutions in order to procure business as well as leverage their technology and distribution reach to enhance the level of convenience available to our policyholders.

Distribution Channels

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

Human Capital

Human Capital Goals	Commentary
Recruit, develop and retain employees with necessary skills.	<ul style="list-style-type: none"> • Review human resources in the context of strategic objectives • Implement structured training programmes to constantly upgrade skills / competencies • Implement remuneration policies which link fixed and variable remuneration to performance • Develop formal communication channels • Develop structured career progression opportunities • Implement strategies to enhance the image of insurance advisors • Implement strategies to reduce gap between permanent and non-permanent teams
Foster a conducive working environment for all employees.	<ul style="list-style-type: none"> • The company conducts an employee satisfaction survey once every two years to identify any issues which require corrective action • The company aims to ensure that all employees of the company have a healthy work / life balance • To this end the recreation club organised several events during the year • The company strives to ensure that there is open communication between all employees. The company also has a grievance handling policy whereby any employee can communicate any grievance to his superiors
Ensure the performance appraisal system clearly distinguishes between high and low performers, links individual performance to organisation goals and motivates and rewards staff for high performance.	<ul style="list-style-type: none"> • The company has implemented an on-line performance management process. In 2012, 61% of employees completed their performance appraisals on-line • The performance management process works on the basis of a career committee comprising relevant functional supervisors rating an individual's performance based on KRA's set for the year. This rating is then communicated to the employee by the line manager in the presence of another member of the career committee. The process ensures an objective assessment of an employee's contribution to the company's performance and since decisions are taken collectively, removes bias and increases transparency • The company has several performance based incentive schemes to reward individuals. Variable pay opportunities include commissions for acquiring new business and annual bonuses
Ensure an integrated and strategic training and development program that builds technical skills, soft skills and leadership competencies	<ul style="list-style-type: none"> • The company strives to ensure that all employees are provided with the necessary training to effectively discharge their duties • Training needs are identified as part of the formal performance appraisal process and feed back from line management • During the year UA continued to roll out structured talent management programmes covering all levels of staff • Details of training provided during the year are given below

Management Discussion and Analysis Contd.

Human Capital Indicators

a. Learning and Development	Indicators	Value 2012	Value 2011
	Training days per employee	Managers 17.16 Executives 9.10 Non executives 9.05	Managers 6.09 Executives 2.43 Non executives 4.94
	Training days per field staff Member	79.4	71.5
	Cost of training and education	Rs. 60 million	Rs. 60 million
	Number of employees with overseas training	37	41
b. Employee Relations	Indicators	Value 2012	Value 2011
	Employee satisfaction survey	To be conducted in mid 2013	Employee satisfaction survey conducted in 2010
	Number of management meetings	6	5
	Number of "Union Shakthiya" magazines published	2	1
c. Employee Welfare Indicators	Indicators	Value 2012	Value 2011
	Number of activities organised by the recreation club	9	11
	Number of staff members entitled to medical and insurance cover	1,070	1,009
	Number of field staff members entitled to medical and insurance cover	All staff with over 6 months service	All staff with over 6 months service
d. Employee Know How	Indicators	Value 2012	Value 2011
	Business and financial acumen of the Board of Directors	Corporate Governance - page 86	
	Business and financial acumen of the Executive Committee	Executive Committee - pages 18 to 19	
	Number of years of service analysis	Employee Indicators - page 69	
e. Number of International Award Winners	Indicators	Value 2012	Value 2011
	Number of LIMRA International Quality Award winners	17	34
	Number of participants at the MDRT conference	21	2

Learning and Development

We believe that our employees are our competitive advantage and improving their performance is the key to achieving better business results. We are committed to investing in the development of the technical, functional and managerial skills of our people. We believe in internal as well as external training and development. UA also has schemes to reimburse professional examinations and related fees to encourage training and development.

Employee Welfare

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

During the year UA conducted a programme to recognise employees who served over 25 years within UA.

Employee Know How

The UA Board and Executive Committee comprises Directors and senior management staff with a wide variety of industry and financial acumen. UA staff consists of 162 graduates and professionally qualified employees. Over 40% of our staff have more than five years experience and 44 employees completed 25 years of service with UA.

Employee Relations

We strive to engage our employees and obtain their feedback by conducting employee satisfaction surveys once in every two years. The overall employee satisfaction index was 89% as per the employee satisfaction survey conducted during 2010. We also provide opportunities

for open, transparent dialogue with management; e.g. management meetings, interactive strategic planning and cross functional teams, etc. Management staff are also encouraged to conduct informal departmental and one on one meetings on a regular basis.

Number of International Award Winners

UA is a member of the Life Insurance and Market Research Association (LIMRA) and leverages their best practices and knowledge in order to develop the sales team. International award and recognition schemes such as LIMRA International Quality Awards, MDRT, etc. benchmark the professionalism and productivity of the sales team with the best in the world.

A COLLECTIVE VISION

Our governing principles are based on our core values of Excellence, Caring, Innovation, Trust, Ethics and Integrity.

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Chairman's Statement

Dear Stakeholder,

At Union Assurance, we believe that setting the 'tone from the top' is key to building an effective culture of governance across the organisation. UA has maintained its reputation as a stable and professionally run insurance company over the past 25 years. Despite constant changes and challenges from the external environment, the Board and management through continuous strengthening of processes and governance practices ensure that this reputation is maintained.

Our governing principles are based on our core values of Excellence, Caring, Innovation, Trust, Ethics and Integrity.

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

A key priority of the Board during the current year was strengthening of the capital position of the Company while in the year ahead the Board will continue to monitor and comply with regulatory requirements and ensure that stakeholder expectations are met.

UA's brand is based on the promise of trust which is delivered through convenience, transparency and being respectful to all stakeholders. The Board believes that these platforms will create a long term competitive differentiation

for the company and it closely monitors progress in this regard through a formal once in two months review of performance against financial budgets and key result areas.

I wish to reinforce the fact that the Directors bring a wealth of knowledge and experience that complement UA's strategy and future direction and we practice a culture of openness, effective debate and contribution from all members of the Board.

This report will highlight the governance framework and the activities carried out during the year to ensure the maintenance of the highest standards of corporate governance and compliance within Union Assurance.



Ajit D. Gunewardene
Chairman

26th February 2013

Overview

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

UA's governance practices ensure that;

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

Statement of Compliance

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

The following developments in 2012 enhanced the UA's corporate governance framework:

- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups.
- Streamlined and broadened the scope of compliance statement and its sign off processes.
- Implemented SAP treasury module to enhance the integrity and reliability of the investment management and reporting processes.

Corporate Governance Contd.

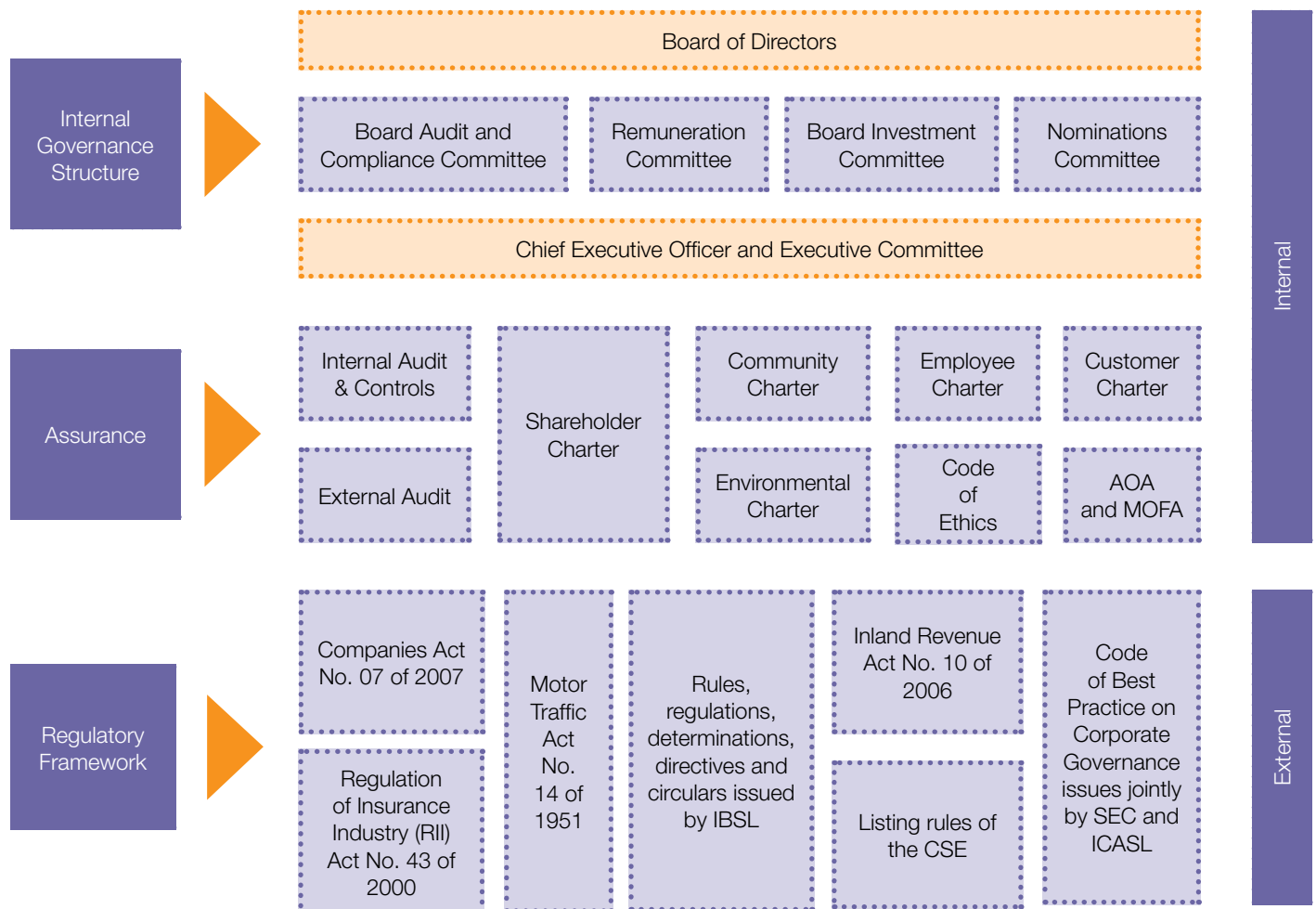
- Enhanced internal audit resources, scope and frequency of audits to ensure that strategic and key operational risks are well managed and any deviations are escalated on a timely basis.
- Formalised and launched the “company values” across the organisation to reinforce our commitment to good corporate governance
- Reviewed the existing business continuity plan (BCP) with the support of an external consultancy firm to ensure readiness and identify any gaps that need to be addressed.
- Proactively engaged an external actuarial consultant to assess the impact and changes required to existing systems and processes and ensure readiness to adopt the risk based capital (RBC) framework which is due to be implemented in two years.
- Implemented sign off process for BACC confirming that large risks have been adequately reinsured.

Corporate Governance Framework

The corporate governance report is structured in the following sequence to highlight the different elements that are adopted to ensure a robust and sound governance framework.

- Internal governance structure and assurance
- Regulatory framework

Corporate Governance Framework



Internal Governance Structure and Assurance

These are the units and elements set up internally to ensure that all governance related initiatives, systems and processes are properly monitored and executed. Summary of the elements of the internal governance structure and assurance are as follows;

- Internal Governance structure as given in the diagram above
- Articles of Association (AOA)
- Shareholder, employee, customer, community and environmental charters
- Code of ethics
- Manual of Financial Authority (MOFA)
- Terms of reference of committees, and
- Procedure manuals
- Internal audit and control
- External audit

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

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

- Exercise honesty, objectivity and diligence when performing their duties
- Avoid situations where their personal interest might conflict with the interest of the company and disclose such transactions; e.g. trading in UA shares
- Maintain confidentiality of commercial and price sensitive information
- Work within applicable laws and regulations
- Safeguard the company's assets
- Avoid conduct that will reflect badly on them or the company's image

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

We have also implemented a Code of Conduct for the field staff covering their responsibility, commitment and level of service to clients. In addition to our charters and codes of conduct, we have implemented policies covering;

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

Regulatory Framework

This forms the relevant laws, regulations and best practices that enable the company to operate within a sound corporate governance framework. The company ensures strict compliance with the following rules and regulations:

- Companies Act No. 07 of 2007
- Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments
- Rules, regulations, determinations, directives and circulars issued by Insurance Board of Sri Lanka (IBSL)
- The Code of Best Practice on Corporate Governance as published by the Securities & Exchange Commission of Sri Lanka and the Chartered Accountants of Sri Lanka
- Listing Rules of the Colombo Stock Exchange including subsequent revisions to date
- Motor Traffic Act No. 14 of 1951 and subsequent amendments
- Inland Revenue Act No. 10 of 2006 and subsequent amendments

Internal Governance Structure and Assurance

Internal governance and assurance covers many aspects including the following key aspects in line with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities and Exchange Commission (SEC) in 2008:

1. Chairman and the Board of Directors
2. Directors' remuneration
3. Accountability and audit
4. Relations with shareholders
5. Institutional investors
6. Other investors
7. Other aspects of corporate governance

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

1. Chairman and the Board of Directors

UA maintains a dual panel structure, namely Board of Directors and Chief Executive Officer and Executive Committee. It thus distinguishes clearly between the members of the Board of Directors as the supervisory body and those of management including the division of responsibilities between the Chairman and CEO. The Board consists of six Directors all of whom hold office as Non-Executive Directors. The Board meets once every two months to discharge their duties and responsibilities in a timely manner. Additional Board meetings are held as required. The Board performs its supervisory functions through the Board Audit and Compliance Committee (BACC), Remuneration Committee (RC), Nominations Committee (NC) and Board Investment Committee (BIC), thus ensuring competence and effectiveness. Members of professional accounting bodies are on the Board ensuring financial acumen and knowledge. A standard set of appropriate, timely and comprehensive documents is provided to the Board in addition to the ad-hoc information requested from time

Corporate Governance Contd.

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 subsequent sections of this report.

The following diagram gives a summary of the expertise and the dynamics of the Board Room.

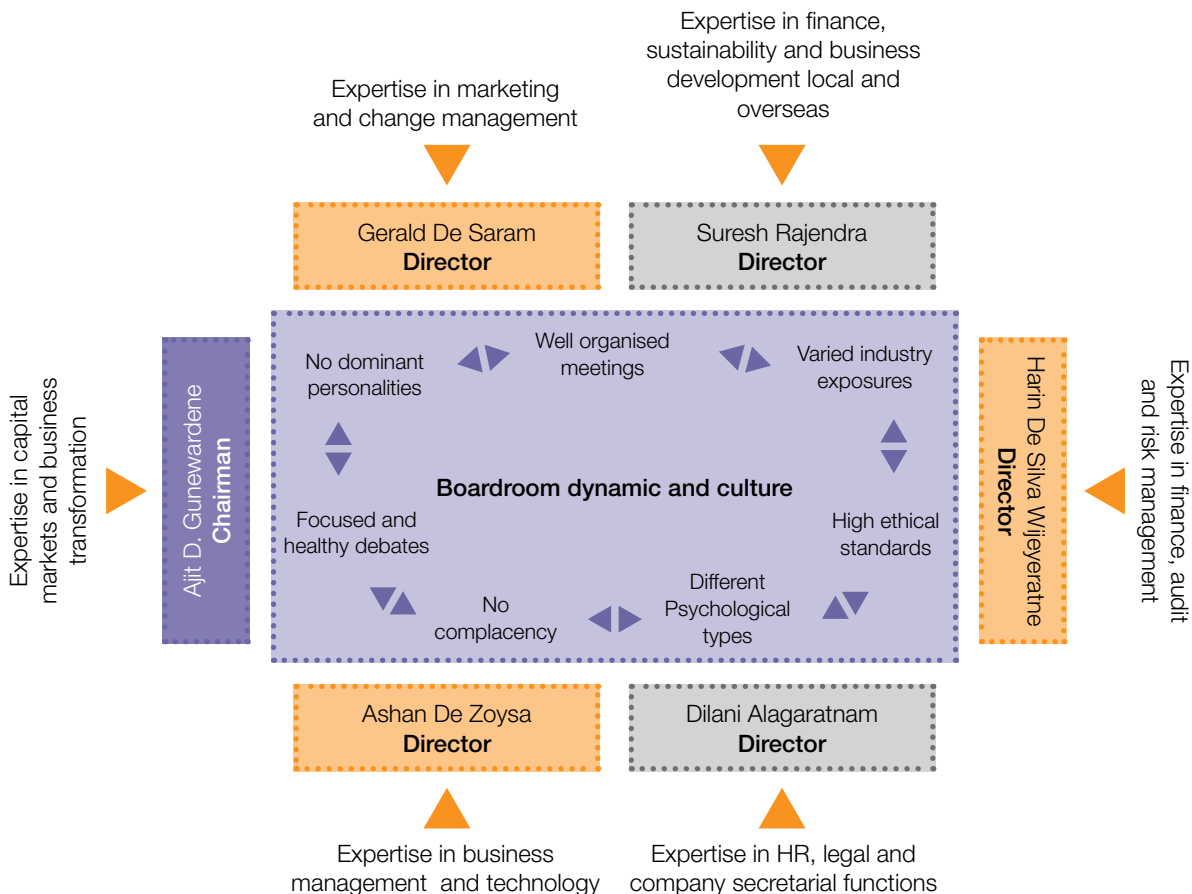
Board responsibilities and decision rights

The Board is responsible for:

- Providing guidance and direction in the formulation of its strategies in the pursuance of the company's medium and long term operational and financial goals
- Reviewing HR processes with emphasis on senior management succession planning
- Appointing and reviewing the

performance of the CEO

- Monitoring systems of compliance and governance
- Reviewing systems of internal control and risk management
- Reviewing and making changes when necessary to authority levels delegated from the Board to the executive levels
- Approving the issue of equity / debt securities



- Chairman
- Non-Executive Directors
- Independent Non-Executive directors

Board Composition

As at 31st December 2012, the Board consisted of three Non-Executive Directors and three Independent Non-Executive Directors. There was no change to this composition from last year.

Conflict of interest and independence

Each Board member has a responsibility to determine whether he / she has a potential or actual conflict of interest arising from external associations, interest in material

matters and personal relationships which may influence his / her judgment. Such potential conflicts are reviewed by the Board from time to time.

Details of companies in which Board members hold Board positions or Board committee positions are available with the company for inspection by shareholders on request. To avoid potential conflicts or bias, Directors adhere to a process where review takes place prior to appointment,

once appointed, and during Board meetings. Refer note 38 to the financial statements for details on related party transactions.

Summary of Non-Executive / Independent Directors' Interest are given below;



	(a) Significant shareholdings	(b) Director or employee of another entity or a Trustee	(c) Material business relationship	(d) Close family member is a Director or CEO	(e) Business connection	(f) Employment in the company	(g) Continuously served for more than nine years
Mr. A. D. Gunewardene	•	•	•	•	•	•	•
Mr. G. F. C. De Saram	•	•	•	•	•	•	•
Mr. S. Rajendra	•	•	•	•	•	•	•
Mr. H. A. J. De Silva Wijeyeratne	•	•	•	•	•	•	•
Ms. D. C. Alagaratnam	•	•	•	•	•	•	•
Mr. A. S. De Zoysa	•	•	•	•	•	•	•
(a) Carrying not less than 10% of voting rights of a company							
(b) Self or close family member is a Director or employee of another company or a Trustee							
(c) Any relationship resulting in income / non cash benefits equivalent to 10% of the director's annual income							
(d) Close family member who is a Director or CEO							
(e) Relationship resulting in transaction value equivalent to 10% of the turnover of the company							
(f) Has been employed by the company during the period of two years immediately preceding appointment as a Director							
(g) Has served on the Board continuously for a period exceeding nine years							
All Directors make a formal declaration of their independence on an annual basis							

• Compliant • Non Compliant

Corporate Governance Contd.

Board induction and access to information

When new Directors are appointed to the Board, they are apprised of the:

- Values and the culture of the organisation
- Operations of the company and its strategies
- Policies, governance framework and processes
- Responsibilities as a Director in terms of prevailing legislation

- The Code of Conduct demanded by the company

The Directors have access to;

- Information necessary to carry out duties and responsibilities effectively and efficiently
- External and internal auditors
- Updates as and when it comes to light on regulations and best practices as relevant to the business
- Experts and other external professional services as required

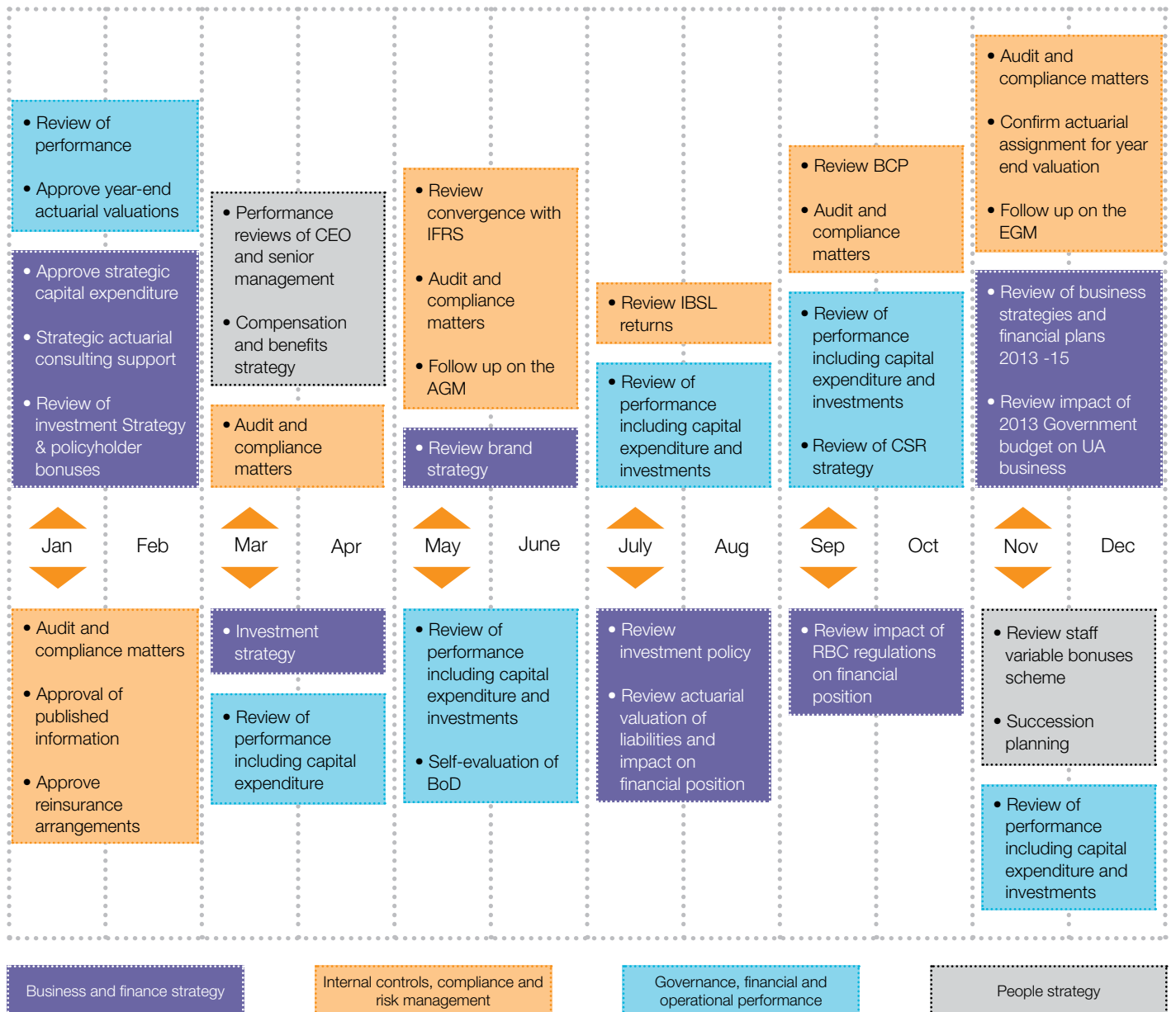
- Company secretaries whose appointment and / or removal is the responsibility of the Board
- Periodic performance reports
- Senior management

Directors' Attendance at Meetings

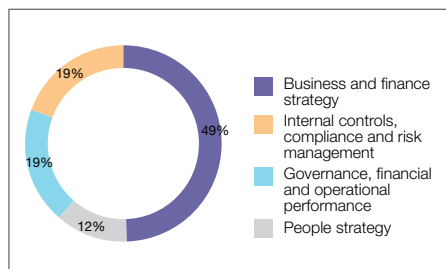
The Directors' attendance at meetings is outlined in the following table.

Board and Committee Composition and Attendance	Chairmanship			Membership			Directorship Status	Directors' Meetings		Board Audit and Compliance Committee Meetings		Remuneration Committee Meetings		Board Investment Committee Meetings	
	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee		A	B	A	B	A	B	A	B
Total number of meetings								6		7		2		12	
Meeting status								A	B	A	B	A	B	A	B
A. D. Gunewardene		○					Non-Executive Director	6	6	-	-	2	2	-	-
A. S. De Zoysa				○		○	Independent Non-Executive Director	6	6	7	7			12	10
G. F. C. De Saram					○		Independent Non-Executive Director	6	5			2	2		
D. C. Alagaratnam							Non-Executive Director	6	6						
S. Rajendra				○			Non-Executive Director	6	6	7	5				
H. A. J. De Silva Wijeyeratne	○			○	○		Independent Non-Executive Director	6	6	7	7	2	2		
A - Number of meetings held during the time the Director held office															
B - Number of meetings attended															

Summary of key items discussed and how the Board time was spent



Management Reports
 Management Discussion & Analysis
 Corporate Governance
 Sustainability Report
 Financial Information



Corporate Governance Contd.

Board Directors Delegation of Authority - Board Committees

Certain functions of the Board are delegated through the Board Committees, enabling the committee members to focus on their designated areas of responsibility and impart knowledge in areas where they have the greatest expertise. Notwithstanding functioning of the Board Committees, the Board of Directors are collectively responsible for the decisions taken by these sub committees.

The Committees, the composition, objectives, frequency of meetings and other details are provided in the following table. The extent of the adherence by these committees to the Code of Best Practice on Corporate Governance issued jointly by Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission is given in a subsequent sections of this report.

Details	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee	Nominations Committee
Chairman (Non-Executive)	H. A. J. De Silva Wijeyeratne	A. D. Gunewardene	K. N. J. Balendra (By invitation)	A. D. Gunewardene
Agenda	Available	Available	Available	Available
Circulation of the agenda and papers	One week in advance	One week in advance	One week in advance	One week in advance
Notice for each meeting	As per annual calendar agreed in advance	As per annual calendar agreed in advance	As per annual calendar agreed in advance	As per annual calendar agreed in advance
Members				
Non-Executive Directors	<ul style="list-style-type: none"> A. S. De Zoysa S. Rajendra 	<ul style="list-style-type: none"> G. F. C. De Saram H. A. J. De Silva Wijeyeratne 	<ul style="list-style-type: none"> A. S. De Zoysa 	<ul style="list-style-type: none"> A.S. De Zoysa G. F. C. De Saram
Management			<ul style="list-style-type: none"> CEO GM Finance and Planning GM Actuarial Head of Investments 	
Invitees	<ul style="list-style-type: none"> CEO GM Finance and Planning EVP & CFO Financial Services Group - JKH AVP Group Risk and Control Review - JKH External auditors Internal auditors 	<ul style="list-style-type: none"> CEO EVP & CFO Financial Services Group - JKH 	<ul style="list-style-type: none"> EVP & CFO Financial Services Group - JKH Group Treasurer - JKH 	No invitees
Professional advice	Actuarial, technical and legal specialists	Chartered Accountants, professional HR firms	Investment and economic consultants	N/A
Secretary	EVP & CFO Financial Services Group - JKH	Company Secretary	Head of Investments	A. S. De Zoysa
Planning frequency	Quarterly	On requirement	Monthly	On requirement
Availability of terms of reference	Available	Available	Available	Available

Details	Board Audit and Compliance Committee	Remuneration Committee	Board Investment Committee	Nominations Committee
Objectives of the committee	<ul style="list-style-type: none"> • Ensure that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with Sri Lanka Accounting Standards, Regulation of Insurance Industry Act, Companies Act and other financial reporting related regulations and requirements • Review the company's risk assessment process and organisational risk profile (an overview of the company's risk management processes is available in the Risk Management section of this report) • Ensure that systems of internal control are soundly conceived and effectively administered • Ensure that applicable laws and regulations have been complied with • Assess the independence and evaluate the performance of internal and external auditors • Assess the company ability to continue as a going concern in the foreseeable future 	<ul style="list-style-type: none"> • Set the compensation for the CEO and senior management • Maintain a competitive remuneration package linked to performance • Establish appropriate salary packages and incentives for management and employees at all levels • Approve annual increments, bonuses and changes in perquisites and incentives 	<ul style="list-style-type: none"> • Review and develop broad investment policies and guidelines for implementation • Monitor performance against agreed benchmarks • Review risk exposures and ensure compliance with all internal investment procedures and external regulations 	<ul style="list-style-type: none"> • Identify suitable persons for appointment to the Board • Consider the appointment or reappointment of any Director to the Board

Corporate Governance Contd.

2. Directors' Remuneration

The company has established a formal and transparent procedure / policy on remuneration for individual Directors. Accordingly, the Remuneration Committee consisting exclusively of Non-Executive Directors has been set up to make recommendations to the Board within agreed terms of reference. Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities and in reference to fees paid to other Non-Executive Directors of comparable companies. The break-up of remuneration paid to Non-Executive Directors is disclosed among the other disclosures regarding remuneration on page 269 in the annual report.

3. Accountability and Audit

A balanced and understandable assessment of the company's financial position, performance and prospects is presented by the company. Various reports including the Chairman's Review, CEO's Review and Management Discussion and Analysis are used in addition to annual financial statements and interim accounts for this purpose. The Board presents a Directors' Report containing information with regard to declarations by them in accordance with the guidelines of the Code of Best Practice. The Board has delegated certain responsibilities to the Board Audit and Compliance Committee (BACC).

The BACC's main responsibilities are to ensure that good financial reporting systems are in place, internal control systems are effective, laws and regulations are complied with, ensure the company's risk assessment processes are effective and organisational risk profile is updated on a regular basis and assess the independence and evaluate the performance of auditors.

The company has issued a Code of Ethics applicable to all Directors and employees and any violation is disclosed. Details of the Code of Ethics and other policies are provided below. The company has disclosed the extent to which UA has

complied with the Code of Best Practice and rules on Corporate Governance.

4. Relations with Shareholders

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

5. Institutional Investors

All institutional investors are encouraged to participate and cast their votes at the company's AGM. The company uses the AGM as the forum to have structured, objective dialogue with shareholders. The corporate governance report sets out the company's governance arrangements.

6. Other Investors

All other investors are encouraged to participate and cast their vote at the company's AGM. Sufficient information

is included in the annual report for shareholders to make informed decisions.

7. Other Aspects of Corporate Governance

Company secretary

The company secretary is responsible for inducting new or inexperienced Directors, assist the Chairman and the Chief Executive Officer in determining the annual board plan, guide the board and individual Directors in the proper discharge of their responsibilities and act as a central source of guidance on matters of ethics and governance.

Resource Management

The Board has delegated its financial authority to the CEO and General Managers within a comprehensively documented Manual of Financial Authority (MOFA). The MOFA indicates the responsibilities of all staff members who enter into financial transactions and commitments on behalf of the company including persons responsible for recommendation, approval and payment. All General Managers including the CEO are required to provide a sign off on compliance with the MOFA on a quarterly basis. In addition, the following committees comprising senior management personnel have been set up to manage expenses in an efficient and effective manner and improve productivity.

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

IT Governance

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

Core Area	Description
IT alignment	Ensures that IT objectives are aligned with business objectives by defining them in business terms. IT objectives are directly articulated from the planning stage to implementation with a set of well defined IT policies, standards, procedures and technology.
Risk management	Focuses on areas of IT risks based on severity of impact and probability of occurrence. Risk management encompasses processes designed to understand risks and implement controls to effectively manage them as well as techniques for minimising risk exposure and embedding risk management responsibilities into the organisation.
Value delivery	Ensures optimal investment in support of corporate objectives, with the availability of proper controls including well defined policies and key result areas (KRAs) for the management of critical resources and people.
Resource management and performance measurement	Focuses on monitoring strategic implementations, project completion, resource usage, results of disaster recovery / business continuity plan tests and service delivery. It includes people, processes and technologies for improving the efficiency and effectiveness of business solutions. Further tracking mechanisms for security related events and use of security dashboards are also included.
Integration	Ensuring the involvement of all corporate stakeholders in the decision making process, with seamless integration to assurance activities by enabling the processes to operate as intended from end-to-end, minimising hidden risks.
Compliance	Ensuring regulatory and compliance requirements are embedded through implementation of appropriate IT controls in systems and conducting periodic reviews of the same for effectiveness.

IT Controls over Financial Reporting

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

- Data centre operation controls such as job setup and scheduling, operator actions and data backup and recovery procedures.
- System software controls over the

- effective acquisition, implementation and maintenance of system software, security software and utility software
- Access security controls that prevent inappropriate and unauthorised use of the system.
 - ‘System Development Life Cycle’ document defines processes that should be followed in application system development. ‘Software Change Management’ document defines change processes.

During the year UA implemented the treasury module in SAP financials which enhanced operational efficiency and IT controls over investment transactions and related financial reporting.

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

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

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

Actuarial Valuation of Insurance Liabilities

The company has actuarially validated the general insurance incurred but not reported claims reserve (IBNR) appearing on the balance sheet. Since claims reserves are based on judgment and estimates, an actuarial valuation provides a greater degree of comfort as to the accuracy of the reserves. The report also certifies that the unearned premium reserve (UPR) is adequate in relation to the future liabilities arising from unexpired risks as at 31st December 2012. Life insurance liabilities have also been validated by an independent external actuary in accordance with the RII Act.

Corporate Governance Contd.

The actuarial certification of IBNR is provided on page 206. The Actuary's Report - life is available on page 207.

Compliance with Regulations Governing Investments

General insurance technical reserves and the life fund are fully backed by "approved investments" as per Section 25 (1) of the RII Act and subsequent determinations. Refer page 122 for details.

Fraud Risk Assessment

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

Ability to Meet Policyholder Obligations

An insurance company's ability to meet its obligations to policyholders is measured by the solvency margin computation, which compares the total value of "admissible assets" (as defined by the IBSL) with the value of total liabilities (also defined by the IBSL) including the solvency margin which is stipulated by regulation. As presented on page 122, total admissible assets were Rs. 22.1 billion compared with total liabilities (including solvency margin) of Rs. 20.1 billion, resulting in a positive solvency position of Rs. 2.0 billion as at 31st December 2012.

Capital Structure

The company's stated capital of Rs. 1,133 million meets the share capital requirements set by the Insurance Board of Sri Lanka for a composite insurance company. The Insurance Board of Sri Lanka has proposed to increase the minimum share capital to Rs. 500 million for each class of insurance business and as a further / concurrent step to introduce a risk based capital regime. During the year, in order to fall in line with the capital

requirements stipulated by the IBSL and also with a view to proactively meeting the requirements under the risk based capital framework, the stated capital of the company was increased by Rs. 750 million through a rights issue to the ordinary shareholders of the company on the basis of one ordinary share for every seven ordinary shares at a price of Rs. 70/- per share.

Compliance Framework and Self Regulation

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

Requirement 2012	Compliances
Inland Revenue	82
Ministry of Transport	24
Registrar of Motor Vehicles	12
IBSL Directives and RII Act	63
National Insurance Trust Fund	24
Employee Provident Fund and Employee Trust Fund	28
Board of Investments of Sri Lanka	2
Registrar of Companies	30
Colombo Stock Exchange	32
SLAAS Monitoring Board	1
Central Bank of Sri Lanka	12
Municipal Council	4
Total Compliances 2012	314
Non Compliances 2012	Nil

Risk Management Initiatives

The company has implemented a comprehensive risk management programme to identify risks which may impede the achievement of business objectives and develop appropriate mitigation strategies.

The risk management process has been revamped from a top down approach to a bottom up approach. Heads of departments conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions and list out mitigating action plans, responsibilities and target dates.

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

briefed regarding this initiative. A detailed report on risk management initiatives is provided in the Risk Management section of this report.

Reinsurance Arrangements

The IBSL has stipulated that insurance companies must enter into reinsurance arrangements with companies which at a minimum have a rating of BBB. As per details on page 132, 91% of our reinsurance receivables are due from reinsurance companies that have been assigned at the minimum, an “A-” rating by international rating agencies such as Standard & Poor’s, AM Best, Moody’s, Fitch Ratings or from the National Insurance Trust Fund.

Relationship and Communication with Stakeholders other than Shareholders

The company has developed a set of stakeholder charters outlining its objectives and commitments to its key stakeholders. A summary of these documents and

progress during 2012 is provided in the Stakeholder section of the Sustainability Report.

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

Securities Trading Policy

The Company’s securities trading policy prohibits all employees and other parties engaged by UA who are aware of unpublished price sensitive information from trading in UA’s shares leading up to the release of quarterly and annual results and publication of details of any other price sensitive developments.

Regulatory Framework

The Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission (SEC) in 2008 covers the following key principles as given in the table:

Code of Best Practice on Corporate Governance

Our adherence to the Code of Best Practice on Corporate Governance issued jointly by ICASL and the SEC and Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange are detailed below.

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

Section 1: Company

Reference	Principle	UA Action	2012 Update
A	Directors		
A.1	Board		
A.1	Need for an effective Board, which should direct, lead and control the company	<p>The Board comprises six Directors, all of whom, including the Chairman, function in a Non-Executive capacity.</p> <p>The Board has delegated the day to day running of the organisation to the CEO and Executive Committee. The company’s operations are governed by policies, procedures and authority delegated by the Board to the CEO.</p> <p>In addition, the Board is keenly involved in setting the company’s medium term strategic plan which is regularly reviewed and updated through a rigorous planning process conducted annually.</p>	<p>Board of Directors comprises six members, who possess broad commercial knowledge and extensive business leadership experience.</p> <p>The profiles of all Board members are provided on pages 18 to 19.</p> <p>The Board monitors the performance of the company based on a pre-agreed matrix of key result areas comprising financial as well as non-financial targets and objectives.</p> <p>Following extensive discussions, the Board approved the company’s medium term strategy and plan for 2013 - 2015.</p>

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
A.1.1	Frequency of Board meetings	<p>The Board meets once every two months basis. Additional meetings are held if required. The following Board sub committees also meet on a regular basis.</p> <ul style="list-style-type: none"> • Board Investment Committee • Board Audit and Compliance Committee • Remuneration Committee • Nominations Committee 	<p>During 2012 the Board met on six occasions as detailed on page 88.</p> <p>The meetings convened by the Board sub committees during 2012 are also provided on page 88.</p>
A.1.2 Responsibilities of the Board to ensure:			
	The formulation and implementation of a sound business strategy	Refer comments above.	The Board reviewed the business strategies of the life and general businesses separately. The review was based on UA's comparative strengths and weaknesses, potential opportunities and threats and where UA should position itself in the medium term, considering likely socio-economic developments, competitor activities, available resources and future investments.
	The CEO and management team possess the skills, experience and knowledge to implement the strategy	The profiles of the CEO and Executive Committee members are provided in the annual report.	The profiles of the CEO and Executive Committee members are provided on pages 22 to 23.
	Adoption of an effective CEO and senior management succession planning	Succession plans for all members of the Executive Committee, their direct reports and senior managers are in place. A key aspect of the succession plan is to develop senior managers to ensure that there are adequate options available internally to replace key personnel.	<p>One Executive Committee position fell vacant during the year. In accordance with the documented succession plan, this position was filled with an external resource.</p> <p>During the year as per the streamlined succession planning process, the identified skill gaps of the second in line personnel were addressed by providing the required people management, technical and / or soft skills training, and development.</p>
	Effective systems to secure integrity of information, internal controls and risk management	The Board has delegated this responsibility to the Board Audit and Compliance Committee (BACC).	<p>The role and responsibilities together with the activities performed by the BACC are disclosed in the Board Audit and Compliance Committee Report.</p> <p>Under its mandate, the BACC increased the resourcing, scope and frequency of internal audits to ensure that key strategic and operational risks are escalated to the relevant persons in a timely manner.</p> <p>SAP, one of the leading enterprise resource planning systems implemented to enhance the integrity of financial information was further enhanced by implementing the SAP treasury module for investment management.</p>

Reference	Principle	UA Action	2012 Update
A.1.2 Responsibilities of the Board to ensure: (Contd.)			
	Compliance with laws, regulations and ethical standards	A compliance checklist is provided to all Board members indicating compliance with applicable laws, regulations, etc. The company has also issued a Code of Ethics applicable to all Directors and employees.	<p>Details of compliance with applicable laws and regulations in 2012 are provided on page 94.</p> <p>Details of the Code of Ethics are provided on page 85.</p>
	All stakeholder interests are considered in corporate decisions	The company has developed charters covering responsibilities to shareholders, employees, customers, community and the environment. All key decisions are reviewed within the framework of these charters.	As a measure of UA's success in this regard, the company secured the Silver Award for Corporate Social Responsibility at the Association of Chartered Certified Accountants (UK) Sustainability Awards ceremony.
	The company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	Accounting policies are reviewed annually in light of changing business requirements, evolving international and local accounting standards and industry best practice. As mentioned above, significant emphasis is placed on compliance with applicable regulations.	<p>The company successfully concluded the comprehensive review of its current accounting practices and policies in terms of IFRS and UA successfully reported its first interim financial statements in accordance with the SLFRS / LKAS for the period ended 30th September 2012.</p> <p>This annual report includes the first audited financial statements in line with the new standards.</p> <p>The changes to the accounting policies in view of adopting SLFRS / LKAS are also provided in this annual report.</p>
	Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation.	The Board makes every endeavor to fulfill their stewardship obligations on behalf of all stakeholders.	During the year, the Board made every endeavor to fulfill their stewardship obligations on behalf of all stakeholders.
A.1.3	The Board collectively, and the Directors individually need to act in accordance with laws of the country relevant to the organisation and procedure for Directors to obtain independent professional advice where necessary, at the company's expense.	<p>As mentioned above, there is significant emphasis across the organisation to ensure compliance with applicable laws and regulations.</p> <p>The Board has adopted a procedure whereby Directors may, in the performance of their duties, seek independent professional advice at the company's expense if considered appropriate.</p>	<p>During the year professional advice was sought in various matters including the following;</p> <ul style="list-style-type: none"> • Actuarial valuation of the life and non-life liabilities and retirement benefits • Product development, process development and technology enhancement support • Market research services and branding • Review of business continuity plan (BCP) • Information technology consultancy services pertaining to infrastructure and network security • Legal, tax and accounting aspects, specifically where independent external advice was deemed necessary.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update												
A.1.4	Company Secretary	The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. All Directors have access to the Company Secretary. The Secretary possesses the required qualifications as set out in the Companies Act. The Articles of the company specify that the removal of the Company Secretary should be by resolution involving the whole Board.	Keells Consultants (Private) Limited continued to function as the Company Secretary during 2012.												
A.1.5	Independent judgment	Each Director brings his / her independent judgment to bear on issues that are discussed at the Board.	None of the Non-Executive Directors have held executive positions in the recent past.												
A.1.6	Dedication of adequate time and effort to matters of the Board and the company	Every member of the Board has dedicated adequate time and effort for the affairs of the company by attending Board meetings, Board sub-committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required.	<p>The Board met on six occasions during the year. The Chairman attended all meetings and the attendance of the other Directors is detailed on page 88.</p> <p>The Board is satisfied that the Chairman and the Non-executive directors committed sufficient time during the year 2012 to fulfill their duties.</p> <p>Following diagram illustrates how the Board spent its time during 2012.</p> <div data-bbox="1052 1348 1495 1612" data-label="Figure"> <table border="1"> <caption>Board Time Spent During 2012</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Business and finance strategy</td> <td>49%</td> </tr> <tr> <td>Internal controls, compliance and risk management</td> <td>19%</td> </tr> <tr> <td>Governance, financial and operational performance</td> <td>19%</td> </tr> <tr> <td>People strategy</td> <td>12%</td> </tr> <tr> <td>Other</td> <td>5%</td> </tr> </tbody> </table> </div> <p>Summary of key items discussed and how the Board time was spent is given on page 89</p>	Category	Percentage	Business and finance strategy	49%	Internal controls, compliance and risk management	19%	Governance, financial and operational performance	19%	People strategy	12%	Other	5%
Category	Percentage														
Business and finance strategy	49%														
Internal controls, compliance and risk management	19%														
Governance, financial and operational performance	19%														
People strategy	12%														
Other	5%														

Reference	Principle	UA Action	2012 Update
A.1.7	Training for Directors	<p>The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.</p> <p>The Directors are constantly updated on the latest trends and issues facing the company and the insurance industry in general.</p> <p>The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and familiarity with the company as required to fulfill their roles both on the Board and on committees appointed by the Board. The company provides the necessary resources for training of Directors.</p>	<p>During the year, the Board obtained advice from external consultants on economic scenarios, investment strategies, new product development, actuarial practices and brand development.</p> <p>In addition, several knowledge sharing initiatives were conducted to inform the Board on such subjects as industry trends, solvency, risk based capital (RBC) framework, risk management practices, convergence with International Accounting Standards and the impact of regulatory changes.</p>
A.2 Chairman and CEO			
A.2	Division of responsibilities between the Chairman and CEO	The positions of Chairman and CEO are separated to ensure a balance of power and authority and to prevent any one individual from possessing unfettered decision making authority.	The CEO is not a member of the Board. This structure establishes the necessary checks and balances and is designed to enhance the institutional independence of the Board of Directors from the CEO.
A.2.1	Decision to combine the posts of Chairman and CEO in one person	In accordance with best practice and in order to maintain a clear division of responsibilities, the roles of Chairman and CEO have not been combined.	No change from previous year.
A.3 Chairman's Role			
A.3	Preserving order and facilitating the effective discharge of Board functions	The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supports the Chief Executive Officer in managing the day to day running of the company. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.	The Board continued to have three independent Non-Executive Directors during 2012 in accordance with best practice.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
A.3.1	Conducting Board proceedings in a proper manner	<p>The Chairman satisfies himself that the information available to the Board is sufficient to make an informed assessment of the company's affairs as well as to discharge their duties to all stakeholders.</p> <p>The Chairman conducts Board meetings in a manner which ensures that there is effective participation from all Directors, that their individual contribution and concerns are objectively assessed prior to making key decisions and that the balance of power is maintained. He also ensures that the Board is in complete control of the company's affairs.</p>	<p>At each Board meeting, the CEO provides a detailed review of the business and financial performance.</p> <p>In 2012 the range of subjects discussed included:</p> <ul style="list-style-type: none"> • Development and implementation of strategy including the company's people strategy • UA's financial results • Key business areas including underwriting, sales and distribution, customer service, etc. • IT infrastructure and platforms • Regulatory and governance issues • Market positions and branding • Capital requirements
A.4 Financial Acumen			
A.4	Availability of sufficient financial acumen and knowledge	There are two Chartered / Management Accountants on the Board. In addition, all members of the Board have extensive experience in various aspects of financial management.	<p>The following Directors provide the Board with the necessary degree of financial acumen and knowledge:</p> <ul style="list-style-type: none"> • Mr. H. A. J. De Silva Wijeyeratne • Mr. S. Rajendra • Mr. A. S. De Zoysa
A.5 Board Balance			
A.5	Balance of Executive and Non-Executive Directors	All Directors on the Board hold office in a Non-Executive capacity and are therefore independent of management.	The current Board comprises only Non-Executive Directors, three of whom are independent Non-Executives.
A.5.1	Number of Executive and Non-Executive Directors on the Board	As mentioned above, the Board comprises only Non-Executive Directors so that their views carry significant weight in the Board's decisions.	Refer above.
A.5.2	"Independence" of Non-Executive Directors	UA is compliant with the rules which require a minimum of two independent Non-Executive Directors on the Board.	<p>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 2012.</p> <p>Accordingly, the company continued to be in compliance with the requirement to have the higher of two, or one third of Non-Executive Directors, as "Independent" Non-Executive Directors.</p>

Reference	Principle	UA Action	2012 Update
A.5.3	Criteria to evaluate “independence” of Non - Executive Directors	A Director is deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.	The Directors mentioned above are deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their independent judgment.
A.5.4	Submission of an annual declaration by each Non-Executive Director regarding independence / non-independence against specified criteria	The Board considers on an annual basis the independence or non-independence of the Non-Executive Directors, based on the declaration made and other information available to the Board.	Declarations of independence or non-independence in respect of 2012 as per the Code of Best Practices on Corporate Governance were obtained from all Non-Executive Directors. Summary of Non-Executive / Independent Directors’ interest is given in table 87 of this report
A.5.5	Disclosure of names of Non-Executive Directors who are deemed to be “independent”	The names of the independent Non-Executive Directors are disclosed in the annual report.	Based on available information, the Board determined that Mr. A. S. De Zoysa, Mr. G. F. C. De Saram and Mr. H. A. J. De Silva Wijeyeratne are independent Non-Executive Directors. Refer page 18 for a summary of Non-Executive / Independent Directors’ profiles
A.5.6	Appointment of Senior Independent Director (SID)	The requirement to appoint a Senior Independent Director does not arise as the roles of Chairman and CEO are separated.	Not applicable.
A.5.7	Availability of SID for confidential discussions with other Directors	Not applicable.	Not applicable.
A.5.8	Chairman to hold meetings with Non- Executive Directors, without Executive Directors being present	The Board of Directors comprises only Non- Executive Directors.	Not applicable.
A.5.9	Recording of Directors’ concerns in the Board minutes	The Board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding the running of the company or of a proposed action. If a Director resigns over an unresolved issue, the Chairman will bring the issue to the attention of the Board. The Director concerned is also required to provide a written statement to the Chairman for circulation to the Board.	Minutes of the Board meetings are circulated to all Directors and formally approved at the subsequent Board meeting. No Director resigned over an unresolved issue.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
<i>A.6</i>	<i>Supply of Information</i>		
<i>A.6</i>	Supply of relevant information in a timely manner	The Board receives a standard set of documents, which are timely, accurate, relevant and comprehensive. These papers include a detailed analysis of financial and non-financial information. The Board may call for additional information or clarify any issues with any member of the Executive Committee.	During the year, several Executive Committee members made presentations to the Board regarding competitor activities, risk management initiatives, customer service initiatives, reinsurance arrangements and sales and marketing activities.
<i>A.6.1</i>	Chairman to ensure that all Directors are adequately briefed on issues arising at Board meetings	All Directors are adequately briefed on matters arising at Board meetings.	Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through; <ul style="list-style-type: none"> Formally documented minutes of discussions, and Separate discussions at start of meeting regarding matters arising from the previous meeting.
<i>A.6.2</i>	Board minutes, agenda and papers to be circulated seven days before the meeting	The Board papers are circulated a week prior to Board meetings.	The Board papers are circulated a week prior to Board meetings.
<i>A.7</i>	<i>Appointments to the Board</i>		
<i>A.7</i>	Formal and transparent procedure for new appointments	The Board decides on the appointment of new Directors and the nomination of professionals to the Board or as CEO based on the recommendations of the Nominations Committee. In identifying suitable candidates, professional / business experience and personal qualities are taken in to consideration and appointments are purely on merit. All new appointments are approved by the shareholders.	There were no new Board appointments in 2012.
<i>A.7.1</i>	Establishment of a Nominations Committee	A Nominations Committee comprising three Non-Executive Directors has been appointed.	Details and composition of the Nominations Committee are provided on pages 90 and 91.
<i>A.7.2</i>	Assessment of Board composition	The Board reviews its own composition on a regular basis to ascertain whether its combined knowledge and experience match the strategic demands facing the company.	The current set of Directors are together, deemed to possess the required knowledge and experience to match the strategic opportunities and threats facing the company in the foreseeable future.
<i>A.7.3</i>	Disclosure of details of new Directors to shareholders	All new appointments are communicated to the shareholders via the Colombo Stock Exchange.	There were no new Board appointments in 2012. The details of the current Board of Directors are provided on pages 18 to 19.

Reference	Principle	UA Action	2012 Update
<i>A.8 Re-election</i>			
A.8	Re-election of Directors at regular intervals	<p>In accordance with the Articles of Association, one of the Directors retires from office at each Annual General Meeting. A retiring Director is eligible for re-election by the shareholders.</p> <p>Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders.</p>	<p>In accordance with the Articles of Association, the following Directors retire from office and are eligible for re-election.</p> <ul style="list-style-type: none"> • Mr. G. F. C. De Saram • Mr. A. S. De Zoysa
A.8.1	Appointment of Non-Executive Directors for specified terms, subject to re-election	The Non-Executive Directors are subject to re-election and to the provisions of the Companies Act relating to the removal of a Director and their re-appointment is not automatic.	Refer above.
A.8.2	All Directors including the Chairman to be subject to re-election by the shareholders at the first appointment and to re-election thereafter at intervals of no more than three years	All Directors, including the Chairman, are subject to election by shareholders at the first opportunity after their appointment and to re-election as stated above. A brief resume of the Director/s standing for election or re-election is provided in the annual report, enabling shareholders to make an informed decision.	The details of the current Board of Directors are provided on pages 18 to 19.
<i>A.9 Appraisal of Board Performance</i>			
A.9	Board to periodically appraise their own performance	<p>The Board commenced a process to evaluate its performance and effectiveness in 2008. The process is led by the Chairman.</p> <p>All Directors are required to complete a questionnaire regarding the;</p> <ul style="list-style-type: none"> • Effectiveness of the Board as a whole • Perception of the Board • Perception of their own contributions • Areas for improvement, and • Effectiveness of the committees on which they serve • Any other suggestions <p>All submissions are collated by the Chairman and discussed with the Board. Specific actions to improve performance and effectiveness are implemented following this review.</p>	As done in previous years, the Board evaluated its performance and effectiveness during 2012.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
A.9.1	Annual appraisal of Board performance in discharging its key responsibilities	The Board regularly evaluates its performance based on the following set of guidelines: <ul style="list-style-type: none"> • Development and implementation of strategy • Competency and succession planning for the CEO and members of the Executive Committee • Effectiveness of systems to ensure integrity of information, internal controls and risk management • Compliance with laws, regulations and ethical standards, and • Balancing the needs of all stakeholders 	The Board evaluated its performance and effectiveness during 2012.
A.9.2	Annual self-evaluation of Board performance and its committees	As mentioned previously, the Board implemented a process of self-evaluation.	The Board evaluated its performance and effectiveness during 2012.
A.9.3	Disclose methodology of such evaluations	Refer above.	There was no change to the methodology in 2012.
A.10	<i>Disclosure of Information in Respect of Directors</i>		
A.10	Shareholders to be advised of relevant details in respect of Directors	The annual report contains relevant details pertaining to all Board members.	The details of the current Board of Directors are provided on pages 18 to 19.
A.10.1	Annual report to contain information in relation to each Director	Information in relation to each Director required by the Code of Best Practice on Corporate Governance is disclosed in the annual report.	<p>The following information in relation to Directors is disclosed in the annual report.</p> <p>The profiles of all Board members are provided on pages 18 to 19.</p> <p>Details of related party transactions are provided in note 38 to the financial statements.</p> <p>The composition of Board committees, attendance at Board meetings and Board sub-committee meetings are provided on page 88.</p>

Reference	Principle	UA Action	2012 Update
<i>A.11 Appraisal of the Chief Executive Officer (CEO)</i>			
A.11	Appraisal of the CEO	The Board assesses the performance of the CEO on an annual basis.	The Board appraised the performance of the CEO.
A.11.1	Financial and non-financial targets to be achieved by the CEO	Following the corporate planning process, the Board (in consultation with the CEO), in line with the short, medium and long term objectives of the company sets, financial and non-financial objectives to be achieved by the CEO.	The following objectives / action plans were reviewed by the Board at their meetings: <ul style="list-style-type: none"> • Achievement of turnover and profitability targets • Implementation of cost effective distribution models • Implementation of IT systems to improve underwriting and claims functions • Management of debtors • Brand development initiatives • Learning and development / talent management initiatives • New product development targeting mass affluent segments
A.11.2	Performance of the CEO to be evaluated against the targets set by the Board	At the end of the year, the Board evaluates the performance of the CEO and ascertains if the agreed objectives have been achieved.	Refer above.
B Directors' Remuneration			
<i>B.1 Remuneration Procedure</i>			
B.1	Formal and transparent procedure for developing policy on remuneration for executives and Directors	The Remuneration Committee is responsible for developing policy on executive remuneration. No Director is involved in deciding his / her own remuneration.	There is a formal process for approving remuneration for executives and Directors. No Director is involved in deciding his / her own remuneration.
B.1.1	Appointment of a Remuneration Committee	A Remuneration Committee has been appointed and functions within agreed terms of reference.	No change from previous year.
B.1.2	Composition of the Remuneration Committee	The Remuneration Committee comprises a majority of independent Non-Executive Directors. The Chairman of the Board chairs the Remuneration Committee.	No change from previous year.
B.1.3	Disclosure of Chairman and members of the Remuneration Committee	Details and composition of the Remuneration Committee are provided in the annual report.	Details and composition of the Remuneration Committee are provided on pages 90 to 91.
B.1.4	Determination of remuneration for Non- Executive Directors	Non-Executive Directors who are part of the group remit their fees to the group. Other Non-Executive Directors are remunerated in line with market practices.	No change from previous year.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
B.1.5	Access to professional advice	The Remuneration Committee has access to professional advice from within and outside the company.	During the year, the Committee reviewed the information provided by UA's team of human resource professionals to determine market and industry trends with regard to remuneration and perquisites.
B.2 Level and make up of Remuneration			
B.2	Level and make up of remuneration	Remuneration at all levels including the CEO consists of a fixed element as well as a variable element based on company and individual performance.	No change from previous year.
B.2.1	Remuneration for Executive Directors	Executive Directors do not set their own remuneration. The Remuneration Committee reviews industry and market practice when setting the remuneration of Executive Directors.	There were no Executive Directors during 2012.
B.2.2	Positioning company remuneration levels relative to other companies	When positioning remuneration levels relative to other companies in the industry, due care is taken to ensure that remuneration is commensurate with the comparative performance / scale of other companies in the industry.	No change from previous year.
B.2.3	Annual increases in remuneration	The Remuneration Committee reviews the annual increments provided to companies within the group, when deciding on increments for UA staff.	No change from previous year.
B.2.4	Performance related elements of remuneration for Executive Directors	The performance related element of remuneration applicable to the CEO is based on achieving the company's profit targets. It is believed that this measure best aligns the interests of the company and main stakeholders. There are no performance related elements of remuneration for the Non-Executive Directors.	There were no Executive Directors during 2012.
B.2.5	Share option schemes	The senior management is entitled to participate in the share option scheme initiated by the group.	No change from previous year.

Reference	Principle	UA Action	2012 Update
B.2.6	Designing schemes of performance related remuneration	The CEO is eligible for annual bonuses based on achievement of life and general business profitability on a standalone basis. As per the scheme, there is an upper limit on the annual bonus.	No change from previous year.
		In terms of long term incentive schemes, the senior management is entitled to participate in the share option scheme initiated by the group.	No change from previous year.
		The consequences of pension and associated costs are considered when determining salary increases.	No change from previous year.
		Performance related remuneration schemes are not applied retrospectively.	No change from previous year.
		Annual bonuses are not pensionable.	No change from previous year.
		Non-Executive Directors are not eligible to performance based remuneration schemes.	No change from previous year.
B.2.7	Compensation commitments in the event of early termination	There are no terminal compensation commitments other than gratuity in the company's contracts of service.	No change from previous year.
B.2.8	Dealing with early termination	Refer comment above.	No change from previous year.
B.2.9	Levels of remuneration for Non-Executive Directors	Non-Executive Directors are remunerated in line with market practices.	No change from previous year.
B.3 Disclosure of Remuneration			
B.3	Statement of remuneration policy and details of remuneration of the Board as a whole	A statement regarding the company's remuneration policy and the details of remuneration to the Board as a whole are disclosed in the annual report.	A statement regarding the company's remuneration policy is contained in the Remuneration Committee report in the annual report. The details of remuneration to the Board as a whole are disclosed in note 38 to the financial statements.
B.3.1	Composition of Remuneration Committee, statement of remuneration policy and aggregate remuneration paid to Executive and Non-Executive Directors	Details of the Remuneration Committee and break up of remuneration paid to Executive and Non-Executive Directors are disclosed.	Details of the Remuneration Committee are provided on pages 90 to 91. The information in note 16 to the financial statements provide a break up of remuneration paid to Non-Executive Directors. There were no Executive Directors during 2012.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
C	Relations with Shareholders		
C.1	Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings		
C.1	Constructive use of the AGM	The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors. The Chairman, the Chief Executive Officer and the Chairmen of the principal committees of the company are present at the AGM to answer any queries.	The company's 25 th AGM was held on 30 th March 2012. The shareholders queries were answered by the Chairman. The Chief Executive Officer and the Chairmen of the Board sub committees were also present at the AGM. The company held an Extraordinary General Meeting of the shareholders' on 12 th November 2012 to recommend to the shareholders that the company raise capital by way of a rights issue having given adequate notice. The resolution placed was duly approved.
C.1.1	Consideration of all proxy votes	As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.	No change from previous year.
C.1.2	Separate resolutions for each substantially separate issue	Each substantially separate issue is proposed as a separate resolution. The adoption of the report and accounts is proposed as a separate resolution.	No change from previous year.
C.1.3	Availability of Board sub-committee Chairmen to answer queries	The Chairman of the Board functions as the Chairman of the Remuneration Committee and Nominations Committee. He ensures that the Chairmen of the other sub committees are also available to answer any queries.	The Chairmen of the Board sub committees were present at the AGM held on 30 th March 2012. No queries were raised by shareholders to the Chairmen of the committees.
C.1.4	Circulation of notice and related documents to shareholders	The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.	The notice of meeting and related documents were circulated to the shareholders 15 working days prior to the AGM held in 2012.
C.1.5	Summary of procedures governing voting at the AGM	A summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders 15 working days prior to the AGM.	The proxy form was circulated to shareholders 15 working days prior to the AGM.
C.2	Major Transactions		
C.2	Disclosure of major transactions	The company's future strategies and their potential impact are disclosed in the annual report.	The company's future strategies and their potential impact have been disclosed in the following sections of this annual report. <ul style="list-style-type: none"> • Chairman's Review page 10. • CEO's Review pages 14 to 16. • Management Discussion and Analysis pages 25 and 81.
C.2.1	Disclosure of all facts of transactions which have a material impact on net assets	All transactions which materially alter the company's net asset base are disclosed.	The rights issue which increased stated capital by Rs. 750 million as duly communicated to all shareholders.

Reference	Principle	UA Action	2012 Update																		
D	Accountability and Audit																				
D.1	Financial Reporting																				
D.1	Balanced, understandable assessment of the company's position and prospects	The company's position and prospects are disclosed in the annual report.	<p>The company's position and prospects have been discussed in detail in the following sections of this annual report.</p> <ul style="list-style-type: none"> • Chairman's Review pages 10 to 11. • CEO's Review pages 14 to 15. • Management Discussion and Analysis pages 25 to 81. 																		
D.1.1	Interim accounts, price sensitive public reports, reports to regulators and information required by statute	The interim accounts and annual financial statements are published on a timely basis. Regulatory reports are filed by the due dates. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis. The company strives to provide a detailed and transparent analysis of strategies, performance and future strategies to enable investors to make an informed decision. In addition to the information provided in the reports mentioned above, a summary of the interim accounts and a section on "Understanding our Financials" is provided in the annual report.	<p>The interim accounts and annual financial statements were published on a timely basis during 2012. Regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year. A summary of the interim accounts is presented on pages 325 to 326.</p> <p>A section on "Understanding our Financials" is provided on pages 330 to 332.</p>																		
D.1.2	Directors' Report	The Directors' report contains declarations by the Directors as required by the Code of Best Practice on Corporate Governance.	Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on page 199.																		
D.1.3	Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors	The Statement of Directors' Responsibility and Report of the Auditors are provided in the annual report.	The Statement of Directors' Responsibility and Report of the Auditors are provided on pages 208 and 209 respectively.																		
D.1.4	Inclusion of a "Management Discussion and Analysis" report	The annual report contains a "Management Discussion and Analysis" report.	The required information in the Management Discussion and Analysis is provided in this annual report as follows:																		
		<table border="1"> <thead> <tr> <th>Information required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>29</td> </tr> <tr> <td>Opportunities and threats</td> <td>46 and 56</td> </tr> <tr> <td>Risks and concerns</td> <td>32 to 34</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>110 to 111</td> </tr> <tr> <td>Social and environmental protection activities carried out by the company</td> <td>168 to 171</td> </tr> <tr> <td>Financial performance</td> <td>57 to 63</td> </tr> <tr> <td>Material developments in human resources/industrial relations</td> <td>156 to 162</td> </tr> <tr> <td>Prospects for the future</td> <td>46 and 56</td> </tr> </tbody> </table>	Information required	Pages	Industry structure and developments	29	Opportunities and threats	46 and 56	Risks and concerns	32 to 34	Internal control systems and their adequacy	110 to 111	Social and environmental protection activities carried out by the company	168 to 171	Financial performance	57 to 63	Material developments in human resources/industrial relations	156 to 162	Prospects for the future	46 and 56	
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Prospects for the future	46 and 56																				

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
D.1.5	Declaration of going concern by Directors	Information on going concern is provided in the Report of the Directors.	This information is provided in the Report of the Directors on page 201.
D.1.6	EGM if the net assets of the company falls below half of the shareholders' funds	The situation has not arisen.	Not applicable.
D.2 Internal Control			
D.2	Maintain a sound system of internal control	The Board has overall responsibility for the system of internal controls to safeguard shareholder's investments and the company's assets, and has delegated certain of these responsibilities to the Board Audit and Compliance Committee (BACC).	No change from previous year.
D.2.1	Review of effectiveness of the system of internal controls by the Board	<p>In order to ensure that a sound system of internal controls is maintained, the BACC ensures that an internal audit programme (which is adequate in terms of coverage and scope) is prepared on an annual basis, covering all head office and branch operations. In addition,</p> <ul style="list-style-type: none"> Internal audit plans are followed up to ensure that audits are concluded on time, Internal and external audit reports are reviewed by management on a timely basis and control weaknesses are corrected External auditors review the key reconciliations and report on any irregularities Risks associated with all key processes are identified and control systems to mitigate such risks are reviewed to ensure that they are functioning smoothly A formal delegation of financial authority from the CEO to the relevant management staff is available and adhered to in respect of all transactions Procedure manuals for underwriting and claims are available for all staff and updated regularly. A structured loss reporting process covering fraud or suspected fraud involving staff, damage or loss to company property, theft, agent misappropriations resulting in financial impact and losses due to inadequate financial / operational controls have been implemented 	<ul style="list-style-type: none"> During the year, the scope and resourcing of the internal audit function was enhanced to increase frequency of audit coverage and escalate any control issues on a timely basis. Internal audits were carried out to cover all operational aspects performed at head office and selected branches in accordance with the internal audit programme approved by the BACC. Additional spot audits were carried out as per operational requirement Reports of both internal and external auditors were reviewed by the BACC and measures taken to correct control weaknesses. All reconciliations connected with the financial statements were independently reviewed by the external auditors. Internal audit programmes were designed to test adequacy of control systems to mitigate operational risks. Procedure manuals covering life and general insurance related underwriting and claims functions were updated to cover new products / process changes etc. The compliance checklist was reviewed and updated in line with changes in legal / regulatory requirements. Employees made use of the whistle blowing procedure. As per best practice the BACC had closed door meetings with the Internal and the external auditors without the presence of the company's executive committee.

Reference	Principle	UA Action	2012 Update
D.2.1 Contd.	Review of effectiveness of the system of internal controls by the Board	<ul style="list-style-type: none"> A comprehensive compliance checklist and exception reporting procedure is in place. The company's business continuity plan is regularly updated and tested. A whistle blowing procedure is available to any employee who suspects wrongdoing at work Formal systems are in place to continuously upgrade the knowledge and skills of employees in order to foster acceptance and participation in building effective controls. A comprehensive quarterly sign off process culminating in a sign off from the CEO and CFO to the Board of Directors is available 	
D.2.2	Need for internal audit function	<p>The internal audit function has been outsourced to a leading firm of Chartered Accountants. The Board believes that this provides greater access to global best practices with independence from management.</p> <p>The BACC reviews the internal audit plan and monitors progress on a regular basis. The internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p>	Messrs. PricewaterhouseCoopers – a leading firm of Chartered Accountants who was appointed as the internal auditors in September 2010 continued to be internal auditors in 2012.
D.3 Audit Committee			
D.3	Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles	The Board has delegated their responsibility with regard to financial reporting, internal controls and maintaining an appropriate relationship with the company's auditors to the Board Audit and Compliance Committee. Accounting policies are agreed with auditors and the Board Audit and Compliance Committee and are applied on a consistent basis.	<p>Changes the existing accounting policies due to convergence to SLFRSs / LKASs were discussed with the auditors and agreed.</p> <p>The accounting policies are provided in note 3 to the financial statements.</p>
D.3.1	Composition of the Audit Committee	The BACC consists of three Non-Executive Directors, two of whom are independent.	Mr. H. A. J. De Silva Wijeyeratne who is a member of The Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK serves as the Chairman of the BACC and an independent Non-Executive Director. Mr. A. S. De Zoysa and Mr. S. Rajendra continued to serve on the BACC as an independent Non-Executive Director and a Non-Executive Director during 2012 respectively.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
D.3.2	Ensure the objectivity and independence of the external auditors	<p>As per its charter, the BACC is responsible for reviewing the scope and results of the audit and its effectiveness.</p> <p>In addition to audit services, the company auditors Messrs. KPMG provide tax advice and related services.</p>	<p>The BACC conducted an evaluation and satisfied itself regarding KPMG's integrity, competence and professionalism and concluded that no aspect of the auditors' work was impaired due to lack of independence.</p> <p>The BACC also reviewed the non-audit services provided by KPMG.</p>
D.3.3	Written terms of reference for Audit Committee	<p>The BACC operates within clearly defined terms of reference which have been approved by the Board.</p> <p>The duties and responsibilities of the BACC are in line with the Code of Best Practice on Audit Committees issued by the ICASL and Code of Best Practice on Corporate Governance jointly issued by the ICASL and the SEC.</p>	<p>No change from previous year.</p> <p>Refer "Board Audit and Compliance Committee Report" for further details</p>
D.3.4	Disclosure of Directors in Audit Committee	The details and composition of the BACC are provided in the annual report.	The details and composition of the BACC are provided on pages 90 to 91 of this annual report.
D.3.5	Report of the Audit Committee	The report of the BACC is given in the annual report.	The report of the BACC for 2012 is available on pages 203 to 205.
D.4 Code of Business Conduct and Ethics			
D.4	Adoption of a code of business conduct and ethics for Directors and senior management	<p>The company has issued a Code of Ethics requiring all Directors and employees to:</p> <ul style="list-style-type: none"> • Exercise honesty, objectivity and diligence when performing their duties • Avoid situations where their personal interest might conflict with the interest of the company and disclose any such transactions; e.g. trading in UA shares • Maintain confidentiality of commercial and price sensitive information • Work within applicable laws and regulations • Safeguard the company's assets • Avoid conduct that will reflect badly on them or on the company's image. <p>The company also has a Code of Conduct for the field staff which covers their responsibility, commitment and level of service to clients.</p>	No change from previous year.

Reference	Principle	UA Action	2012 Update
D.4.1	Affirmative declaration that all Directors and members of the senior management team have complied with the code	Violations of the Code of Ethics by any of the Directors or any member of the Executive Committee are disclosed.	There have been no violations of the Code of Ethics during 2012 by any of the Directors or any member of the Executive Committee.
D.4.2	Affirmation from the Chairman regarding not violating the provisions of the code	The Chairman discloses any violation of the company's Code of Ethics.	The Chairman is not aware of any violation of the company's Code of Ethics.
D.5 Corporate Governance Disclosures			
D.5	Disclose extent of adherence to established principles and practices	The company's corporate governance practices are in accordance with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.	The company is fully compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.
D.5.1	Inclusion of a corporate governance report in annual report	The company includes a corporate governance report in the annual report.	This report sets out the manner in and extent to which the company has complied with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC.

Section 2: Shareholders

Reference	Principle	UA Action	2012 Update
E Institutional Investors			
E.1 Shareholder Voting			
E.1	Encourage institutional shareholders to ensure their voting intentions are translated into practice	All shareholders are encouraged to participate at general meetings and cast their votes.	No change from previous year.
E.1.1	Regular and structured dialogue with shareholders	The AGM is used as a forum to have a structured, objective dialogue with shareholders. The Chairman ensures that the views expressed at the AGM are communicated to the Board as a whole.	No change from previous year.
E.2 Evaluation of Governance Disclosures			
E.2	Encourage institutional investors to give due weight to relevant governance arrangements	The corporate governance report in the annual report sets out the company's governance arrangements.	This report sets out the company's governance arrangements.

Corporate Governance Contd.

Reference	Principle	UA Action	2012 Update
F <i>F.1</i>	Other Investors <i>Investing/Divesting Decisions</i>		
<i>F.1.1</i>	Encourage other investors to seek independent advice in investing or divesting decisions	The annual report contains sufficient information to help make an informed decision.	The following reports aim to provide a balanced overall assessment of the company's activities, performance and prospects. <ul style="list-style-type: none"> • Chairman's Review pages 10 to 13. • CEO's Review pages 14 to 16. • Management Discussion and Analysis pages 25 to 81. • Annual financial statements pages 210 to 308.
<i>F.2</i>	Shareholder Voting		
<i>F.2</i>	Encourage shareholders to participate in general meetings and exercise voting rights	All shareholders are encouraged to participate at general meetings and cast their votes.	No change from previous year.

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

Section	Rule No.	Requirement	Compliance status	Details
Non-Executive Directors	7.10.1	Two or one third of the Directors, whichever is higher, should be Non-Executive Directors	Compliant	All six Directors on UA's Board are Non-Executive Directors.
Independent Directors	7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent	Compliant	The Board comprises three independent Non-Executive Directors.
	7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format	Compliant	The Non-Executive Directors have submitted the declarations.
Disclosures relating to Directors	7.10.3 (a)	Names of independent Directors should be disclosed in the annual report	Compliant	Please refer page 100.
	7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report	N/A	No such determination has been made by the Board.
	7.10.3 (c)	A brief resume of each Director should be published in the annual report including the areas of expertise	Compliant	Please refer pages 18 to 19.

Section	Rule No.	Requirement	Compliance status	Details
Disclosures relating to Directors <i>Contd.</i>	7.10.3 (d)	Provide a brief resume of any new Director appointed to the Board	N/A	No new Directors were appointed in 2012.
Criteria for defining 'independence'	7.10.4 (a-h)	Requirements for meeting criteria to be independent	Compliant	Please refer page 87 for a summary of Non-Executive / Independent Directors' interests.
Remuneration committee	7.10.5	A listed company shall have a Remuneration Committee	Compliant	Please refer the Remuneration Committee report on page 124.
	7.10.5 (a)	The Remuneration Committee shall comprise a minimum of two independent Non-Executive Directors or a majority of independent Non-Executive Directors, whichever is higher	Compliant	The Remuneration Committee comprises a majority of independent Non-Executive Directors.
		One Non-Executive Director shall be appointed as Chairman of the committee by the Board	Compliant	Mr. A. D. Gunewardene functions as Chairman of the Remuneration Committee.
	7.10.5 (b)	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors	Compliant	Please refer the Remuneration Committee report on page 124
	7.10.5 (c)	The annual report shall set out:		
		The names of the Directors that comprise the Remuneration Committee	Compliant	Please refer page 90.
		A statement of remuneration policy	Compliant	Please refer the Remuneration Committee report on page 90.
	Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 269.	
Audit Committee	7.10.6	A listed company shall have an Audit Committee	Compliant	Please refer the BACC report on pages 203 to 205.
	7.10.6 (a)	The Audit Committee shall comprise a minimum of two independent Non-Executive Directors, or a majority of independent Non-Executive Directors, whichever is higher	Compliant	The BACC comprises a majority of independent Non-Executive Directors.
		One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board	Compliant	Mr. H. A. J. De Silva Wijeyeratne functions as the Chairman of the BACC.
		The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Compliant	The CEO and CFO attended all BACC meetings.
		The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Compliant	Two members of the BACC are members of professional accounting bodies.

Corporate Governance Contd.

Section	Rule No.	Requirement	Compliance status	Details
Audit Committee <i>Contd.</i>	7.10.6 (b)	<p>The functions of the Audit Committee shall include;</p> <ul style="list-style-type: none"> Overseeing of the preparation and presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards. Overseeing the compliance with financial reporting requirements, 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 Assessment of the independence and performance of the external auditors 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 	Compliant	Please refer BACC report on pages 203 to 205.
	7.10.6 (c)	<p>The annual report shall set out:</p> <ul style="list-style-type: none"> The names of the Directors who comprise the Audit Committee The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules 	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>Please refer page 90.</p> <p>Please refer the BACC report on pages 203 to 205.</p> <p>Please refer the BACC report on pages 203 to 205.</p>

PERFORMANCE GOVERNANCE

Overview

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

Strategic Direction and Corporate Objectives

Strategic planning is a bottom up process, involving staff at all levels, creating ownership and commitment, as well as harnessing their creative potential. The process commences with the Board setting the broad

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

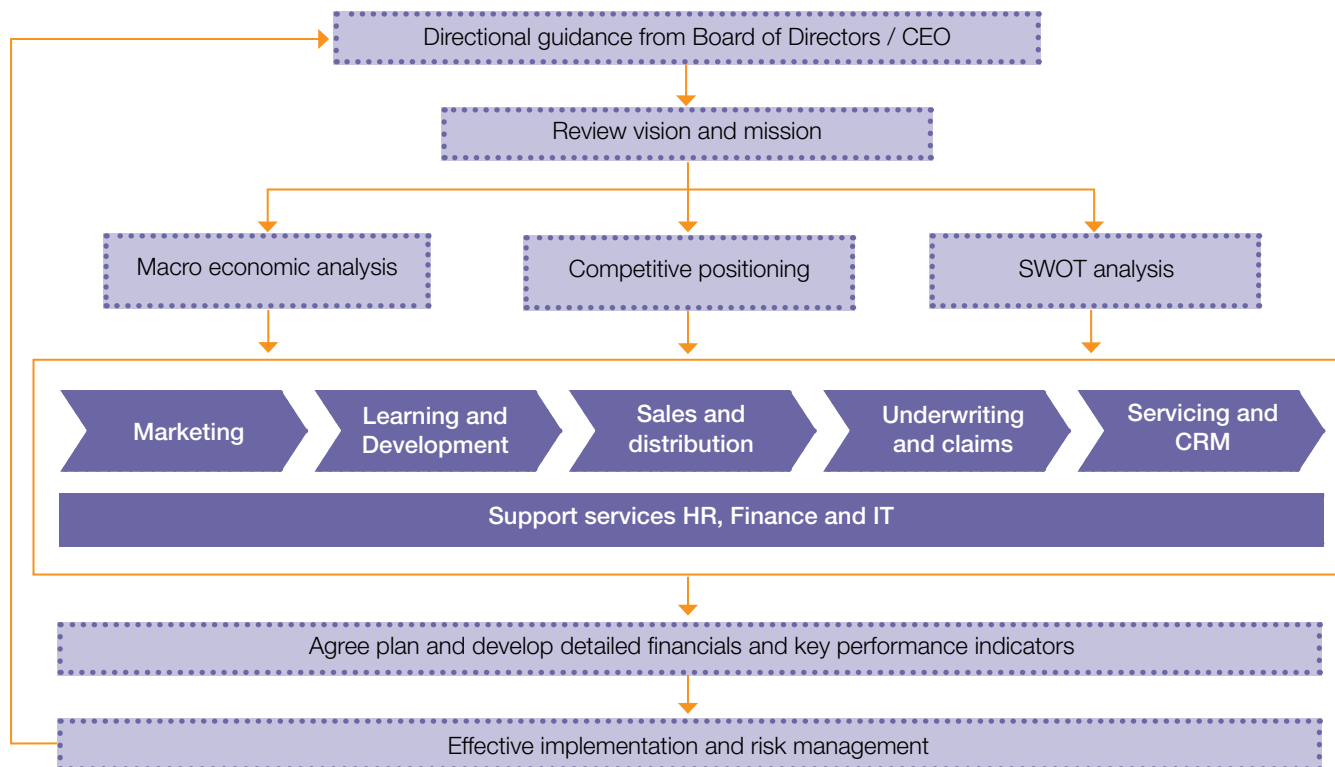
Simultaneously, the company conducts planning meetings at regional / distribution channel level. The strategic plans derived from these workshops are synchronised

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

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

During the year, the company updated the medium term business plan from 2013 to 2015.

An overview of the process is provided below.



Performance Governance Contd.

Effective Implementation

The CEO and the Executive Committee review the strategic plan actions and budgets on a monthly basis and analyse variances between budgeted and actual results. The same information is also reviewed by the Board. Both parties use a dashboard with key performance indicators (KPIs) to monitor progress. The KPIs are linked to the strategic objectives of the company as reflected below.

Non Life Strategic Objectives and Key Performance Indicators

Strategic objectives	Key performance indicator	Relevance	2012 Update
Expand distribution capability especially in retail segment	Channel wise GWP	Measures GWP generated from specific channels in line with expectations and investments made	<ul style="list-style-type: none"> Maintained growth momentum from retail channels Restructured zonal distribution to expand general insurance agency cadre with structured leadership at zonal and branch levels Increased usage of the revamped e-motor solution up to 64% with adequate infrastructure, features and functionality Implemented web based sales force management system (FAME-General) to monitor and manage efficiencies Leveraged relationships with brokers, leasing and other financial institutions to grow business Increased content in the e-learning platform to provide learning and development to larger number of staff in a cost effective manner. Per capital training hours of 18.7 hours achieved during the year 114 sales officers have been appointed as 'Certified Sales Professionals' during the year
Continuous improvements in service standards	<ul style="list-style-type: none"> Customer satisfaction results with regard to motor claims settlement process Number and value of claims outstanding over agreed time frames 	<ul style="list-style-type: none"> Direct feedback from customers regarding end to end service delivery Claims settlement time is key indicator of our service delivery 	<ul style="list-style-type: none"> Introduced a 'customer welcome call' programme enabling motor customers to verify their policy details and clarify any issues Launched web based travel insurance product Pioneered use of android technology to capture and send details from the accident site to processing centre, to expedite claims settlements Implemented digital image transfer of medical documents facilitating quick approval of hospitalisation claims Extended 'speed cash' service to settle claims at any garage using sms technology Improved the claims tracking system to monitor / manage claims from selected non motor classes of business with enhanced features 89% of motor policyholders who claimed from their policies were satisfied with the service they received

Strategic objectives	Key performance indicator	Relevance	2012 Update
Develop alternative distribution channels	GWP generated from alternative channels	Measures GWP generated from specific initiatives	<ul style="list-style-type: none"> Recorded increased sales from all alternate channels Expanded number of sales points for customers to purchase / renew Reload policies through Abans network. Continued to invest in IT infrastructure to facilitate pre-under written policies. Introduced non life products through the bancassurance channels
New product development	GWP generated from new products	Ultimate measure of success of a new product	<ul style="list-style-type: none"> Re-launched Union Family Health Net, Union Asset Protector, and Union Shop Protector with simplified, transparent and convenient sales tools and procedures Re-launched 'Union Travel Insurance' as a web based product Continued to review UA product portfolio vis-à-vis competition especially with regard to growth sectors of the economy
Strengthen underwriting processes	<ul style="list-style-type: none"> GWP mix Combined ratio Non life insurance underwriting profits 	<ul style="list-style-type: none"> Measures GWP generated from various classes of business, as risk / pricing / claims experience vary by class of business Reflects the total margin generated by the business Measures profits generated from the core function of the business 	<ul style="list-style-type: none"> Reported improvement in combined ratio Conducted modular training programmes for head office and branch staff 44 underwriting staff members certified through the advanced underwriting training programmes Re-calibrated risk based pricing for motor products Simplified policy wording in line with underwriting guidelines and company risk appetite for 3 products Conducted an island-wide audit of motor and non motor underwriting processes
Strengthen claims management processes	Claims ratio	Amount of claims paid as a % of income – the ultimate measure of claims management capability	<ul style="list-style-type: none"> Reported improvement in claims ratios from all classes of non life business Enhanced features in the claims tracking system for selected non motor claims to monitor service and manage claims outgo Increased number of specialised and trained assessors to facilitate better control of claims assessment.

Performance Governance Contd.

Life Insurance Strategic Objectives and Key Performance Indicators

Strategic objectives	Key performance indicator	Relevance	2012 Update
Expand distribution network in cost effective manner	<ul style="list-style-type: none"> GWP generated from regular business Location wise expense ratios / benchmarks Lapse information 	<ul style="list-style-type: none"> Investments to expand distribution are mainly to drive growth in regular premium business Manage expenses Manage GWP growth by ensuring renewal premiums are consistently paid 	<ul style="list-style-type: none"> Expanded branch and BDO network in strategic locations Equipped the distribution network with a digital advisor toolkit which facilitates trilingual quotations and illustrations Enhanced features / functionality of web based sales force management system Established a more stringent selection process for team leaders to enhance quality of field level leadership Appointed zonal recruitment specialists to ensure recruitment of quality advisors to the field force Qualifying age for recruitment was increased to 24 years to ensure establishment of professional and matured sales force
Continuous improvements in service standards	<ul style="list-style-type: none"> Review actual versus benchmark for selected services Number and value of claims outstanding over agreed time frames 	<ul style="list-style-type: none"> Ensure service delivery is in line with pre-agreed standards Claims settlement time is a key indicator of our service delivery 	<ul style="list-style-type: none"> Service level agreements were benchmarked with industry and monitored to ensure consistent delivery. Expanded call center to include technical competencies to support field staff Extended sms based services to include updates to customers on the progress of claims settlement Revamped the 'customer feedback system' to enable better monitoring, managing and to provide faster resolution time to customer concerns 107 staff members certified in 'Certificate In Life Insurance Practice' (CILIP)
Improve / enhance learning and development	<ul style="list-style-type: none"> Training hours by staff category GWP achieved vs. plan 	<ul style="list-style-type: none"> Measures training inputs received Ultimate measure of success for investment in training and development 	<ul style="list-style-type: none"> 253,347 hours of class room and 45,049 hours of e-based and distance learning time invested in field staff Certified 727 life insurance advisors and team leaders Launched leadership academy to build leadership competency among sales management staff Launched the 'Brilliant Starter' program to fast track high achieving new entrants 'Brilliant Starter Coach' scheme was launched to encourage and align development of leaders Conducted modular training programmes covering advanced aspects of underwriting and claims management for senior underwriting staff
Develop alternative distribution channels	GWP generated from alternative channels	Measures GWP generated from specific initiatives	<ul style="list-style-type: none"> Increased sales from existing bancassurance relationships Entered into partnership with an established local bank to sell traditional products to their customers

Strategic objectives	Key performance indicator	Relevance	2012 Update
New product development	GWP generated from new products	Ultimate measure of success of a new product Update	<ul style="list-style-type: none"> Re-launched the Union Challenger product range; <ul style="list-style-type: none"> Introduced additional rider covers to the 'builder' Higher allocation rates were introduced to the 'booster' Improved the life cover of the 'provider' Revamped Mortgage Protection Policies (DTA) with competitive rates
Strengthen underwriting and claims management processes	Life surplus and embedded value	Measures current and future profitability of the business	<ul style="list-style-type: none"> Introduced a regular follow up mechanism for all pending claims Conducted experience investigations for hospital cash and critical illness products Conducted lapse and mortality investigations Reviewed and updated underwriting procedures

Financial, marketing and underwriting performance reviews are also conducted at monthly management meetings. The discussion points arising from such meetings are cascaded to all staff members. In addition, the Board benchmarks the company's performance on the following metrics with published industry information.

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

Strategic Risk Management

Risk management is an integral part of the planning process. Prior to preparation and subsequently, the planning team reviews the associated risks and formulates appropriate mitigation action plans to face any eventually. As per the risk management process, heads of department conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions and list out

mitigating action plans, responsibilities and target dates.

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

regarding high level risks and mitigating action plans. An overview of the risk management process is provided in the Risk Management section of this report.

STATEMENT OF SOLVENCY AND APPROVED ASSETS

Solvency

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

For the year ended 31 st December	2012 Rs. Mn	2011 Rs. Mn
Value of admissible assets maintained in life and non life	22,154	18,879
Total liabilities including technical reserves (non life) and life fund	18,698	16,454
Net admissible assets	3,456	2,425
Required solvency margin (life and non life)	1,421	1,249
Excess over required solvency margin	2,035	1,176

Approved Assets

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

For the year ended 31 st December	2012 Rs. Mn	2011 Rs. Mn
Non life Insurance Business		
Approved assets maintained in non life	4,422	3,744
Technical reserves	2,873	2,553
Excess in approved assets	1,549	1,191
Life Insurance Business		
Approved assets maintained in life	16,284	13,971
Life insurance fund liability under solvency valuation basis	13,573	11,609
Excess in approved assets	2,711	2,362

BOARD INVESTMENT COMMITTEE REPORT

Composition of the Board Investment Committee

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

- Krishan Balendra (Chairman)
- Ashan De Zoysa (Non-Executive Director)
- Dirk Pereira (Chief Executive Officer)
- Sherin Cader (General Manager Finance and Planning)
- Pushpakumar Gunasekera (General Manager Actuarial)
- Kumudu Jayawardana (Head of Investments)

Meetings

The Committee met 12 times during the year and independent professionals in the fields of economics, risk and investment management attended the meetings to provide technical input and facilitate decision making when relevant.

Terms of Reference

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

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

The minutes of the BIC 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 BIC's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that management of the non life and life funds is performed to the highest quality possible and in accordance with all internal and external regulations. During the year BIC reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements.

Summary of Activities

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

against agreed benchmarks. The Committee was also updated each month on fund growth, maturity profiles and asset liability management of the respective funds.

- The Committee has set separate exposure limits for banks and corporate entities, which are reviewed monthly. These limits are updated on a regular basis in line with respective fund sizes and information pertaining to the financial stability of such entities.
- The Committee reviewed compliance with internal and external investment regulations at each meeting, including IBSL regulations related to solvency and approved assets.
- The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.
- The Committee reviewed requirements of the SLFRS / LKASs in relation to investments and assessed the impact on UA's investment portfolio and Investment Policy Statements (IPS) were updated accordingly to reflect changes to investment strategies to comply with new accounting standards.

Conclusion

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



Krishan Balendra

Chairman - Board Investment Committee

26th February 2013

REMUNERATION COMMITTEE REPORT

Composition and Charter of the Remuneration Committee

The Remuneration Committee comprises the following Non-Executive Directors.

- A. D. Gunewardene (Chairman)
- G. F. C. De Saram (Independent Non Executive Director)
- H. A. J. De Silva Wijeyeratne (Independent Non Executive Director)

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

The responsibilities of the Remuneration Committee include:

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

Remuneration Committee Meetings

- The Remuneration Committee held two meetings during the year under review
- Other Executive Committee members may be invited as and when required

Remuneration Policy Principles

The key principles which constitute the remuneration policies are that:

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

Remuneration Package

Employees

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

Base Salary

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

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

Variable Pay

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

Annual Bonus

The company has implemented a variable bonus scheme for staff at all levels. As per the scheme, the annual bonus is subject to individual performance and achievement of company objectives. If the company's performance exceeds the targets set for the year, employees are entitled to a higher bonus.

Conversely, if the company performs poorly, employees may not receive a bonus. Bonus payments depend on individual performance as well.

Employee Benefits

Benefits provided to employees include travelling allowances, vehicle loans and medical insurance.

Retirement Benefits

Gratuity, Employees Provident Fund (EPF) and Employees 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 on page 269. This includes fees for all the committees of the company that they serve on. The Directors' business interests with the company are disclosed on pages 306 to 307.

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 260.

Personal Loans for Directors

None of the Directors have taken loans from the company.

Professional Advice

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



Ajit D. Gunewardene
Chairman - Remuneration Committee

26th February 2013

RISK MANAGEMENT

Overview

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

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

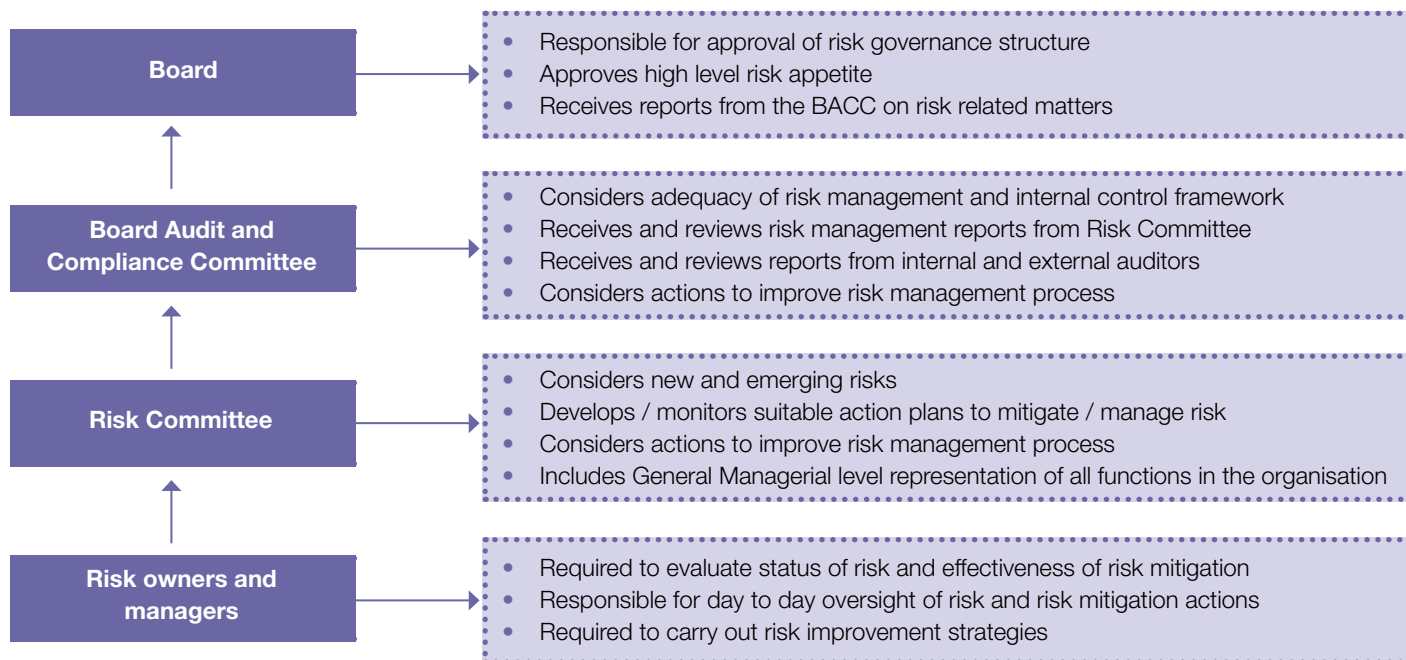
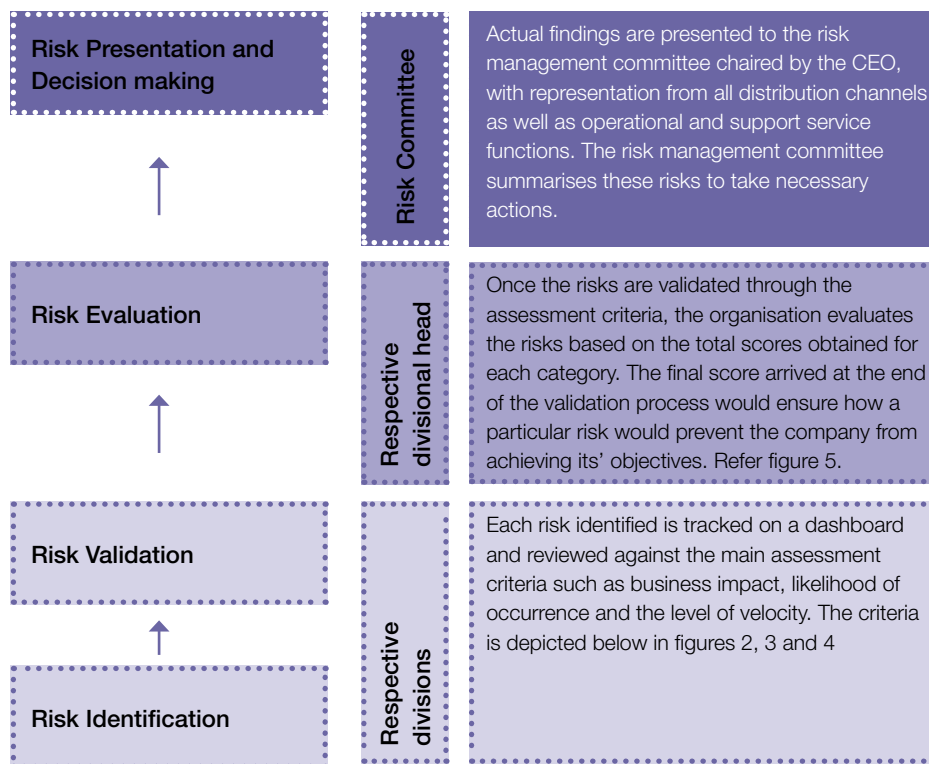


Figure 1 Risk Management Process

Risk Management Process

The company follows a bottom up process, with the Risk Committee reviewing divisional risk grids and summarising key risks for BACC review. The company has also ensured that the risk management process is aligned with the group’s risk management policy.

It is not possible to entirely eliminate all risks and that some risks must be retained within the balance sheet in order to generate a return in excess of the risk free rate. The risk retention threshold has been clearly communicated by the Board of Directors. The risk management process enables the team to understand the risk profile of the company and synchronise the risk profile with the risk appetite of the Board. UA’s risk management process is documented in Figure 1.



Risk Management Contd.

Senior management teams in each division identify risks in their respective areas. The risk identification process occurs at the divisional level.

Figure 2 Impact

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






Figure 3 Likelihood

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

Figure 4 Velocity Level

Probability	Effect
High	Impact of the risk item is felt immediately by the company
Low	Impact of the risk item is felt after some period of time

Figure 5 Priority

Priority	Short form	Score	Colour
Ultra high risk	U	15-25	
High risk	H	10-14	
Moderate risk	M	8-9	
Low risk	L	3-7	
Insignificant risk	I	1-2	

The respective senior management of each division met each quarter to review and update the risks pertaining to their divisions. There were in total 62 risk items in the divisional risk grid identified by the year end. These have been forwarded to the risk management committee. The risk management committee summarised these risks into 15 main risk items that needed continuous top management attention. The Board is also updated on a timely and on a regular basis. A summary of the company's risk grid is shown in Figure 6 and the summary of the divisional risk grids are shown in Figure 7.

Figure 6 Summary of the Company Risk Grid



















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

Figure 7 Summary of Divisional Risk Grids

Impact / severity ranking	5	Catastrophic / extreme risk	1				
	4	Major / very high impact	1	5	4	1	
	3	Moderate / high impact	2	16	17	1	5
	2	Minor impact		1	1	3	
	1	Low / insignificant impact			4		
			Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur
			1	2	3	4	5
			Occurrence / likelihood ranking				

Risk Management Contd.

All risks that have been identified are classified into nine broad headings. The following table provides a brief summary of these “headline risks,” the overall risk rating and action plan initiated by UA to mitigate such risks.

Headline Risk	Description	Risk Priority		Action Plans
		2012	2011	
Catastrophe risk	Risk associated with a large scale event e.g. tsunami			<ul style="list-style-type: none"> • Ensure adequate reinsurance arrangements to cover such eventuality • Periodically test and update the business continuity plan • Monitor accumulation
HR risk (Attrition)	Shortage of qualified personnel and loss of staff			<ul style="list-style-type: none"> • HR policies are geared to encourage continuous education for all levels of staff • Provide adequate monetary and non monetary incentives • Implement a succession plan for senior level staff • Identify opportunities for job rotation • Ensure adequate leadership pipeline via structured talent management initiatives
Competitor	Intense price competition, threat of new entrants etc.			<ul style="list-style-type: none"> • Improve marketing strategies • Continuously enhance service standards • Reduce dependence on single channel / line of business • Implement cost effective distribution models • Strengthen CRM activities • Leverage strong reinsurance arrangements • Focus on profitable segments of the market • Ensure renewal retention
Internal process risk	Failure in internal business processes (underwriting / distribution / IT / Learning & Development etc.)			<ul style="list-style-type: none"> • Ensure adequate systems support / regular testing of BCP • Implement adequate financial / underwriting controls • Update skills and knowledge based on current events • Develop career paths for high potential staff • Invest to develop alternative channels • Leverage broker / leasing / finance company relationships • Constantly review incentive, motivation and remuneration strategies
Political	Changes to insurance regulations, tax laws etc			<ul style="list-style-type: none"> • Lobby via appropriate channels • Work with industry participants
Interest rate risk	Change in value of investments due to change in interest rates			<ul style="list-style-type: none"> • The company uses prudent assumptions regarding probable interest rates • The Board Investment Committee keep a regular track of macro-economic scenarios and their likely impact on interest rates
Reinsurance risk	Refer section on insurance specific risks (page 132)			Refer section on insurance specific risks
Socio political risk	Refer section on insurance specific risks (page 134)			Refer section on insurance specific risks
Underwriting risk	Refer section on insurance specific risks (page 130)			Refer section on insurance specific risks

Risk Management Review by the Audit and Compliance Committee

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

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

Future Outlook

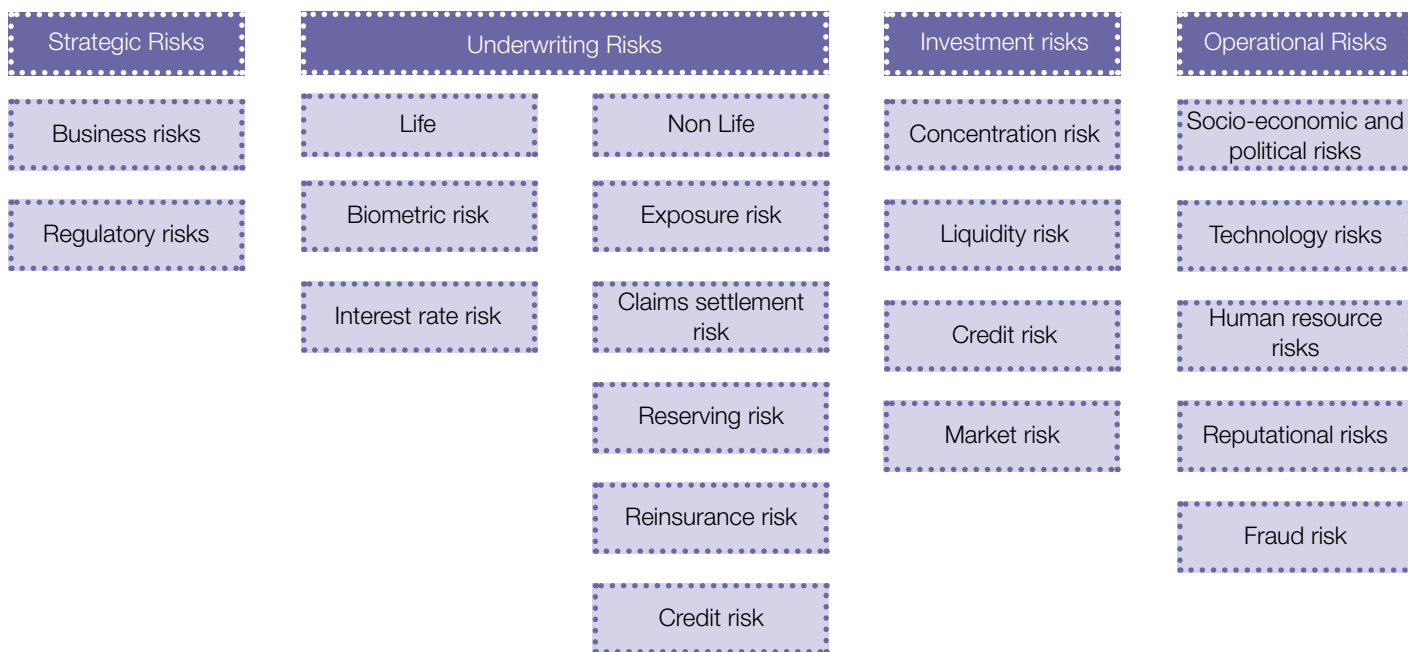
The proposed regulatory changes introducing risk based capital (RBC) and requiring composite companies to separate their life and general businesses will be the key regulatory challenge over the next few years. We believe that a risk based capital approach will lead to the betterment of the industry and discourage irrational price based competition.

A prolonged soft market cycle in the general insurance industry has continued to be the biggest risk faced by the company. Prudent risk management practices, implementing walk away pricing and conscious focus on service enhancements are the key strategies we adopt in mitigating this risk.

Overview of Generic and Insurance Specific Risk

An insurance company is in the business of reducing and eliminating risks and uncertainties faced by its customers. Effectively managing risks affecting Union Assurance is therefore essential to our ability to help our customers manage theirs. Risk management is an integral component of UA's enterprise governance system, and the risk management framework is designed to identify, assess, measure and manage exposure to risk. However as tragically demonstrated by the recent man made and natural catastrophes, there cannot, and never will be, absolute security when it comes to identifying risks, measuring them sufficiently or correctly estimating the potential impact.

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



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

Risk Management Contd.

Risk Category / Risk Description	Controls in Place to Mitigate Risks
Strategic Risks	
<p>Business Risk Business risk is the probability of loss inherent in an organisation's operations and environment that may impair its ability to achieve business objectives</p> <p>Business risk may arise if the company's strategy is not compatible with market or customer requirements, or with socio-economic / political parameters</p>	<ul style="list-style-type: none"> • The risk management process is embedded within the corporate planning process. Once the corporate plan is formulated, the risk management team reviews the risks associated with strategies outlined and develops suitable action plans • As reflected in figure 1 on page 125, there is a constant scan of the internal and external environment e.g. to identify factors which may impede the achievement of organisational objectives • The company's strategic plans are updated on an annual basis and formally approved by the Board • The Board reviews the strategic plans on an ongoing basis
<p>Regulatory Risk If the company is not able to comply with regulatory requirements and related laws which may change from time to time, or is not compliant with existing regulations</p>	<ul style="list-style-type: none"> • Company representatives are actively involved in reviewing regulatory changes and assessing the business impact of such proposals • The company also keeps abreast of the regulatory environment in regional markets and leverages the knowledge of our non life and life insurance consultant actuaries as well • A comprehensive compliance checklist is developed (Refer page 94), which is signed off by the relevant management on a monthly basis. A summary of the checklist is presented at every Board meeting
Underwriting Risks	
<p>Risk of Change Changing risk parameters and unforeseen factors may result in unexpectedly large claims</p>	<ul style="list-style-type: none"> • The company makes significant investments to improve the knowledge and skills of underwriting staff. The company had continued with its certification course for both life and general technical staff and case study based training programme for general sales staff during the current year as well. • The company maintains statistical databases and regularly reviews premium versus sums assured by location to identify the accumulation impact . • Underwriting is also on a selective basis, with certain insurance covers being restricted to certain regions / locations due to risks associated with that particular geographical area • The company reviews the adequacy of reinsurance support for catastrophe / extreme events on a regular basis
<p>Biometric Risk Biometric risk refers to the mortality and disablement assumptions used to price life insurance policies as well as reserve for liabilities. The checking of mortality and the appropriateness of trend assumptions may result in a need for additional reserving i.e. if actual life expectancy has not been sufficiently taken into account</p>	<ul style="list-style-type: none"> • Apart from in-house actuaries, the company has contracted the services of an actuarial firm with extensive experience internationally and particularly in the region, to review biometric calculation tables and make suitable adjustments • The Prophet actuarial system has enabled the company to monitor trends and review pricing in a proactive manner
<p>Interest Rate Risk Interest rate risk refers to a scenario where a reduction in the value of a product could arise due to a rise in rates.</p>	<ul style="list-style-type: none"> • The company uses prudent assumptions regarding probable interest rates when computing future liabilities • The Board Investment Committee members keep a regular track of macro economic scenarios and their likely impact on interest rates • Life insurance products are profit tested by qualified actuaries to confirm that the company will be able to meet its obligations • Union Life "Advantage," UA's flagship life product provides a guarantee limited to a one year period • "Union Challenger" is on a unit linked platform, which enables customers to choose their investment options in a transparent manner

Risk Category / Risk Description	Controls in Place to Mitigate Risks
<i>Underwriting Risks Contd.</i>	
<p>Exposure Risk Exposure risk may arise when an underwriter accepts a risk for a price which is insufficient to meet the cost of claims</p>	<ul style="list-style-type: none"> • The company reviews the profitability, pricing and terms and conditions it offers to customers on a regular basis. • Risk surveys are conducted in the case of large risks to ensure that such risks are accurately rated and respective recommendations are made on risk prevention strategies • Underwriting staff are expected to scrutinise all relevant information including proposal forms, broker information (if any) and risk assessment reports before granting cover • In addition to training and development opportunities provided to the underwriting staff, procedure manuals are available and updated as required. The company ensures adequate segregation of duties and underwriters work within formally documented limits of authority • If reinsurance support is required, cover is confirmed to customers only once confirmation from the reinsurer is received • A geo-coding process is initiated to monitor accumulation exposures • The company had also invested in IT systems to monitor / manage pricing of motor and surgical lines of business
<p>Claims Settlement Risk Claims settlement risk refers to the risk of potential disputes which may arise when settling the claims.</p>	<ul style="list-style-type: none"> • Customers are advised of any deductible, adequacy of sum insured, whether the required covers have been obtained and any risk prevention / minimization strategies and claims manuals are available and updated regularly. • At the point of settling a claim, employees are expected to cross check the information gathered from various sources and verify policy conditions, sum insured and underwriting details. • There is adequate segregation of duties in the claims payment function and payments are recommended and approved based on authority limits • The company also avails itself of third party specialists to validate claims if required
<p>Reserving Risk Reserving risk refers to the risk of not providing adequate reserves for intimated claims as well as incurred but not reported (IBNR) claims</p>	<ul style="list-style-type: none"> • Claims handlers are expected to create the necessary reserves as soon as information is received based on a Board approved claims reserving policy • Reserves are updated on a timely basis for all information received as at period end • Claims reserves are reviewed and signed off on a quarterly basis to further emphasise the need to maintain accurate reserves • The company has also implemented an internationally accepted actuarial basis for valuing the IBNR claims provision • Reserving risk is also applicable to the life business. Hence the life fund is subject to a bi-annual actuarial review. The mid year review is conducted by the in-house actuary and the year end review is conducted by an independent actuary

Management Reports

Management Discussion & Analysis

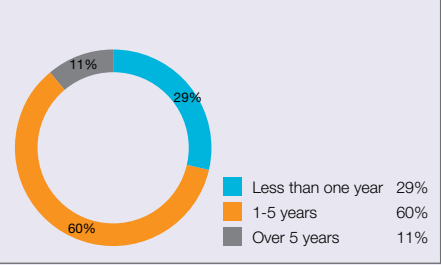
Corporate Governance

Sustainability Report

Financial Information

Risk Management Contd.

Risk Category / Risk Description	Controls in Place to Mitigate Risks																																				
<i>Underwriting Risks contd.</i>																																					
<p>Reinsurance Risk Inadequate transfer of underwritten risks to and inability of reinsurers to meet their commitments due to insufficient financial strength</p>	<ul style="list-style-type: none"> As at 31st December 2012, 91% (31st December 2011 - 79%) of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund The company had reviewed past trends and has conducted "what if" scenario testing before finalising the reinsurance arrangements for the year. The reinsurance panel is formally approved by the Board on an annual basis A provisioning policy was implemented for outstanding reinsurance receivables Reinsurer ratings are reviewed on a regular basis and appropriate action is taken if ratings decline <div style="display: flex; justify-content: space-around;"> <div data-bbox="597 709 1036 978"> <table border="1"> <thead> <tr> <th>Rating</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>AA</td><td>1%</td></tr> <tr><td>AA -</td><td>21%</td></tr> <tr><td>A +</td><td>27%</td></tr> <tr><td>A</td><td>1%</td></tr> <tr><td>A -</td><td>24%</td></tr> <tr><td>BBB +</td><td>0%</td></tr> <tr><td>NITF</td><td>17%</td></tr> <tr><td>Unrated</td><td>9%</td></tr> </tbody> </table> </div> <div data-bbox="1057 709 1500 978"> <table border="1"> <thead> <tr> <th>Rating</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>AA</td><td>1%</td></tr> <tr><td>AA -</td><td>14%</td></tr> <tr><td>A +</td><td>12%</td></tr> <tr><td>A</td><td>6%</td></tr> <tr><td>A -</td><td>20%</td></tr> <tr><td>BBB +</td><td>1%</td></tr> <tr><td>NITF</td><td>26%</td></tr> <tr><td>Unrated</td><td>20%</td></tr> </tbody> </table> </div> </div> <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div data-bbox="597 989 906 1041"> <p>Reinsurance Receivable Based on Rating 2012</p> </div> <div data-bbox="1057 989 1365 1041"> <p>Reinsurance Receivable Based on Rating 2011</p> </div> </div>	Rating	Percentage	AA	1%	AA -	21%	A +	27%	A	1%	A -	24%	BBB +	0%	NITF	17%	Unrated	9%	Rating	Percentage	AA	1%	AA -	14%	A +	12%	A	6%	A -	20%	BBB +	1%	NITF	26%	Unrated	20%
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<p>Credit Risk The risk of financial loss arising due to the unwillingness or inability of counter parties to meet their financial or contractual obligations in time and in full.</p>	<ul style="list-style-type: none"> The credit risk of the non life business has greatly reduced due to implementation of the premium warranty clause which states that a claim is not payable if the premium is not settled within 60 days The following steps have also been taken to further reduced credit risk; <ul style="list-style-type: none"> Customers are informed on a regular basis regarding the premium warranty clause Outstanding credit is followed up on a daily basis. Policies which were not settled within a reasonable period were routinely cancelled Outstanding debts are checked and confirmed before settling claims A temporary certificate for 60 days was introduced for motor policies with cover for the full period being granted only upon receipt of the payment A provisioning policy is still in practice for long outstanding premium receivables 																																				
Investment Risks																																					
<p>Concentration Risk Concentration risk may arise when the investment portfolio is not sufficiently diversified</p>	<ul style="list-style-type: none"> The Board Investment Committee (BIC) sets an overall asset allocation target at the start of the year. The decision is based on a number of factors including an analysis of the macro economic environment, regulatory requirements, liquidity position and return expectations during the plan period The BIC has set sectoral asset allocation limits for equity investments as well as related party exposure limits The asset allocation of consolidated investments and the sectorial allocation of equity investments as at 31st December 2012 are given below 																																				

Risk Category / Risk Description	Controls in Place to Mitigate Risks																																								
<p>Investment Risks Contd.</p> <p>Concentration Risk Contd.</p>	 <table border="1"> <caption>Sectorial Allocation of Equity Investment</caption> <tr><td>Banks Finance and Insurance</td><td>26%</td></tr> <tr><td>Beverage Food and Tobacco</td><td>9%</td></tr> <tr><td>Diversified Holdings</td><td>18%</td></tr> <tr><td>Manufacturing</td><td>29%</td></tr> <tr><td>Construction and Engineering</td><td>9%</td></tr> <tr><td>Telecommunications</td><td>4%</td></tr> <tr><td>Motors</td><td>5%</td></tr> </table>  <table border="1"> <caption>Asset Allocation of Investments</caption> <tr><td>Government securities</td><td>85%</td></tr> <tr><td>Corporate securities</td><td>13%</td></tr> <tr><td>Bank deposits</td><td>1%</td></tr> <tr><td>Equities</td><td>1%</td></tr> </table> <p>Sectorial Allocation of Equity Investment Asset Allocation of Investments</p>	Banks Finance and Insurance	26%	Beverage Food and Tobacco	9%	Diversified Holdings	18%	Manufacturing	29%	Construction and Engineering	9%	Telecommunications	4%	Motors	5%	Government securities	85%	Corporate securities	13%	Bank deposits	1%	Equities	1%																		
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<p>Liquidity Risks</p> <p>liquidity risk arise when a given security cannot be traded quickly enough in the market to prevent a loss or to make adequate profit</p>	<p>The BIC manages this risk by diversifying investment durations and reviewing cash flow projections. The maturity analysis of UA investment portfolio is given below</p>  <table border="1"> <caption>Maturity Analysis - Non Life 2012</caption> <tr><td>Less than one year</td><td>29%</td></tr> <tr><td>1-5 years</td><td>60%</td></tr> <tr><td>Over 5 years</td><td>11%</td></tr> </table>  <table border="1"> <caption>Maturity Analysis - Life 2012</caption> <tr><td>Less than one year</td><td>31%</td></tr> <tr><td>1-5 years</td><td>44%</td></tr> <tr><td>Over 5 years</td><td>25%</td></tr> </table> <p>Maturity Analysis - Non Life 2012 Maturity Analysis - Life 2012</p>	Less than one year	29%	1-5 years	60%	Over 5 years	11%	Less than one year	31%	1-5 years	44%	Over 5 years	25%																												
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1-5 years	44%																																								
Over 5 years	25%																																								
<p>Credit Risk</p> <p>The risk that investment institutions will be unable to pay the contractual interest or principal on their debt obligations due to declining financial strength</p>	<ul style="list-style-type: none"> The creditworthiness of a potential investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue In the event the investments are guaranteed by a banking institution, the rating of the bank is considered The Board Investment Committee (BIC) works strictly within stipulated exposure limits. The exposure limits are set (inter alia) based on institutional rating (if available) and size of the investment portfolio As at 31st December 2012, 87% of our corporate debt investments had a rating of "A" or better or were guaranteed by banking institutions with ratings of "A" or better  <table border="1"> <caption>Corporate Debt Securities 2012</caption> <tr><th>Rating</th><th>%</th></tr> <tr><td>AAA</td><td>4%</td></tr> <tr><td>AA</td><td>13%</td></tr> <tr><td>AA+</td><td>23%</td></tr> <tr><td>AA-</td><td>29%</td></tr> <tr><td>A+</td><td>0%</td></tr> <tr><td>A</td><td>18%</td></tr> <tr><td>A-</td><td>0%</td></tr> <tr><td>BBB+</td><td>0%</td></tr> <tr><td>Not rated</td><td>13%</td></tr> </table>  <table border="1"> <caption>Corporate Debt Securities 2011</caption> <tr><th>Rating</th><th>%</th></tr> <tr><td>AAA</td><td>12%</td></tr> <tr><td>AA</td><td>14%</td></tr> <tr><td>AA+</td><td>0%</td></tr> <tr><td>AA-</td><td>25%</td></tr> <tr><td>A+</td><td>6%</td></tr> <tr><td>A</td><td>24%</td></tr> <tr><td>A-</td><td>0%</td></tr> <tr><td>BBB+</td><td>2%</td></tr> <tr><td>Not rated</td><td>17%</td></tr> </table> <p>Corporate Debt Securities 2012 Corporate Debt Securities 2011</p>	Rating	%	AAA	4%	AA	13%	AA+	23%	AA-	29%	A+	0%	A	18%	A-	0%	BBB+	0%	Not rated	13%	Rating	%	AAA	12%	AA	14%	AA+	0%	AA-	25%	A+	6%	A	24%	A-	0%	BBB+	2%	Not rated	17%
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Risk Management Contd.

Risk Category / Risk Description	Controls in Place to Mitigate Risks
Investment Risks Contd.	
<p>Market Risk Loss of value of investments due to adverse movements in assets prices</p>	<ul style="list-style-type: none"> Investment decisions are based on fundamentals rather than on speculative bets Decisions are based on in depth macroeconomic and industry analysis as well as company research A model to review the market prices of certain asset classes has been developed and is referred to the BIC on a monthly basis
Operational Risk	
<p>Socio-economic and Political Risk The socio economic and political environment has an impact on the insurance business as well as the investment climate. An economic downturn could lead to a slowdown in insurance business and payment default among debtors. Social and political changes could also result in a deterioration in law and order, the legal system etc</p>	<ul style="list-style-type: none"> Strengthen underwriting and claims management processes to monitor issues arising from under insurance, fictitious claims etc. Review pricing in light of inflation Compete on service by continuously upgrading service standards Monitor cancelation of life policies Develop alternative distribution channels
<p>Technology Risk Relates to computer security, hardware, software and other related systems failing and causing disruption to day to day business activities</p>	<ul style="list-style-type: none"> The company had invested in the security infrastructure appropriate for its scale of operations Security arrangements cover both physical infrastructure and information and are constantly updated to take account of the latest knowledge and technical enhancements Security regulations cover technical aspects as well as organizational measures including tracking, staff training, end user computer policies etc. The disaster recovery plan has been tested in the live environment within the stipulated time and confirmed to be satisfactory The disaster recovery machine mirrors day to day transactions on a real time basis IT conducts regular audits covering the systems, network, web related services and all other infrastructure. This includes vulnerability assessments as well
<p>Human Resource Risk Human resource risks are the shortage of qualified personnel and an unpleasant work environment created in the work place.</p>	<ul style="list-style-type: none"> HR policies are geared to encourage continuous education for all levels of staff Managers are required to identify / provide relevant training and development opportunities and foster a culture where all employees, regardless of rank, can actively contribute to the business Provide adequate monetary and non monetary incentives Implement a succession plan for senior level staff Identify opportunities for job rotation Review remuneration vis-à-vis industry norms Implement talent management initiatives
<p>Reputational Risk Reputational risk could be defined as the risk of a particular event affecting the company and negatively impacting stakeholders' perceptions, thus impairing the company's ability to operate effectively</p>	<ul style="list-style-type: none"> UA has implemented a robust system of internal controls which are regularly reviewed by internal and external auditors. Any shortcomings are reported and followed up by the Board Audit and Compliance Committee. For example, fraud identification is now a part of both internal and external audit programmes In addition, the company has defined the key objectives, associated risks and mitigating actions for each business process, e.g. underwriting, claims, finance, HR etc. This document is reviewed by internal auditors and any shortcomings are notified Company representatives work closely with regulators, industry players, accounting standards committees, etc. to ensure that all regulatory issues are fully understood and complied with The company has also implemented a Board approved media policy

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

Detailed disclosures on risks arising from insurance contracts and financial instruments are provided in note 5 on pages 246 to 260.

A COLLECTIVE CO-EXISTANCE

Rapid changes in the socio-economic environment in 2012 created many opportunities as well as challenges and highlighted the need to constantly balance the diverse interests of all stakeholder groups in order to build a sustainable business.

About this Report...

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

UA's Sustainability Report for financial year 2012 is our seventh step in sustainability reporting. It summarises the actions we have taken during 2012 to ensure we engage all our stakeholders. It also indicates the progress we have made with regard to the sustainability goals we published in 2011. We also have disclosed our sustainability objectives for 2013.

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SUSTAINABILITY REPORT

CHIEF EXECUTIVE OFFICER'S STATEMENT

Rapid changes in the socio-economic environment in 2012 created many opportunities as well as challenges and highlighted the need to constantly balance the diverse interests of all stakeholder groups in order to build a sustainable business.

Our Approach to Sustainability

Our sustainability approach is integrated with our mission and our values. The management of our sustainability programme is based on four key elements in line with our core values. These are: Our Customers, Our People (both employees and field staff), Our Community and Our Environment. Within each of these areas, we have identified key priorities which reflect our values and support our objective of building a sustainable organisation. This approach provides a consistent framework within which to manage our diverse social, environmental and economic priorities.

Creating Value for Customers

Non Life Insurance

In line with UA's brand pillars of transparency and convenience, the Union Family Health Net (UFHN) product was re-launched with a simplified proposal form. UFHN offers a comprehensive cover against hospitalisation, OPD and critical illnesses for persons between the ages of 1 to 65 years on an individual basis or as a family unit.

A web based travel insurance policy was launched for customers to purchase travel policies at their own convenience by simply logging into our web site at www.unionassurance.com

Union Asset Protector and Union Shop Protector were re-launched with simplified underwriting processes and enhanced product features in line with customer requirements.

During the year UA continued to invest on IT infrastructure including Android platforms, GPS technology and digital image transferring solutions to provide superior service to our customers. We also shortened the motor claims settlement period by enabling "on the spot" claims settlements at any garage using sms technology.

Life Insurance

The investment linked product range (Union Challenger) was re-launched with additional features catering to the varied needs of customers. The communication and sales processes were also simplified by introducing needs based brochures and digital adviser toolkit for the sales force to better explain the product features, benefits, etc. In addition the product structure was changed to enhance the benefits provided under the policy.

A customer service unit (CSU) was inaugurated at the head office premises to serve walk-in customers. Life call centre infrastructure and resources were further enhanced to improve the quality of inbound and outbound call processes.

Our People

Engaging our Employees

UA offers a variety of training and development opportunities to help employees realise their full potential.

"Assured to be Leaders" and "Union Transformers" were the novel talent management programmes launched during the year to develop leadership and managerial skills of our staff.

The company continued to conduct the "Top Gun," "Union Warriors" and "Union Braves" talent management programmes targeting high potential employees across all levels of the organisation.

We also invested in internal certification programmes to enhance the technical knowledge of our staff. In addition to the

programmes implemented last year, the "Advanced Certificate in General Insurance Underwriting Practice" certification course was launched in 2012.

Our Field Staff

We consider our field staff as an integral part of the Union family since they act as the link between our customers and the company in delivering the promise of trust.

We have provided more than 412,500 training hours to our field staff to enhance their productivity and professionalism. In addition to the on-going initiatives, the "Brilliant Starter" programme was launched during the year to enable new recruits to become successful advisors within a short period of time. The "Brilliant Starter Coach" programme was also inaugurated to motivate and recognise persons responsible for nurturing "Brilliant Starters."

UA continued to equip field staff members with cutting-edge technology e.g. the Digital Advisor Toolkit (DAT) replaced paper based sales processes and documents with e-based formats which are accessible via laptop or tablet PCs. During the year, UA produced 21 Million Dollar Round Table (MDRT) qualifiers demonstrating the company's commitment to developing outstanding sales professionals.

Community Initiatives

We revamped our activities to enhance safety and health awareness within the communities we serve, which has a direct link to the company's business objectives as well. We work closely with the Ministry of Health and the Sri Lanka Police in order to ensure the effectiveness of our initiatives.

During the year, we concluded many awareness sessions on various national level issues such as road safety and eradication of dengue. We also leveraged our resources for various community activities to uplift the wellbeing of the communities with which we interact.

Sustainability Report

Chief Executive Officer's Statement Contd.

Managing our Environmental Impact

We continued our efforts to reduce carbon emissions through many initiatives. During the year, electricity consumption of our head office building was reduced by 60,550 kwh. A comprehensive energy audit was carried out within our branch network to improve energy consumption patterns. Our efforts to reuse and recycle used paper, contributed to saving a considerable amount of trees and reducing the size of our carbon footprint.

Achievements

Our sustainability practices were recognised by the Association of Certified Chartered Accountants (ACCA) UK as we were placed 2nd in the medium scale category.

Our Sustainability Report

We have compiled our 2012 report based on the internationally recognized Global Reporting Initiative (GRI) G3 framework for sustainability reporting. Messrs. KPMG, an independent assurance provider, has reviewed this report and has provided with an Assurance report which is given on page 186.

Your Feedback

We would like to receive your comments and suggestions in relation to our sustainability programmes. If you wish to communicate on this regard with us, please fill-in the details required in the investor feedback form given on page 193 and return to the address given.

Way Forward

Over the past years we have launched many initiatives and achieved success on many fronts. However, as the local and global socio-economic and political landscape continues to evolve at a rapid pace, we are determined not to be complacent, but always look to the future to align all stakeholder groups with the strategic direction of the company. In this context, I wish to thank the sustainability committee and the UA staff for their continued commitment, and look forward to their active engagement in the year ahead.



Dirk Pereira

Chief Executive Officer

26th February 2013

SUSTAINABILITY REPORT

SUSTAINABILITY PERFORMANCE HIGHLIGHTS

GRI - Indicator		2012	2011	Progress
Economic Performance				
EC1	Economic value added (Rs. Mn)	6,216	5,274	■
EC3	Employee benefit liability as of 31 st December (Rs. Mn)	164	154	■
EC8	Investment in community services and infrastructure projects (Rs. Mn)	7	14	■
Environmental Impact				
EN3	Direct energy consumption (GJ) *	2,426	2,454	■
	Direct energy consumption (GJ) per Rs. million of revenue	0.25	0.28	■
EN4	Indirect energy consumption (GJ)*	7,440	7,490	■
	Indirect energy consumption (GJ) per Rs. million of revenue	0.76	0.86	■
EN8	Water withdrawal (m3)*	22,179	19,868	■
EN11	Sites near/in high bio-diversity areas	Nil	Nil	■
EN16	Carbon footprint (tCO2e)	4,555	Not tracked	■
	Carbon footprint (tCO2e) per Rs. million of revenue	0.47	Not tracked	■
	Carbon footprint (tCO2e) per employee	4.2	Not tracked	■
EN21	Water discharge (m3)*	22,179	19,868	■
EN28	Environmental fines	Nil	Nil	■
Our People, Health and Safety				
LA1	Total workforce	1,088	1,009	■
	Number of field staff	4,662	4,442	■
LA2	Attrition of new hires (as a percentage of new hires)	11%	Not tracked	■
LA6	Percentage of workforce represented in management-worker health and safety committees	1%	1%	■
LA7	Number of injuries	Nil	Nil	■
LA8	No. of people educated on serious diseases	400	Not tracked	■
LA10	Average hours of training per employee	31	31	■
	Average hours of training per field staff member	79.4	71.5	■
LA12	No. of employees receiving performance reviews	100%	100%	■
Ethical Business				
HR6	Incidences of child labour	Nil	Nil	■
HR7	Incidents of forced labour during the year	Nil	Nil	■
Social Responsibility				
SO1	Community engagement (no. of persons impacted)	444,445	Not tracked	■
SO8	Significant fines for violation of laws / regulations	Nil	Nil	■
Product Responsibility				
PR9	Voluntary standards relating to advertising	Internal code of conduct		■
PR9	Significant fines for product / service issues	Nil	Nil	■

* Data for 1st quarter of 2011 has been estimated based on experience of subsequent quarters. Data tracking commenced from the 2nd quarter of 2011.

■ Positive

■ Negative

■ No comparison possible

SUSTAINABILITY REPORT

WHAT SUSTAINABILITY MEANS TO OUR STAKEHOLDERS

Overview

Year 2012 has been a year of opportunities and challenges. During the year we have made significant progress in all aspects of our journey towards sustainability. Our sustainability performance is reported with a view to providing information to all our stakeholders to demonstrate how best the company has managed conflicting stakeholders' demands in the context of a rapidly changing business environment.

We focus and strive to protect that what is important to our customers in our journey towards sustainability. As we expand our business we understand that it is vital to maintain a positive social impact. Hence, we will continue to embed sustainability into every aspect of our business and stay focused on the issues that are material to our long term success.



Our Approach

To address apparent conflicts between the interest of various stakeholder groups, the company has developed several charters and as described in subsequent sections in this report, these charters have been updated to address changing environmental demands.

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

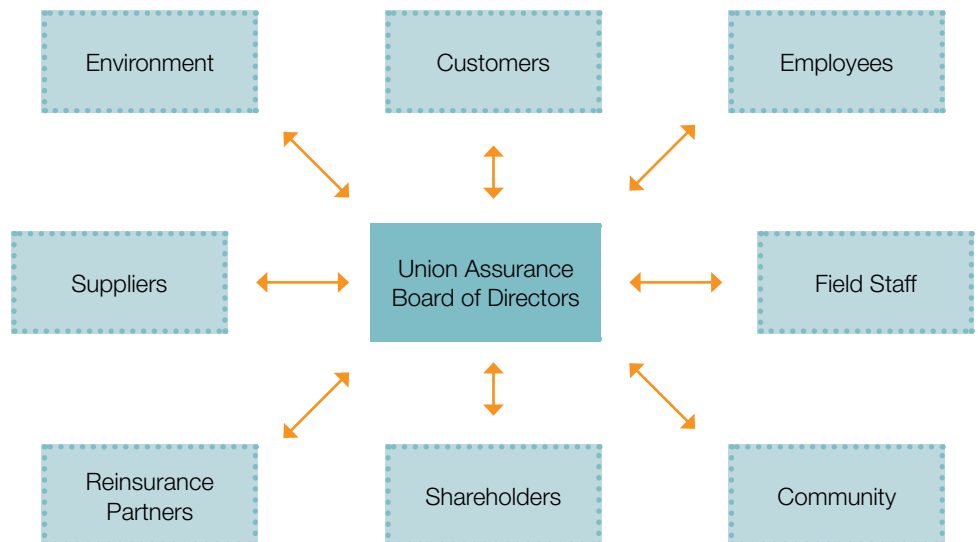
Sustainability Committee and Charters

The Executive Committee led by the Chief Executive Officer is responsible for managing the business in a sustainable fashion. The Executive / Sustainability Committee meets on a regular basis, and decisions with regard to strategic initiatives and company policies are formulated based on a careful study of their potential impacts on various stakeholder groups.

Stakeholder Engagement

Our stakeholders are the individuals who are interested in and / or affected by our operations. Hence, understanding and effectively engaging with them is imperative for the success of our organisation. It is our constant endeavour to ensure that we maintain an unbroken interaction with all our stakeholders.

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



Report Scope and the Boundary

This report covers the operations of the company and compiled in accordance with the GRI – G3 guidelines.

Summarised below are the processes we have implemented to engage with our stakeholders, the key expectations identified during the process and our responses to those issues as mentioned in relevant charters.

Engagement Process	Key Expectations / Commitments	Our Response Strategies
Customers		
<ul style="list-style-type: none"> Conduct formal and informal research to understand customer requirements Customer satisfaction surveys for motor insurance customers Out-bound call centre to obtain direct feedback from life insurance customers Regular formal interaction with intermediaries / corporate customers Formalised complaint management process Periodic on site customer forums 	<ul style="list-style-type: none"> Provide products and services customers require in line with changing business requirements, asset values and income levels Deliver superior customer service Settle claims in a speedy and fair manner 	<ul style="list-style-type: none"> Leverage technology, technical knowledge / competencies of internal staff and 3rd part service providers to meet these expectations Develop technical competencies of staff through structured internal training programmes and international exposure to keep abreast of latest regional / international developments Leverage relationships with regional / international reinsurance brokers and reinsurance companies to enhance knowledge and skills Conduct risk surveys, portfolio reviews to ensure that non life insurance coverage has been adequately obtained Conduct fact finding / financial underwriting processes to ensure that life insurance coverage is obtained in line with customers' income / lifestyle requirements Enhance convenience by expanding distribution network Regularly review service standards and aim to exceed industry benchmarks Work with Insurance Ombudsman to settle claims fairly
Employees		
<ul style="list-style-type: none"> Biennial employee satisfaction survey Skip level meetings for all staff to elicit their ideas to improve service / productivity Regular recreational activities through the company's recreational club 	<ul style="list-style-type: none"> Build ownership by engaging employees in our business Provide a rewarding career Ensure a healthy work life balance 	<ul style="list-style-type: none"> Provide structured training programmes to develop technical knowledge among operational and distribution staff Implemented career committee process to annual performance evaluation cycle to ensure transparency and objectivity in performance rating Implement talent management programme to develop technical and soft skills of high potential employees Ensure information regarding company activities and results are cascaded to all levels of the organisation Ensure adequate participation at strategic and operational planning events Ensure recruitment, promotions and rewards are based on qualifications, merit and capability, regardless of race, religion or gender Encourage professional education by offering financial assistance, study leave arrangements etc. Provide job enrichment and career progression opportunities Organise recreational activities for staff members on a regular basis Encourage sporting activities Ensure health and safety of our workforce
Field Staff		
<ul style="list-style-type: none"> Formal review meetings with distribution channel representatives and technical staff 	<ul style="list-style-type: none"> Training and development Initiatives to enhance productivity and professionalism Recognition of their contribution 	<ul style="list-style-type: none"> Provide financial assistance to purchase tools (e.g. laptops and tablet computers) which enhance their productivity and professional image Co-ordinate with several banks to enable staff to secure housing loans Health insurance facilities provided based on experience / performance Continuous investment in training and development initiatives to enhance individual field staff members' personal brand Implemented long term savings scheme Annual sales awards to recognise exceptional performance

Sustainability Report Contd.

What Sustainability Means to Our Stakeholders Contd.

Engagement Process	Key Expectations / Commitments	Our Response Strategies
Community		
<ul style="list-style-type: none"> Regular, formal interaction with community representatives Interaction with community members as part of community programmes Interactions with community activity partners Corporate website 	<ul style="list-style-type: none"> Improve the welfare of the community supporting health and safety related community activities which vary based on geographic location / priorities in the area 	<ul style="list-style-type: none"> Safety awareness programmes Health awareness programmes Other corporate social responsibility activities
Shareholders		
<ul style="list-style-type: none"> Annual General Meeting Quarterly reports and annual reports Articles published in media regarding company activities Dedicated investor relations hot line 	<ul style="list-style-type: none"> Increased return on investment Sustainable business performance in light of competitive business environment 	<ul style="list-style-type: none"> Steps have been taken to grow premium volumes in a sustainable manner by focusing on superior customer service, rather than price and managing claims and overheads in a manner that will ensure long term profitability
Reinsurance partners		
<ul style="list-style-type: none"> Regular formal interactions with reinsurance partners on a continuous basis in addition to annual negotiations regarding terms and conditions 	<ul style="list-style-type: none"> Deliver balanced profitable portfolio despite soft market cycle 	<ul style="list-style-type: none"> Implement disciplined underwriting policies and walk away from business opportunities which do not generate sufficient premiums to meet claims expenses Focus on providing superior service and value added benefits to overcome soft market conditions
Suppliers		
<ul style="list-style-type: none"> Regular interactions with suppliers throughout the year when tendering for company requirements or entering into long term agreements for selected services. 	<ul style="list-style-type: none"> On time settlement of invoices (in line with agreed terms) for goods / services provided / rendered Adequate lead time between placing order for goods / services and delivery date Equality when selecting suppliers 	<ul style="list-style-type: none"> Implement processes to ensure UA meets contractual obligations Attempt to develop long term relationships with key suppliers based on quality, price and related considerations A procurement committee in place for objective assessment of suppliers
Environment		
<ul style="list-style-type: none"> Train employees to be aware of the environmental impact of our operations and integrating environmental considerations into business decisions 	<ul style="list-style-type: none"> Minimise waste an environmental impact 	<ul style="list-style-type: none"> Extensively use alternative sources to reduce fuel consumption and carbon emission Recycling of used items Leverage IT to minimise impact on environment

Risk Management - On Stakeholder Expectation

The company is likely to face many challenges in the process of interacting with its key stakeholders.

The following table identifies the risks that are likely to arise and the steps taken by UA to manage / mitigate these risks in order to build a sustainable business which adds value to multiple constituencies. Further, details of the company's enterprise governance and risk management initiatives is outlined on pages 117 to 121 and pages 125 to 135.

Stakeholder Group	Risk	UA Action
Customers	<ul style="list-style-type: none"> Inability for the company to meet its commitments to customers in terms of providing a financial safety net in case of non life insurance and the long term promise of protection / wealth accumulation in the case of life insurance 	<ul style="list-style-type: none"> Leverage underwriting / claims management and actuarial skills to ensure that products are priced in a manner that will enable the company to deliver its commitments across the policy period Ensure adequate reinsurance support with financially stable reinsurance partners Manage claims in a manner that minimises leakage so that genuine customers continue to enjoy premium levels which are not inflated due to fraudulent practices / claims
People (employees and field staff)	<ul style="list-style-type: none"> Lack of experienced / qualified staff in industry and intense poaching especially as new entrants enter the insurance space Inability to keep pace with changing consumer needs due to lack of knowledge Mis-selling / lack of skill in identifying customer needs and resultant consequences 	<ul style="list-style-type: none"> Continue to focus on technical training for distribution and support services staff to enhance the skills levels across the organisation Review compensation and benefit packages and ensure adequate alignment with company performance and industry norms Implement complaint management / internal review processes to identify instances of mis-selling and / or gaps in coverage to take appropriate corrective action
Community	<ul style="list-style-type: none"> Demand for multi-pronged initiatives which may not be aligned with company's business strategy 	<ul style="list-style-type: none"> Focus on building long term relationships with national institutions and implement programmes which are aligned with company's long term strategy e.g. security, education etc.
Shareholders	<ul style="list-style-type: none"> Focus on year on year improvement in results / dividend payout without compromising long term sustainability 	<ul style="list-style-type: none"> Maintain continuous dialogue with shareholders to inform them regarding industry dynamics business opportunities and financial performance
Reinsurance partners	<ul style="list-style-type: none"> Soft market conditions may reduce reinsurance options for company / industry 	<ul style="list-style-type: none"> Focus on maintaining pricing discipline, so that premiums are sufficient to generate a positive contribution to UA and reinsurance partners Further details of the quality of our reinsurance partnerships and the risk management initiatives we have undertaken with regard to this key stakeholder group is provided on page 132
Suppliers	<ul style="list-style-type: none"> Inability to form long term partnerships with high quality, reliable suppliers 	<ul style="list-style-type: none"> Invest time and effort at appropriate levels to build sustainable relationships and ensure that contractual obligations are fulfilled

Sustainability Report Contd.

What Sustainability Means to Our Stakeholders Contd.

Corporate Governance

In creating and delivering sustainable value for all the stakeholders, it is critical to maintain a strong corporate governance framework.

During the year, the company reviewed its governance structures in the context of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission as well as the Rules on Corporate Governance published by the Colombo Stock Exchange. Several aspects of the governance process were improved during the year, a summary of which are as follows:

- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the company's objectives and commitments towards all stakeholder groups.
- Streamlined and broadened the scope of compliance statement and its sign off process.
- Implemented the SAP treasury module to enhance the integrity and reliability of the investments management of shareholder and policy holder funds. This further strengthened the reporting by integrating with the SAP financials implemented in 2011.
- Enhanced internal audit resources, scope and frequency of audits to ensure that strategic and key operational risks are well managed and any deviations are escalated on a timely basis.
- Formalised and launched the 'company values' across the organisation to reinforce our commitment to good corporate governance

- Conducted a review of the existing Business Continuity Plan (BCP) by an external consultancy firm for reassurance and also to identify any gaps that need to be addressed.
- Proactively engaged an expert actuarial consultant to assess the impact and changes required for existing systems and processes to ensure readiness to adopt the new RBC framework which is expected in two years

The details of these improvements as well as the overall structure are provided on pages 82 to 135 of this report.

SUSTAINABILITY REPORT

CUSTOMERS

We are well aware of the importance of placing our customers at the forefront of our decision making process, in order to be considered as the most trustworthy insurer in the country.

We serve more than 338,200 customers across the country. The demographic profiles of our customers and the products we offer vary across our operations, but in all our markets, we are committed to listen to our customers and understand their individual needs so that we are able to exceed their expectations by providing high quality products and services with superior customer service including settling due claims in a speedy manner.

The charter applicable for customers outlined on page 141 highlights our key commitments to our customers, and the progress we have made during the year is summarised below;

1. Providing Products and Services Customers Require

- Re-launched the unit linked product range;
 - Builder product: Introduced additional rider covers
 - Booster product: Higher allocation rates were introduced
 - Provider product: Improved life cover
- Revamped mortgage protection policies with competitive rates
- Revamped the following products in line with changing customer needs:
 - Union Family Health Net
 - Union Asset Protector
 - Union Shop Protector
- Re-launched Union Travel Insurance providing an opportunity for customers to buy travel policies on-line at their convenience

2. Deliver superior customer service

- Opportunity to buy travel policies on-line from anywhere, anytime
- Pioneered use of Android technology to provide superior customer service

- Added value to the motor insurance card providing customers with the opportunity of collecting and redeeming loyalty points at all Nexus vendor outlets
- Streamlined the acceptance of mortgage protection policies to ensure confirmation to the bank within two hours
- Technical support unit was established in the call center to attend to sales staff inquiries in an effective manner
- Improvements to the call centre system to prioritise the call cues based on the type of call
- Improved call monitoring process to identify training and development requirement of staff.
- “Motor Welcome Call” was launched enabling motor customers to get details of their motor policies verified directly from the company
- Revamped digital adviser toolkit providing sales aids i.e. trilingual quotations and illustrations for Union Challenger policies
- Established a customer service unit with state-of-the art facilities to provide a best in class service for walk-in customers
- Expanded alternative channel operations to sell Reload policies island wide through Abans network
- The bancassurance network was further expanded by partnering with an established local bank.
- Commenced non life operations through bancassurance network
- Expanding our presence within bancassurance network changing the operating model
- Continued the customer satisfaction survey to obtain feedback on our motor claims settlement process
- Ensured adherence to pre-agreed service benchmarks

3. Settle claims in a speedy and fair manner

- Extended sms communication to confirm claim registration and claim settlement to keep customers up-

to-date on progress of their claim settlements (Life insurance)

- GPS technology to monitor movement of motor assessors
- Digital image transfer of medical documents facilitated quick approval of hospitalisation claims
- Use of Android technology by motor technical engineers to provide a speedier service in assessing motor accidents
- Re-calibrated risk based pricing for motor products to ensure ability to pay claims
- Conducted an island-wide audit of underwriting processes to ensure effectiveness and confirm the appropriate price has been charged
- Extended our ‘Speed cash’ service to enable claim settlement at any garage using sms technology

Providing Products and Services Customers Require

We have implemented formal and informal feedback mechanisms to identify customer needs. Once identified, the feasibility of launching products / services catering to those needs is discussed with the relevant underwriting, claims management and distribution staff before a product development process is launched.

Sustainability Report Contd.

Customers Contd.



Insurance Solutions - Non Life

We have a range of packaged policies designed specifically to meet the needs of individuals and clients involved in SMI / commercial segments. In addition, we provide tailor made solutions to corporate clients. The full range of general insurance products / lines is given below.

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

Products Re-launch and Improvements – Non Life

In line with evolving customer needs Union Assurance re-launched several products during the year to provide ultimate satisfaction for our customers.

Union Health Net

Union Family Health Net was re-launched with a simplified proposal form. Transparency is one of the key pillars of the UA brand and the simplification was to increase the transparency and convenience of the product offering.

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

Union Asset Protector

This insurance policy is a tailor made blanket cover to provide a total solution for small and medium enterprises at an affordable premium. Sum insured under this policy is restricted to Rs. 300 million for both property and consequential losses. This policy was re-launched as a pre underwritten cover and is available on the web.

Union Shop Protector

This insurance policy is specially tailored to cater to many risks associated with the shop keepers' trade. Through the re-launch the product was further simplified and product features better aligned with customer needs.

Union Travel Insurance

Union Travel Insurance was re-launched providing an opportunity for our customers to buy travel policies on-line at their own convenience. Customers can simply log in to UA's web site www.unionassurance.com and purchase travel policies whenever they require.

Life Insurance Solutions - Life

Life insurance products have been developed to cater to the needs of individual as well as corporate customers. Individuals are able to select from a range of products which combine both investment and financial protection. Products are designed to cater to the various stages of a customer's life; e.g. single and working, married, planning for retirement etc. Additional covers such as critical illness could be added on in order to ensure that customers are sufficiently protected.

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

Name of Product	Target Market	Special Features
Union Challenger - Builder Plan	For individuals with long term aspirations and / or commitments towards loved ones, having the possibility to build a substantial fund	<ul style="list-style-type: none"> • Unit linked investment solution allowing the customer to choose his / her investment option • Ability to customise solution to suit individual risk appetite and market conditions • Linked to three unique investment funds, offering flexibility in terms of investment options and premium payment terms • Offers selection of packaged benefits namely, Life package, Health package and Waiver package to cater wide range of protection needs • Regular premium payments, premium top up and premium escalation benefit options available
Union Challenger - Booster Plan	For individuals who are between 5 to 10 years away from their retirement and need to build a fund to generate a sufficient income when retired	<ul style="list-style-type: none"> • Unit linked investment solution allowing the customer to choose his / her investment option • Ability to customise solution to suit individual risk appetite and market conditions • Premium payment term limited to 3 or 5 years. Premium top up option available

Sustainability Report Contd.

Customers Contd.

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

Additional Covers

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

New Products and Benefits - Life

The re-launch of Union Challenger (unit linked) product was a result of research and feedback received through the sales channels. The purpose of re-launching the product was to further simplify and align product features with customer needs. The communication and sales processes were also simplified by introducing needs based brochures and digital adviser toolkit for the sales channels to better explain the product features, benefits etc. to targeted customer's needs / preferences.

In addition the product structure was changed to enhance the benefits provided under the policy.

Mortgage protection policies were also re-launched with competitive rates to provide better value for UA customers.

Deliver Superior Customer Service

At Union Assurance, we have consistently improved the quality of our customer

service and strive to be the benchmark of the industry. We firmly believe that price is not a long term differentiator, but that consumers will look to partner with an insurance company which consistently offers them trust, convenience, respect and transparency.

Customer Service Unit (CSU)

Unveiling a new era of convenience to all UA customers, a customer service unit with state-of-the-art facilities was opened on the ground floor at UA head office.

Sustainability Report Contd. Customers Contd.

This is a 'one stop shop' for all walk-in customers for any type of life insurance service. Travel insurance services are also provided at this counter.

In addition, all premium settlement could be affected at this counter as well.

Service Enhancements - Non Life Motor Welcome Call

The Motor welcome call was launched in response to feedback collected from a research that was conducted focusing on motor insurance customers. Contacted customers stressed on the fact that there should be a process where details of their policies could be verified.

Welcoming the customers on board making them feel comfortable enough to get their queries clarified, explaining the benefit they are entitled to and the limitations of the policy are the main objectives of this initiative.

Customer Satisfaction Survey

A customer satisfaction survey was conducted throughout 2012 to monitor satisfaction levels with regard to UA's motor claims settlement process, motor call centre service levels and the service standards of the assessors. A structured questionnaire has been developed for this purpose, covering the entire process,

commencing from the first interaction the customer has with the motor assessor at the accident site up to the time taken to receiving the settlement cheque.

73% of the customers surveyed have rated their satisfaction level as good, while 16% customers recorded an average level of satisfaction. A summary of the findings is provided below.

Satisfaction Level %	2012	2011
Good	73	73
Average	16	17
Poor	11	10
Total	100	100

Intention to Renew %	2012	2011
Yes	76	80
No	4	7
Decide later	20	13
Total	100	100



Customer feedback form

Customer Service Counters in Keells Outlets

The 2nd Union Assurance service counter was opened at K-Zone Katubedda. This counter has been established as a means of reaching our target customers easily. The counter has the ability to function as a mini branch within the Keells outlet.

Motor Reload Policies through Abans Stores

To provide greater convenience for our customers to buy motor Reload policies, UA entered into an agreement with Abans network to sell reload policies island-wide



Customer service unit at head office



Service counter at K-Zone

through their network. UA customers could buy motor Reload policies through selected Singer, Abans and Keells outlets.

Loyalty Enabled Motor Insurance Card

Union Motor Star launched the first ever loyalty enabled motor insurance card in Sri Lanka, providing customers the opportunity of collecting and redeeming loyalty points at all Nexus vendor outlets and also be entitled to special discounts. With this service extension, the motor insurance card has become “two in one” card which has insurance and value for money discount and loyalty schemes embedded together.



Leveraging Technology to Improve Service

On-line Travel Insurance Policies

“Now your travel policy is just a click away” This facility enables UA customers to buy travel policies simply by logging in to our corporate web site from anywhere, any time. All the details are in e-form, hence customers do not have to carry any hard copies. Availability of multiple packages on-line allow customers to pick the best cover that suits their wallet and travel requirements.

Android Technology to Capture and Transfer details of Motor Accidents

Union Assurance being a leader in adapting new technologies, introduced iFlex as their first Android application which is distributed among Technical Engineers (TEs) who assess motor accidents. It consists of sms based TE job management with job start and job close features, live capturing of images, automated image synchronisation with the back-end image server etc. Its ability to work off-line during the image capturing

and sms synchronisation process, together with automatic switching to online mode based on the availability of network connection, enables the application to be used across the country - even in areas with low or no network coverage.

This system enables UA to manage motor claims in a more efficient manner, delivering a speedier service to customers.

Transfer of Medical Documents in Digitised form

This platform enables UA to receive medical documents in digitised form, facilitating speedier approval of hospitalisation claims. Ability to store and retrieve information at a press of a button has enhanced the efficiency of the entire process thus providing a greater convenience for customers.

Re-launched on-line Claim Tracking System (Non Motor) with Advanced Features

This system enables corporate clients and insurance brokers to view the progress of claims on-line. They could log in to the system via the UA corporate web site. With its user friendly approach and design, customer could access following information as well;

- Summary of all pending claims (class-wise and group-wise)
- Detailed view of all pending claims
- Documents required to process each claim
- Detailed view of each claim including brief policy information, document history and the claim status
- Age analysis of unsettled claims

Service through Training

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

to identify customer needs and provide solutions in a speedy manner. The details of the training sessions conducted during the year are mentioned in the “Employee” section.

Service Enhancements - Life Insurance “Union Pay Easy” Scheme

Union Pay Easy scheme now comprises 12 banks, Keells chain of 45 supermarkets and 415 Abans stores islandwide. UA customers have more than 2,886 possible locations to pay their life premiums (2011 - 2,800).

Sustainability Report Contd.

Customers Contd.

Payment options available for our life policyholders are illustrated in the table below

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

Service Standards

To ensure that UA continuously provides a service to its customers, which is best in the industry, pre-agreed service standards are constantly monitored via a workflow system which is integrated with the core life insurance systems. During the year, a workflow based system was implemented for Unit linked product operations as well. Newly established customer service unit (CSU) also started its operation in line with the service standards applicable for that operation. A summary of actual versus expected services standard during 2012 is as follows.

Department	Function	Expected Service Standard	Achievement
New business	1 Underwriting decision making - new proposals	100 % by 2 days	99%
	2 Policy dispatching	100 % by 5 days	92%
Policyholder servicing	1 Minor alterations	100% by 1 day	99%
	2 Policy assignment and reassignment	100% by 1 days	99%
	3 Bank standing orders	100% by 2 days	99%
	4 Revivals	100% by 2 days	94%
	5 Major alterations	100% by 2 days	94%
	6 Responding to customer letters	100% by 2 days	96%

Department		Function	Expected Service Standard	Achievement
Claims	1	Maturities and advance payments	100% by 2 days	91%
	2	Death, disability and hospital cash claims (No further investigation required)	100% by 3 days	81%
	3	Death, disability and hospital cash claims If further investigation required	100% by 14 days	98%
	3	Policy loans	100% by 2 day	94%
	4	Queries on claims	100% by 2 days	83%
Call centre	1	Handling of inbound calls	95% from presented calls	96%
	2	Answering calls (within service level)	90% of the inbound calls to be answered within 20 seconds	90%
	3	Abandoned calls	Total abandoned calls to be below 5%	4%
Customer service unit	1	Meeting the needs of walking-in customers	15 minutes	95%
Group life	1	New business quotations - employer / employee groups	Data given in soft format - Same day Data given in hard format - 2 days	100%
	2	New business quotations - affinity and other special groups	4 days	93%
	3	Completion of cover for large groups	1 month	63%
	4	Issue of the policy	3 days	100%
	5	Commission payments to agents / brokers	7 days of receipt of premium	95%
Unit linked operations	1	Underwriting decision making - new proposals	100 % by 2 days	99%
	2	Policy dispatching	100 % by 5 days	94%
	3	Effecting top-up premium	100 % by 3 days	100%
	4	Fund switching	100% by 3 days	100%
	5	Premium redirection	100 % by 2 days	100%
	6	Benefit changes / inclusions	100 % by 2 days	98%
	7	Minor alterations	100 % by 2 days	95%
	8	Bank standing orders	100 % by 1 day	98%
	8	Responding to customer letters	100 % by 2 days	91%
9	Revivals	100 % by 2 days	100%	

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

Sustainability Report Contd. Customers Contd.

Branch Development and Expansion

By the end of 2012, UA has a network of 107 branches to provide more convenience for our customers and field staff. In line with our strategy of expanding our branch network, the company opened five new locations during the year. The majority of these locations were set up as business development offices (BDOs), which require less capital / operating expenses than traditional branches.

Leveraging Technology to Improve Service

Revamped Digital Adviser Toolkit (DAT)

The revamped digital adviser toolkit provides sales aids for Union Challenger policies with the capability of producing trilingual quotations and illustrations. The improved 'DAT' will aid the sales force to better explain the product and provide recommendations in line with customer needs and preferences.

Workflow based System to Monitor pre agreed Service Standards

During the year a workflow based system was implemented to monitor the service standards of unit linked product operations against pre-agreed service standards. This system allows UA to promptly compare actual delivery times against expected service standards and provide solutions immediately if any gaps are identified.

Call Center Operations

An improvement to the call centre system was implemented during the year to prioritise the call cues based on the type of call. This helps call center staff to identify the nature of the call even before talking to the customer and enables delivery of a superlative customer service.

Settle Claims in a Speedy and Fair Manner

As a leading insurance solutions provider, it is our duty to pay customer claims fairly and as quickly as possible. Claims intimation is the point at which the customer comes into direct interaction

with the company and experiences the quality of service.

Paying Claims Speedily

UA continue to invest in technology and people to settle claims speedily providing greater customer satisfaction.

Garage On the Spot Claims Settlement Process (GOTS)

UA customers have the option of having their claims approved at the garage without submission of final bills. Once the claim value is agreed, customer receives an sms at the garage itself, which he / she can produce at any Commercial Bank branch to withdraw the claim value in cash, over the counter. This system along with "Speed Cash" claim settlement ensures that any motor claim below Rs. 50,000/- is settled within few seconds at the site of the accident or garage.

Android Technology and Use of Digitised Documents

Use of android technology to share details of motor accidents and use of digitised medical documents, as mentioned above, have significantly shortened the time taken to settle motor and hospitalisation claims providing greater customer satisfaction.

Workflow based Claim Tracking Systems

Integrated claim approval system (motor) and on-line claim tracking system (non motor) enables UA to manage motor and non motor claims in a more efficient manner delivering a speedier service to customers

Reach and Mobility of Motor Assessors

Speedy settlement of claims revolves around the ability to deploy people to the scene or site of an accident. UA has strengthened this area by increasing its panel to 69 assessors with a wide range of experience, competencies and specialisations. Use of GPS technology has enabled us to deploy assessors to accident sites as quickly as possible.

Claims Settlement Period

The company continues to review the number and value of outstanding claims for each class of non life business as well as for life insurance related claims. Outstanding claims are regularly followed up either directly with the customer or via the intermediary, to ensure speedy resolution and settlement. During the year, sms based communication system was extended to life insurance customers to confirm claim registration and claim settlement to keep them up-to-date on claim settlement process.

Paying Claims Fairly

An inevitable predicament faced by all insurance companies is that all claims do not fall within the framework of the terms and conditions of the policy and must then be repudiated. At UA, such claims are first referred to a claims review panel chaired by the General Manager – General Insurance. The panel includes General Managers responsible for distribution as well as the Senior Manager Legal.

Customers who remain dissatisfied with a particular decision are directed to the Insurance Ombudsman. The Insurance Ombudsman is a body established by the Insurance Association of Sri Lanka with the concurrence of the Insurance Board of Sri Lanka to resolve disputes between customers and insurance companies. This is the final avenue of appeal and the decision made is binding on both parties. As a member of the Insurance Association of Sri Lanka, UA participates fully in the system. During the year under review, 23 cases were referred to the Insurance Ombudsman. In 5 of these, the company settled its customers based on the Ombudsman's decision.

As a means to minimise leakage, and ensure that legitimate claims are paid in a speedy manner, and genuine customers do not have to pay enhanced premiums due to fraudulent claims, the company continues to invest in a motor claim audit function.

In addition, the company formed alliances with selected garages, spare part suppliers and hospitals in order to manage claims costs in a transparent manner.

Customer Feedback System

Customers are able to send their feedback (including complaints) to us in writing, via a call to hot line set up to log customer complains (0112428099) or our call centers. All such feedback is uploaded to our on-line customer feedback system to monitor the progress of such complaints. As at December 2012, there were 982 complaints updated on the system, and the status of these is summarised below.

Description	No.
Received	982
Resolved	(790)
In progress	192

Understanding and Pricing Risk

Our ability to pay claims depends on our capability to understand and price risks. It is important that we do not under price risk, since this has a direct impact on our ability to pay claims. Neither should we overprice risk, which would affect the affordability of insurance. We have commenced a risk based pricing mechanism for non life insurance and during the year we re-calibrated the model to ensure that motor products are fairly priced to ensure sustainability of motor insurance operations. Further, we conducted an island-wide audit on underwriting processes to ensure effectiveness of understanding the risk and quoting the right price.

One of the key challenges faced by the insurance industry is the lack of data and records regarding claims statistics, weather patterns, accident trends etc. To overcome this issue, we employ specialists such as underwriters, actuaries and researchers to analyse data. We also support industry level initiatives by updating UA's motor claims statistics to

a common database accessed by all insurers.

We continued to use the services of external actuaries to ensure that our life fund is able to meet its obligations to policyholders. Further, we continued with the quarterly IBNR valuation process to monitor non-life insurance claims development during the year.

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

Customer Relationship Management Safety Checklists / Safety Tips

UA continued with its initiative to develop and distribute safety checklists on various topics among corporate customers. The objectives of the checklists are to increase awareness on potential risks and to increase safety in day to day operations. Some topics included in the checklists were Floor Safety, Efficient Waste Management Practices for Home and Office and Water Management.

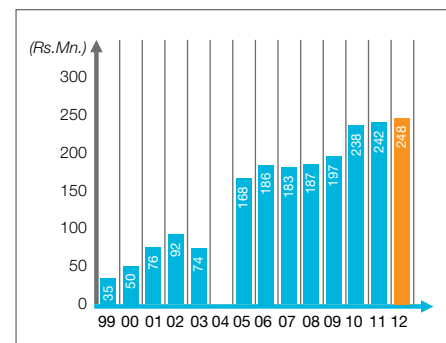
Health Clinic

A free health clinic was arranged at the Union Assurance service counter at Union

Place Keells supermarkets, where UA customers and other walk-in customers had the opportunity of getting their blood pressure, BMI and blood sugar checked. The main objective of this campaign was to create awareness among customers about being healthier and to promote Family Health Net and Life Advantage products.

Eye Camp

A free eye camp was conducted inside the office premises of key corporate clients providing an opportunity for their employees to have their eye sight checked and obtain advice from specialised eye surgeons.



History of Bonuses to Life Policyholders



Health Clinic

SUSTAINABILITY REPORT

EMPLOYEES

Providing a rewarding place for UA's employees to work and develop is a critical component of the company's vision. To help employees realise their full potential, UA offers a variety of training and development opportunities together with comprehensive compensation and benefits. Additionally, the company strives to create an inclusive and diverse work environment that provides employees with the flexibility to manage their work and personal lives. The progress that we have made during the year in relation to our commitments to employees is summarised below.

1. Build ownership by engaging employees in our business

- Randomly selected sample of employees took part in the survey conducted by Great Place to Work® Institute in Sri Lanka and LMD
- Six management meetings were held during the year providing an opportunity to discuss business developments, company performance etc.
- Over 140 employees directly participated in strategic planning process
- "Values Walk way" to inspire staff on UA values
- Extensively used mobile text messaging (sms) to convey important messages to staff

2. Provide a rewarding career

- Comprehensive succession planning exercise carried out to ensure career opportunities for existing staff
- Conducted a development centre titled "Assured to be Leaders" for staff identified as successors to key positions
- Conducted an executive development programme
- Launched "Union Transformers" personality development programme for staff between 23 and 28 years of age.

- Inaugurated an English Immersion camp
- Hash Run conducted for the Young UA Forum
- Launched "Advanced Certificate in General Insurance Underwriting Practice" certification programme
- Continued to invest in "Top Gun," "Union Warriors" and "Union Braves" leadership development programme for high talented staff at all levels.
- Launched "Service Champions" award scheme to recognise best performers in the support services

3. Ensure a Healthy Work-Life Balance

- Conducted a "BMI" (Body Mass Index) Challenge contest for the 2nd consecutive year to encourage staff to be mindful of their health
- Cricket carnival 2012 held with the participation of all staff and their family members
- Actively participated in mercantile sports tournaments (cricket, basketball, badminton etc.). UA became winners of 2012 mercantile "A" division Basketball competition
- Conducted "Calypso Night," "Hopper Night," "Halloween Night" and many other events to foster camaraderie among staff
- Conducted "Bring Your Child to Work" day for 3rd consecutive year
- Divisional staff annual trips

Ethical Behavior

In order to provide a reference point and guide for corporate conduct and behavior within our company a code of ethics and standards has been defined. These standards have been set to be in line with organisations that are benchmarked as symbols of good corporate governance. It is a fundamental policy of UA that all employees observe and comply with the laws and regulations applicable to our business and that we operate and act with this highest standards of business integrity. All employees are expected to know, understand and follow this code of ethics and standards in their respective areas of work.

Strength of Our Workforce

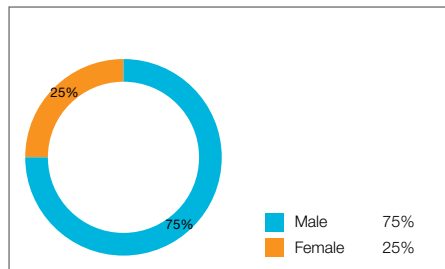
As at 31st December 2012, the company employed 1,088 persons in sales and non sales related functions both at head office and at our regional offices across the island. Of this total, 58 percent is non-sales staff and the balance represents sales staff.

We are an equal opportunity employer. Recruitment decisions are based on qualifications, merit and capability, regardless of race, religion or gender.

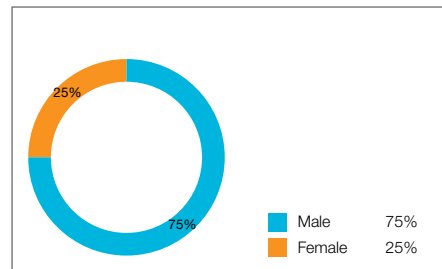
Men and Women in the Work Place	2012		2011	
	Men	Women	Men	Women
CEO and General Managers	7	3	7	2
Assistant General Managers	8	-	7	-
Senior Managers	26	8	27	6
Managers and Assistant Managers	298	54	288	50
Executives	306	70	263	67
Non Executives	171	137	165	127
Total	816	272	757	252

Employee Diversity

Gender and age are two of the key parameters considered by the company in terms of the employee diversity. UA has maintained its gender diversity as reported last year.



Employee diversity 2012



Employee diversity 2011

Employee diversity in key decision making levels.

Representation of Men and Women on decision making levels	2012		2011	
	Women	Men	Women	Men
Board positions	17%	83%	17%	83%
Management positions	16%	84%	15%	85%
Executives	19%	81%	20%	80%
All levels	25%	75%	25%	75%

Company has maintained a healthy balance between youth and experience and recognised opportunities for youth.

Age Group	2012	2011
20 - 30	39%	37%
31- 40	38%	38%
41 – 50	19%	21%
Above 51	4%	4%

Engaging our Employees

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

Employee Satisfaction Survey

Progress related to the action plans formulated based on the previous employee satisfaction survey was assessed during the year and required actions were taken to ensure that concerns raised by the employees are properly addressed. The next employee satisfaction survey is scheduled to be conducted by mid 2013.

During the year, a randomly selected sample of our employees took part in the survey conducted by Great Place to Work® Institute in Sri Lanka and LMD. By participating in this study we are able to benchmark employee perceptions of our workplace environment with selected benchmarks from our industry and elsewhere. This would enable us to better appreciate our strengths and identify focus areas for improvement.

Engaging through Communication

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

This forum allows employees to raise questions and issues and make suggestions, as well as enable the management to gather insights from staff on the issues and opportunities they believe need to be addressed. During the year the company utilised video conferencing infrastructure to link staff from 12 branches to the management meeting conducted at head office.

We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas. This year too, over 140 persons directly participated in company planning discussions. Strategic and tactical action plans steering from these meetings are fine tuned and deliberated in detail by the Executive Committee and finally presented to the Board of Directors for final approval.

The company also continued the employee suggestion scheme where any employee could forward his or her suggestions on-line via the intranet. All suggestions were addressed by way of either implementation, deferred for appropriate time or responded to if not practical to act upon.

Sustainability Report Contd. Employees Contd.

“Values Walkway”

With the re-launch of UA values, a value walkway was created along the 6th floor to the rooftop of UA head office. The main objective of this was to inspire the UA staff with the corporate values, “ExcITE” which depicts,

- Excellence
- Caring
- Innovation
- Trust
- Ethics & Integrity

UA’s management firmly believes that core values are central to the long term success of the organisation. Hence, proactive steps are taken to ensure that all staff members live by the corporate values at all times.

HR News via SMS

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

Providing a Rewarding Career

UA provide a journey of continuous career enrichment for each employee. Employees are our competitive advantage and improving their performance is the key to achieving better business results. The company invests a significant amount of resources to develop the technical, functional and managerial skills of our people.

Human Resource Development

Building a high performing team through training, development and education provide immense benefits to the organisation by way of increased productivity, knowledge, loyalty and ability to add value. Our aim is to focus on training which can significantly improve our human capital. One key factor in employee

motivation and retention is the fact that all employees want to grow and develop their career enhancing skills. At UA we believe that providing such opportunities to employees is one of the strongest drivers of motivation. During the year, we continued to invest in our people. The range of training encompassed technical, functional, language and information technology. As given in the table below, in line with our strategy, the company has increased the number of training programmes and training hours during the year.

Comparison of Training Programmes and Hours	2012	2011
Number of programmes	270	261
Number of hours	33,680	31,299

Talent Management

Talent management refers to the process of developing and integrating new employees, developing and retaining current employees and attracting highly skilled employees. Such an endeavour also facilitates the creation of clear cut career paths for most job categories, with job rotation options and multi-skilling.

Succession Planning

For the first time, the company carried out a comprehensive succession planning exercise for staff above Manager level. The objective was to fill most or all key appointments internally and also to ascertain development needs. This endeavour revealed a wealth of information and action plans were formulated with the assistance of the respective General Managers to effectively implement some of the decisions to ensure greater career opportunities for existing staff members.

Development Centre - “Assured to be Leaders”

Based on the gaps identified during the succession planning exercise, over 20 mid and senior level staff members took part in a unique development centre programme titled “Assured to be Leaders” conducted over three days. This basically catered for leadership and managerial skills development followed by a presentation on the lessons learnt to the executive committee.

Executive Development Programme

This development programme was launched exclusively for executives and was conducted on a voluntary basis where interested staff could apply and enroll on their own. Those who enrolled had to carry out an on-line self-study programme for three months and appear for a MCQ test and obtain 50% marks to proceed to the final phase. The final phase was a 4-day residential programme (conducted over 2 weekends) where all the preparatory learning were put to test. Out of 57 participants enrolled for this programme, 34 participants successfully completed the final phase.

Union Transformers

A special training programme titled “Union Transformers” for all staff between the ages of 23 to 28 years was conducted through external and internal facilitators to create awareness on ethics, morals and etiquette.



Hash Run for Young UA Forum

English Immersion Camp

Over seventy five staff members took part in the inaugural English Immersion camp conducted over two days in two batches. These sessions were held at an outside location and participants were guided by professionally qualified trainers to develop their English language skills.

Hash Run for Young UA Forum

A hash run was organised for the participants of the Young UA Forum in association with the Defence Service Command and Staff College with the Colombo Hash House Harriers.

Forty six participants of the Young UA Forum representing many departments were part of the event, which was a follow-up session for the Young UA Forum which was formed in 2011. The main objectives of this exercise were to build team spirit, camaraderie and to deliver a novel experience to our future leaders.

“Top Guns,” “Union Warriors” and “Union Braves”

UA continued to invest on its flagship leadership development programmes. During the year, 18 staff members completed the “Top Gun” programme and 21 and 26 staff members completed “Union Warriors” and “Union Braves” programmes respectively.

Internal Certification Programmes

In order to enhance the knowledge and capabilities of the staff on key processes and to provide them with more career opportunities, UA has developed internal certification programmes as outlined below;

Certificate in General Insurance Underwriting Practice

This is an internal certification process for the general insurance technical and underwriting staff, designated as “Certificate in General Insurance Underwriting Practice” (CIGIUP). The certification is awarded upon completion of specified training modules. During the year

14 branch underwriting staff members were certified as CIGIUPs.

Advanced Certificate in General Insurance Underwriting Practice

This is an internal certification process launched during the year for the general insurance technical and underwriting staff who have certified as CIGIUPs. The certification is awarded upon completion of specified advanced training modules and field assignments. During the year 30 staff members have completed required training modules and field assignments and have become eligible to be certified as ACIGIUPs.

Certificate in Life Insurance Practice

“Certificate in Life Insurance Practice” (CILIP) was developed for life technical sales support staff to enhance their knowledge of life insurance practices. To be certified, each person is required to pass a written exam and participate in group assignments. During the year 107 staff members have been certified as CILIPs.

E-Learning

“Learn Easy” is a blended learning system made available to each and every Union Assurance field staff and office staff member. This web portal provides access to a wealth of knowledge which will help

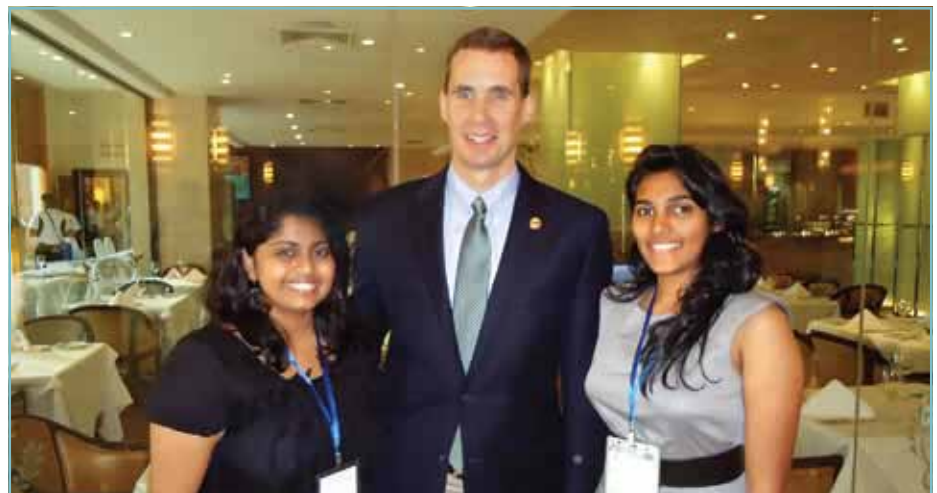
the company to produce highly skilled and competent employees.

Toastmasters Club

The Toastmasters Club has become an integral part of the culture of the company. Staff members are encouraged to actively participate and improve their communication skills, build leadership and self-confidence and broaden their horizons.

Induction and Familiarisation Programmes

We believe in infusing new blood at every level in order to generate new thinking. This policy however does not inhibit the career progression of good performers. An important feature in this process is to ensure that the new recruits acquire the necessary technical knowledge, competencies, skills and most importantly the company’s values in order to reach peak performances within a short time period. This enables them to respond rapidly to the needs of the organisation. New recruits undergo a two day induction programme, which is mandatory. Recruits to senior management levels go through a learning arrangement which is spread over five days. On a needs basis, a further nine days of familiarisation on life and non-life insurance is provided to equip recruits with foundation inputs to get started on the



Toastmaster’s Ovation 2012 - UA Toastmaster representatives; with the president of toastmaster international

Sustainability Report Contd.

Employees Contd.

job. The “Buddy” concept is practiced to ensure effectiveness of the integration process of new recruits. The table below shows the number of programmes conducted and the hours covered. There is a significant increase in the number of hours per programme during the year, as the contents of some of the programmes have been restructured based on the feedback received.

Induction Programmes	2012		2011	
	Number of Programmes	Number of Hours	Number of Programmes	Number of Hours
Induction	12	8,044	12	3,016

Overseas Exposure

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

International Programmes	2012	2011
Technical	7	14
Marketing and Distribution	7	5
Finance	4	5
Human Resources	5	5
Information Technology	3	3
General Management	7	5
Actuarial	1	4
Total	34	41

Learning Benchmarks

A total of 188 in-house training programmes and 79 external programmes (including 37 overseas programmes) were carried out during the year. The total learning days achieved against benchmarks for the year in comparison to last year are detailed in the table below.

Category	2012		2011	
	Benchmark	Actual	Benchmark	Actual
Managers	6	17.16	6	6.09
Executives	4	9.10	4	2.43
Non Executives	3	9.05	3	4.94

Measure Effectiveness of Training Programmes

During 2012, the following tools / techniques were used to ascertain the effectiveness of training programmes which were carried out. The contents of the programmes were redesigned where necessary based on the feedback.

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

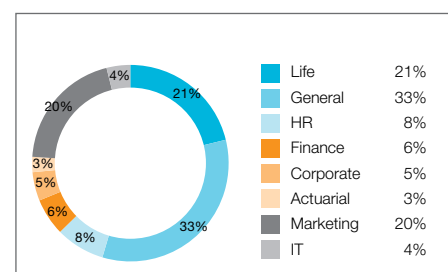
Investment in Training and Development

The total training and development expense for 2012 is tabulated below. These costs include the expense on behalf of our office staff as well as field staff. In-house training expenses include the remuneration and related costs of our in-house panel of trainers.

Investment in Training and Development	2012 Rs. Mn.	2011 Rs. Mn.
In-house training	23	14
External training	4	7
Conference	1	3
Overseas training	13	14
Insurance and professional education	17	21
Professional membership	2	1
Total	60	60

Support for Professional Education

We have created a conducive environment for our staff to pursue professional education in insurance and other job related courses. The professional examinations assistance scheme supported 127 staff members in 2012 (127 - 2011).

**Distribution of Investment in Professional Learning 2012****Rewards and Recognition**

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

- Total remuneration is set at a level that can attract, motivate and retain high quality executive talent

- Remuneration is commensurate with each employee's level of expertise and contribution, and is aligned with the company's performance
- Executive remuneration is set so that a significant portion is linked to performance
- The performance related element of remuneration is designed and tailored to align employees' interests with those of the company and main stakeholders
- Remuneration levels are based on industry and market surveys

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

Individual employee performance is reviewed twice a year, through a one-on-one performance appraisal process. Conducted the mid-year and a more formalised career committee performance evaluation at year end.

Variable Bonus Scheme

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

Employee Recognition Schemes

The company has implemented several schemes to recognise sales staff and non sales staff. Recognition schemes for sales staff are based on achievement of set targets and quality of business generated. Non sales staff are recognised for the contribution made to significant company initiatives, value addition in their respective functions and include a combination of individual and team based recognition schemes.

During the year, 12 non sales staff members (2011 - 54) have been nominated under the non sales employee recognition scheme, for contributing to initiatives which enabled UA to differentiate itself from competition, launch new products, enhance customer service and streamline training and development activities.

Superior Performance and Recognition (SPAR)

UA's spot recognition programme provides line managers with the opportunity to grant instant rewards to their staff whenever an action deemed "worthy" and "rewardable" is observed. It is the quickest, easiest and most convenient way to reward employees when there is a need to make a visible acknowledgement of their contribution. In the year 2012 we recognised 8 employees on four occasions under SPAR.

"Service Champions" is a novel reward scheme we launched in 2012 with the objective of selecting and rewarding the most outstanding employees in support services units and to distinguish high performers so that they are seen as role models. Fourteen staff members were recognized under this scheme in the Annual Award ceremony held at the Cinnamon Grand Hotel.

Maintaining a Healthy Work Life Balance

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

"BMI" (Body Mass Index) Challenge

For the 2nd consecutive year UA, conducted a "BMI" (Body Mass Index) Challenge contest to encourage staff to be mindful of their health. Winners, who have shown a remarkable progress in terms of BMI were rewarded to encourage others also to take part in this contest and to lead a healthier life.

"Bring Your Child to Work"

UA held its 3rd "Bring Your Child to Work" day. This event was attended by almost 100 children of the staff drawn from the Head Office, Motor Centre and City Office. The spouses of the participating employees were also invited to this event. The main objective was to create awareness amongst children on the importance of their parent's occupation and to strengthen parent-child bonding. This year's programme consisted of fun activities for the children including singing, face painting etc. The event included an educational session for parents on relationships and parenting. UA has plans to extend this initiative to the branch level in the future.

UA T20 Cricket Carnival 2012

This event was held for all staff members and their families providing an opportunity for staff from various parts of the country to join together as one family to foster fellowship and interaction. Many activities were arranged targeting different age groups in addition to the six a side cricket match, to ensure maximum participation.

Mercantile Sports Tournaments

UA firmly believes that sportsmanship is a key ingredient to be successful in the corporate realm. Hence, company encourages sport and participates in a number of mercantile events. In 2012 UA won the mercantile "A" Division Basketball Tournament.

Flexi-hours

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

UA Recreation Club

UA's Recreation Club organised several events including "Calypso Night," "Hopper Night" and "Halloween Night" to foster camaraderie among staff. These events provided an opportunity for our staff to relax, have fun, develop team spirit and network with others. In addition, the

Sustainability Report Contd. Employees Contd.



Participants at Bring Your Child to Work day

recreation club contracted several leading establishments to provide goods and services at special rates and easy payment terms to our staff.

Other key activities in the recreation club calendar include the Wesak lantern and Christmas tree competitions as well as Wesak bakthi gee and Christmas carols

Divisional Annual Get-together

Divisional team outings were organised with the objective of fostering team spirit. This initiative provided staff another opportunity to make UA more than just a work place and enjoy with superiors, peers and subordinates.

Dress-down Day

We believe that our people need a break from routine and need to feel relaxed. Thus, Fridays are dress-down days at UA. This is another initiative to empower our people to act with responsibility while enjoying freedom of choice.



The UA T20 Cricket Carnival

SUSTAINABILITY REPORT

FIELD STAFF

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

The charter applicable for field staff outlined on page 141 highlights our key commitments to our field staff. The progress we have made during the year is summarised below.

1. Training and development

- Achieved 412,562 training hours
- Completed 81,819 e-learning and distance learning hours during the year
- Enhanced training infrastructure with e-learning
- Expanded panel of regional trainers

2. Initiatives to Enhance Productivity and Professionalism

- Launched “Brilliant Starter” and “Brilliant Starter Coach” programmes
- Launched leadership academy, Millionaire Income Table (MIT) and MIT Dream Team Programmes
- Introduced Digital Advisor Toolkit (DAT) enabling over 2,000 advisors to improve their efficiency and effectiveness
- Continued to invest in internal certification programmes and 727 sales forces members were certified during the year
- Implemented a “one-stop-shop” for sales staff to facilitate speedy disbursement and financial support to purchase pre-approved sales tools.

3. Reward and recognition

- Recognised 400 top achievers at the annual awards ceremony
- 108 LIMRA award winners
- 21 MDRT qualifiers
- Provided overseas tours for best performers

Training and Development Activities

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

Training for Field Staff and Management	2012			2011		
	Average Cadre	Total Training Hours	Per Capita Training Hours	Average Cadre	Total Training Hours	Per Capita Training Hours
Regional and life sales managers	205	12,325	60.1	166	4,982	30.1
General sales staff	192	1,972	10.2	207	8,234	39.8
Bancassurance sales / support staff	261	9,320	35.7	65	7,388	133.6
Unit leaders	573	54,141	94.4	486	49,334	101.5
Advisors - Life	3,435	199,206	57.9	3,286	233,409	71.0
Advisors - Non-life	530	53,800	101.5	302	19,062	63.1
Total	5,196	330,764	63.6	4,512	322,409	71.5
Including e-learning and distance learning	5,196	412,584	79.4	4,512	322,409	71.5

The total class room based training hours increased from 322,409 hours to 330,764 hours. In line with our strategy, overall per capita training hours in 2012 increased to 79.4 from 71.5 hours due to the increase in e-based learning. A minimum of four training days has been achieved across all categories. The field staff members who require the most amount of training (ranging from technical, soft skills, motivational and professional coaching) were allocated an average of ten per capita training days. The increase in cadre is significant and a focused strategy including the recently implemented e-learning solution enabled the trainers to reach a wider audience and cater to the increased demand.

Training resources were aligned with the distribution structure which was expanded in 2012 (with the creation of additional zones), thus providing everyone easy and quick access to learning and development opportunities. The table below details the programmes conducted at zonal level for life field staff.

Zone	No. of Programmes	No. of Participants
North	67	1,422
North Central	37	1,205
Kurunegala	40	1,651
Western 1	30	932
Western 2	58	1,740
North Western	10	461
Uva	60	1,609
Eastern	44	718
Southern	49	1,697
Metro 1	27	961
Metro 2	26	1,370
Common	145	4,383
Total	593	18,149

Sustainability Report Contd. Field Staff Contd.

The total number of programmes conducted during the year has increased significantly indicating UA's commitment to training and developing the field sales force.

e-Learning

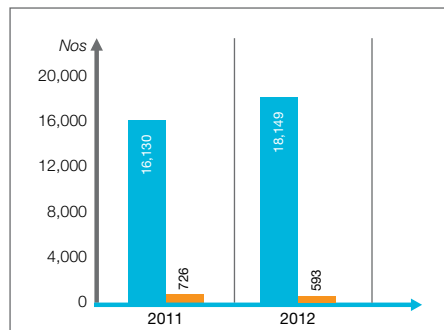
"Learn Easy" is an e-learning system made available to each and every Union Assurance field and office member. The Learn Easy system is set to take over almost 70% of the training requirement of the organisation. Field staff can access the system at anytime from anywhere and have access to various courses created by trained professionals. Various reading material is available on the system's digital library in text, audio and video form. The system provides an e-learning workshop and case study based learning system and includes a variety of knowledge enhancing information that is useful for a person engaged in an industry that is fast evolving. With of over 800 lap tops and 30 tablet PC users, usage of e-learning is increasing at a considerable pace.

In total, 81,819 training hours have been completed during the year through e-learning and distance learning methodologies.

e - learning and distance learning 2012	Average Cadre	Total Training Hours	Per Capita Training Hours
Advisers - life insurance	3,333	45,049	13.52
Field and sales management staff - life insurance	789	17,157	21.74
Branch managers and above	50	901	18.02
Sales and non sales staff - non life insurance	998	18,712.	18.74
Total	5,170	81,819	15.83

Regional Panel of Trainers

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



Focus on Training and Development

■ No. of participants
■ No. of programmes

regional trainers to conduct training upto the IBSL licensing examination.

The initial programmes only certified trainers in Sinhala and English languages. During 2012 the regional trainers trained over 2,154 new recruits in all three languages including 137 trainers in Tamil language.

Leveraging Training Infrastructure

Our Kurunegala regional training centre was used optimally during 2012 to conduct various training sessions for regional field staff members. In total 76 programmes were conducted for 2,528 participants spanning over 104 days.

Initiatives to Enhance Productivity and Professionalism

In order to enhance the productivity and professionalism of the field sales force, we have developed productivity enrichment programmes an internal certification programmes, launched IT based applications, provided financial assistance to purchase latest technology

and encouraged our field staff to qualify for LIMRA (Life Insurance Market and Research Association) USA awards.

Productivity Enrichment Programmes Brilliant Starter Seminar

The Brilliant Starter initiative was launched by Learning and Development (L&D) unit of the company with the intention of enhancing the confidence and competencies of the new life advisers. The objectives of this initiative are to develop new advisers to work independently and to maintain productivity after the first three months of their career and to inculcate the habit of need-based selling. As at 31st December, 403 new life advisers have been recognised as Brilliant Starters.

Brilliant Starter Coach Programme

"Certified Brilliant Starter Coach" is a recognition programme for leaders who produce three or more brilliant starters. This is to recognise their efforts to develop and mentor Brilliant Starters. During the year, 23 Unit Development Officers have been recognised as Brilliant Starter Coaches.

Leadership Academy

The Leadership Academy was launched to develop a pool of sales leaders capable of delivering the company objectives and navigating the rapid change taking place in the industry. This programme contains a series of practical leadership development sessions in addition to the class room based training conducted by the L&D unit.

Millionaire Income Table (MIT) and MIT Dream Team Programme

The company formed "Millionaire Income Table" (MIT) for elite advisors who earn an annual income of rupees one million or above. The objective of this initiative is to develop these advisors to be on par with other best achievers in the Industry. The programme was held at Cinnamon Lakeside, Colombo.

The objective of the MIT Dream Team programme is to identify advisors who have potential and aspirations to join the MIT and provide them with required training and guidance to be part of the elite group.

Internal Certification Programmes

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

Certified Insurance Advisors and Unit Leaders

UA launched an internal certification programme in 2008 for insurance advisors and unit leaders. The certificate is awarded upon completion of specified training modules and the candidate must also have maintained a consistent business performance. As per this scheme, the number of certified advisors increased from 991 in 2011 to 1,265 in 2012, and in the number of certified unit leaders also increased from 297 in 2011 to 303 in 2012.

Certified Investment Planner

This internal certification programme was developed to enhance the technical knowledge and professionalism of field staff members in relation to unit linked products. Potential candidates were

chosen based on business performance and sales experience. The certification is awarded upon successful completion of an examination post a two day training programme. In total 2,972 (during the year 333) CIPs have been certified including sales and regional managers.

Certified Sales Professional

This certification programme was introduced for non life sales officers to recognise their business performance. "Certified Sales Professionals" must achieve their sales targets for six consecutive months and complete the required training programmes to be eligible for this designation. In total 114 sales officers have been certified as CSPs during the year.

Certified Insurance Practitioner

This programme strengthens the non life technical knowledge and skills of the corporate distribution team. Each participant needs to undergo twelve training modules covering all classes of business to be eligible to sit for the final evaluation test and receive the certificate. During the year, 37 staff members have been certified as CIPs.

e-Magazine "SALES MASTER"

We have launched a monthly e-magazine namely "Sales Master," focusing on

personal development of sales staff members. This type of e-magazine for personal development through light reading is unique in the insurance industry. There is an increase in the readership, feedback, suggestions and contributions for the magazine which now has completed two years of successful circulation.

Empowerment of the Sales Force Digital Advisor Toolkit (DAT)

The Digital Advisor Toolkit (DAT) is the only comprehensive digital solution available in the local insurance industry. The DAT was designed to be compatible with laptops, tablet PCs and smart / mobile phones.

It is a useful tool when carrying out a sales presentation and allows this sales person to customise the product offering to suit to the customer's requirements. Through the Resource Centre integrated into the DAT, the adviser is able to access the latest corporate information that can be instantly shared with the customer. If the customer requires further time to assess the solution presented, the DAT allows the advisor to email a PDF version of the quote to the customer directly. During the year 2,000 CIPs have successfully completed the required training and are effectively using the DAT in the field.



Top achievers

Sustainability Report Contd. Field Staff Contd.

eMotor and Pre-underwritten Non Motor Products

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

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

Union Assurance is probably the only insurance company in the country to empower sales staff to issue policies instantaneously. This has speeded up the sales process and has provided the sales staff with greater convenience.

Leveraging Technology to Improve Productivity

UA continued with its endeavor to encourage field sales staff to use novel technology to enhance their productivity and provide a better service for their customers. Financial assistance is provided based on their business performance and achievements to purchase laptops and tablet PCs. The number of field staff members using such tools has increased to approximately 750 persons in 2012.

Reward and Recognition

UA pays tribute to 400 top achievers In our 25th year of operations, UA concluded the awards night on a high note at Cinnamon Grand Hotel Colombo. The annual awards night is one of the most anticipated and spectacular events in the UA calendar. Where top class performers are showcased and rewarded. This year's event themed "The Leap Forward," honoured 400 top performers of 2011, an increase of 100 from the previous year. These sales professionals met stringent sales objectives as well as service standards and emerged as the best of the very best.

Overseas Tours

UA continue to incentivise by way of overseas tour opportunities for best performance in the life and non life sales teams. Based on the achievement of sales targets, 35 life sales staff members were provided an overseas tour to Hong Kong and 67 non-life sales staff members were sent on an overseas tour to Dubai, Bangkok and China.

International Recognition Schemes

Union Assurance is driven by the theme "Delivering the Promise of Trust" which is extended through three pillars; Transparency, Convenience and Respect. To achieve this objective, maintaining and enhancing the quality of our sales team is of paramount importance.

Life Insurance Market and Research Association (LIMRA) Winners

We continually encourage the field staff to qualify for LIMRA (Life Insurance Market and Research Association) USA awards. In 2012, 89 advisers were recognised with LIMRA International Awards for Productivity (IAP) while 17 advisers were recognised with the LIMRA Quality

Award (IQA). Two Unit Leaders were also recognised with the LIMRA International Quality Management Award.

Million Dollar Round Table (MDRT)

UA has been promoting the prestigious Million Dollar Round Table (MDRT) award to our sales force for ten consecutive years. In 2012, the company was able to produce 21 MDRT qualifiers. MDRT members demonstrate exceptional professional knowledge, strict ethical conduct and outstanding client service while being recognised internationally as the standard of sales excellence in the life insurance and financial services business.

MDRT Experience

This year's MDRT Experience Conference attracted over 4,500 international insurance professionals, out of which 23 professionals were represented by Union Assurance. This was the highest number of attendees from Sri Lanka at the MDRT Experience Conference from a single insurance company.



MDRT experience participants

LIMRA Awards	2012	2011
Number of LIMRA International Quality Award winners	17	34
Number of LIMRA Productivity Award winners	89	78
Number of International Quality Management Awards	2	5
MDRT participants	21	2

Case Study



Digital Adviser Toolkit - Digitalised sales process

The Digital Adviser Toolkit is a trilingual, laptop and tablet supported web-based solution for the sales teams to identify the customer’s need and generate quotation and illustration at the sales location itself. This makes the sales process more convenient and transparent to both customer and field staff member.

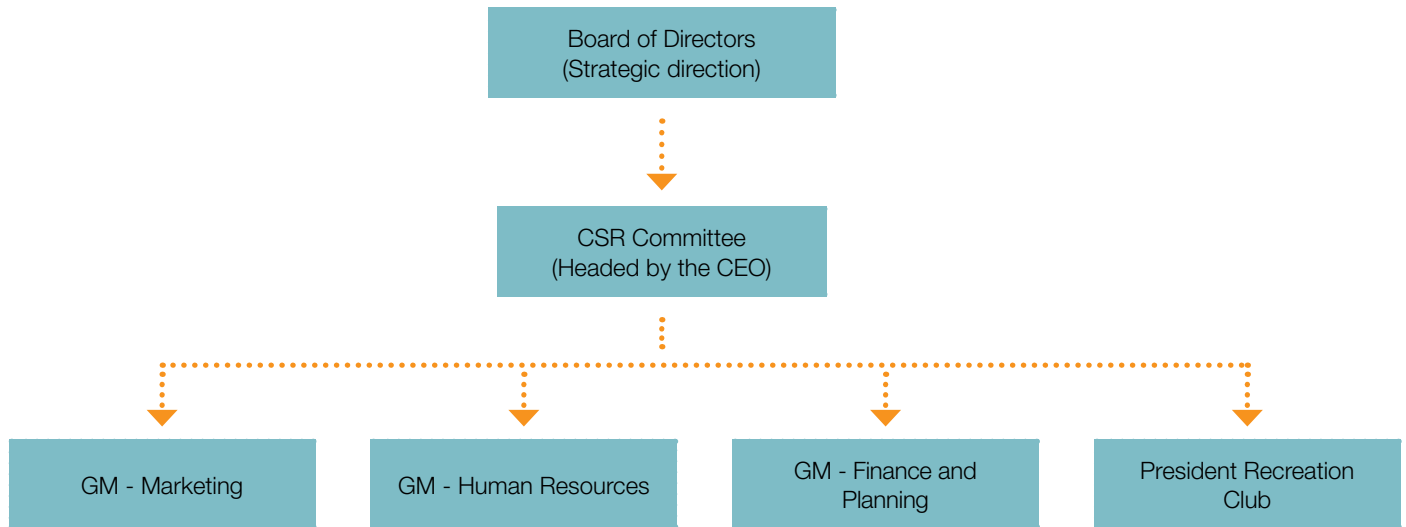
SUSTAINABILITY REPORT

COMMUNITY

Corporate Social Responsibility Committee

Our CSR Committee outlines CSR strategies of the company in line with the expectations of the various stakeholders and ensures that business activities are focused on, improving the health and wellbeing of the communities that the company serves.

The structure of the CSR committee is as follow:



UA collaborate closely with the ministry of Health and Sri Lanka Police, to implement two strategic CSR platforms which benefit the community and align with our business objectives viz.

1. Safety awareness programmes
2. Health awareness programmes

Responsibilities toward the community form a natural part of the company's business culture and progress we have made during the year in this regard is summarised below:

Improve the welfare of the community

- Traffic awareness programmes for school children and vehicle drivers (school van drivers and bus drivers)
- Union Day on road safety and seat belt safety for children
- Dengue awareness programmes conducted island-wide
- Maintenance of crime prevention hoardings
- Pre-school teachers training programme
- Seminars for pregnant mothers
- White cane donations for the visually-impaired
- Blood donation campaign

Safety Awareness

Safety is a key aspect when it comes to insurance, and creating a risk-averse environment by educating the public on workplace safety and safety on the road is of vital importance. Union Assurance has taken the initiative to educate and enhance the levels of safety within the communities in which the company operates. This is carried out in partnership with the Sri Lanka Police. Mentioned below are the projects successfully conducted during the year:

Crime Prevention Hoardings

One of the key safety related projects is the crime prevention hoardings displayed island-wide. This project has been conducted in partnership with the Sri Lanka Police since 2005, with a objective of ensuring safety and building citizens who respect the rule of law. The intention is to reduce crime rates in the country and this is achieved by erecting display boards carrying telephone numbers of district Police stations, as well as promoting and educating the general public on emergency Police numbers. Hoardings also keep motorists advised as to which Police jurisdiction they are travelling through.

To date, the project has covered the entire island and more than 332 hoardings have been erected, which carry telephone numbers of relevant Police stations. The company continues to invest in maintaining the hoardings at the required standard.

Traffic Awareness Programmes for School Children (Certified Traffic Warden)

As per available statistics, a sharp rise in the number of accidental deaths in the country has been reported on roadways. In order to reduce this, UA, along with the Sri Lanka Police, conducts programmes in schools to educate children on general traffic rules and regulations. UA also conducts a special programme for school traffic wardens. After the completion of this programme, the company issues participants a certificate endorsed by the Sri Lanka Police, certifying them as traffic wardens and also provides the school wardens branded jackets. To date over 600 school children in the Colombo and Puttlam Districts have been covered by the programme.

District	No of participants
Colombo	200 school children
Puttalam	450 school children

Traffic Awareness Programmes for Drivers

Traffic awareness programmes for drivers is conducted with the support of the Sri Lanka Police in identified high risk areas. Drivers are educated on the importance of safe driving and road rules and regulations. As summarised below, approximately 2,500 drivers and public have been covered in the programme.

Area	No. of participants
Panadura	2,000 general public
Kandy	500 drivers

Road Safety and Seat Belts for Children

UA together with the Sri Lanka Police launched a public awareness programme on road safety, where staff of UA distributed over 200,000 leaflets on traffic rules and road safety. Furthermore, over 25,000 leaflets on child seatbelt safety were also distributed to educate parents regarding precautions to be taken when driving with children.

Health Awareness

With the support of the Ministry of Health, UA continues to invest in creating awareness and uplifting health



Traffic awareness programmes for school children

infrastructure. Mentioned below are the projects UA conducted during the year:

Dengue Awareness

The menace of dengue is a pressing issue affecting the entire island. In this light, as a direct CSR initiative, the company held monthly programmes to create awareness about this deadly disease. The awareness campaign was first launched internally to the entire staff of UA and then took to the street in the form of a fully-fledged 360 degree campaign, including educational and prevention activities. The campaign was not strictly Colombo-centred, with brochures and posters distributed island-wide. UA received encouraging feedback from the community, with requests to conduct such programmes at regular intervals.

Regional Dengue Awareness Programmes

Apart from the Union Day programmes, a few programmes in selected geographic areas where high levels of dengue cases have been reported were carried out with the support of the Ministry of Health, Sri Lanka Police, Grama Sevakas of the areas, and the Municipal Council.

This project was a great success as representatives of the Municipal Councils were able to identify potential dengue breeding grounds. UA designed stickers which were pasted in the households visited to highlight the risk level. The stickers contained the following:

- a. Green sticker - for households free from any risk of dengue breeding mosquitoes
- b. Yellow - for households with the potential for breeding dengue mosquitoes
- c. Red - for households with active dengue breeding places

In total approximately 5,900 households in Jaffna and Badulla area were covered under this scheme.

Sustainability Report Contd.
Community Contd.

Representatives of Union Assurance and the authorities revisited the households marked yellow and red to ensure that preventive actions have been taken.

Pregnant Mothers Education Programme

UA carried out programmes and seminars targeting pregnant mothers on the topics of maternal and child nutrition, early childhood development, and child psychology. Fathers were also encouraged to participate, in a move to create collective and educated parenting. There was a good response from all participants, with knowledge dissemination carried out by well-known and educated resource personnel, which included respected members of the medical community.

Pre-School Teachers Training Programme

UA continued with the initiative of updating the knowledge of pre-school teachers on the latest teaching techniques, child psychology and emphasised how to identify and nurture the inherent talents and skills children possess. The programme was facilitated by Mr. Vimal Udupila.



Dengue Eradication Programme

Other Corporate Social Responsibility Activities

White Cane Donations to the Visually-Impaired

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

Blood Donation Campaign

In collaboration with the National Blood Transfusion Service (the Central Blood Bank), UA's annual blood donation campaign was organised for the 14th consecutive year. It was well-attended by UA staff and well wishers.

Staff Volunteerism

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

Objective	Number of Volunteers
HIV / AIDS awareness programme	15
Kala Pola	02
English language education	20

Divisional CSR programmes

Some divisions of UA have conducted CSR activities with their own contributions with the noble objective of lending a helping hand to members of the community who are less fortunate.

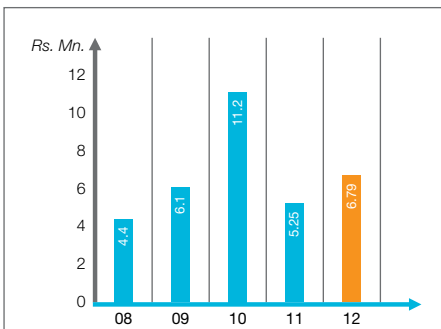


Dengue Eradication Programme



Blood Donation Campaign 2012

The Life Division of UA individually raised funds and contributed to the Cancer Home, an establishment situated in close proximity to the National Cancer Hospital in Maharagama. The Cancer Home aims to provide accommodation and care to over 83 patients and provides nutritious food, comfortable accommodation, nursing, and immediate medical attention when required free of charge. Over 25 staffers of Union Assurance took part in this project. After donating dry rations and medicine, the staff organised a religious session in aid of the patients and provided dinner for the patients.



Investment on Community Activities

SUSTAINABILITY REPORT

SHAREHOLDERS

Existing and Potential Investors

UA is committed to delivering an enhanced shareholder return which is sustainable, while continuing to meet the company's medium and long term objectives. The progress achieved during the year in respect to commitments to our shareholders is summarised below.

1. Increased return on investment

- Achieved a combined GWP growth of 12%
- Recorded a PAT growth of 33%

2. Sustainable business performance

- Reviewed and enhanced the risk management framework
- Continued reinsurance arrangements with established, reinsurers who have been rated at least an 'A' by international rating agencies
- Tightened internal controls
- Ensured compliance with relevant regulatory and statutory requirements

Financial performance

Total non-life and life premiums increased by 12% from Rs. 8.7 billion reported in 2011 to Rs. 9.7 billion in 2012. Profit after tax increased from Rs. 695 million in 2011 to Rs. 921 million in 2012 recording a growth of 33%.

Earning Value

Earnings per share (EPS) in 2012 was Rs. 12.28 giving a price earnings (P/E) ratio of 6.76. An investment of Rs. 1,000 at UA's IPO is now valued at Rs. 83,387.

Dividends Recommended and Paid

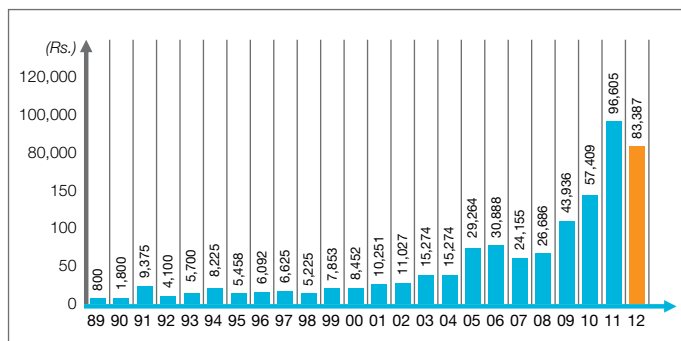
The Board of Directors has recommended a dividend of Rs. 5.00 per share for approval by the shareholders at the AGM. The dividend payout from 2012 profits will amount to Rs. 428.5 million.

Financial Performance Indicators

Economic	2012	2011
Gross written premium Total amount we receive from life and non-life customers as payments for their insurance policies	Rs. 9.7 billion	Rs. 8.7 billion
Net written premium Gross written premium minus the amount ceded to reinsurers	Rs. 8.6 billion	Rs. 7.6 billion
Net profit* Profit after tax attributable to our ordinary shareholders from life and non-life insurance businesses	Rs. 921 million	Rs. 695 million
Return on net assets* Net profit attributable to our ordinary shareholders as a percentage of net assets as at year end	21%	21%

Shareholders	2012	2011
Earnings per share*	Rs. 12.28	Rs. 9.27
Share price (year end)	Rs. 83.00	Rs. 108.10
Dividends per share*	Rs. 5.00	Rs. 5.00
Market capitalisation (Rs. billion)	Rs. 7.1	Rs. 8.10
Price earnings ratio	6.76 times	11.66 times

* Information for the last year has been restated to reflect convergence to SLFRS / LKASs.



Rs. 1,000 Invested in UA IPO

Achieving Sustainable and Profitable Growth

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

Manage claims expenses	<ul style="list-style-type: none"> SMS based claim settlement process extended to settle claim payments at any garage which will ensure that claims are settled only after a proper evaluation Strengthened the claims inspection process increasing the number of technical executives responsible for conducting inspections at accident site Expanded the scope of the motor claims audit process
Leverage IT to improve people, productivity, distribution effectiveness and customer service	<ul style="list-style-type: none"> Pioneered in using Android technology to provide superior customer service Digital image transfer of medical documents facilitates quick approval of hospitalisation claims Revamped digital adviser toolkit providing sales aids for “Union Challenger” policies with the capability of producing trilingual quotations and illustrations Launched web based travel insurance product
Expand alternate distribution channels	<ul style="list-style-type: none"> Bancassurance network was further expanded by partnering with an established local bank A service counter was opened within the Keells outlet at K-Zone Expanded relationships with financial institutions
Manage overheads	<ul style="list-style-type: none"> Continued with expense benchmarking process across all branches Consciously rationalised discretionary expenses Continued the strategy of opening new business development offices which require less capital and operating expenses than a traditional branch

Strength and Stability

In order to strengthen the capital position of the company in line with regulatory requirements, in October 2012, the company announced a rights issue of 1 ordinary share for every 7 ordinary shares held, at a price of Rs. 70/- per share. The rights issue was fully subscribed and together with the increase in the company’s profitability, resulted in the net asset position increasing from Rs. 3.2 billion in 2011 to Rs. 4.2 billion in 2012.

Corporate Governance

The Board of Directors are responsible to shareholders for creating and delivering sustainable shareholder value and conscious that a strong corporate governance framework is critical to maintaining investor trust and business integrity.

The details of the overall corporate governance structure are provided on pages 82 to 135 of this report

Risk Management Initiatives

The company has a robust risk management framework with a Risk Management Committee chaired by the CEO. All functions are represented by relevant senior management staff. The objectives of the Committee are to identify risks which will impact UA’s performance and implement suitable mitigation / management strategies.

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

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

UA’s risk management process is provided on pages 125 to 135.

Business Continuity Planning

Selected sections of the company’s business continuity plan were tested during the year. An external consultancy firm was selected to independently review the company’s business continuity plans to ensure that UA has a robust plan in place to respond to any disaster situation. This initiative will be carried forward to the next year to address the suggested improvements.

Performance Management

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

Sustainability Report Contd. Shareholders Contd.

performance governance framework are provided on pages 117 to 121 of Corporate Governance report.

Awards and Recognitions

Union Assurance continues to be recognised both nationally and internationally.

2011 annual report won several accolades at the annual report awards ceremony conducted by the Institute of Chartered Accountants of Sri Lanka, including Gold Award for Corporate Governance Disclosures, Best Report in the Insurance Sector and the Overall Silver Award for the Best Annual Report.

Our sustainability practices were recognised by the Association of Certified Chartered Accountants (ACCA) as we were placed 2nd in the Medium Scale category. These awards reflect UA's commitment to good governance reporting and transparency.

UA's IT infrastructure also received regional recognition. The integrated customer service solution developed to handle motor claims received the "Best Insurer Technology award 2012" accolade from Celent and Asia Insurance Review. This prestigious award recognises excellence and innovation within the insurance industry in the Asia Pacific Region.

Union Motor Reload, the only motor insurance product in the market which provides cover for one, three or six months was shortlisted for "Innovation of the Year" at the Asia Insurance Industry Awards 2012 organised by the Asia Insurance Review as well.



ICASL Annual Report Awards 2012

SUSTAINABILITY REPORT

ENVIRONMENT

We are committed to continuously identify all potential impacts on the environment due to our own actions and manage such impacts in a more sustainable and efficient manner. Proven policies and strategies are in place to control our own impacts and resources, including oil, trees, water, electricity and waste.

Our performance during the year against our commitment to the environment is summarised below.

Minimise Waste and Environmental Impact

- Computed carbon footprint of our operations
- Reduced electricity usage at the head office by 60,550 kwh
- Conducted awareness sessions on

efficient usage of natural resources e.g. "UA Bike to Work Day"

- Conducted energy audits at branch level
- Used 269 toners manufactured recycling used cartridges
- Continued with decomposing / recycling of e-waste
- More than 498 trees saved by recycling used papers
- Continued with our strategy to leverage technology to minimise impact on the environment

Carbon Footprint

We partnered with Carbon Consulting Company (Pvt) Ltd to carry out the computation necessary to arrive at the carbon footprint of our operations in accordance with the Greenhouse Gas

Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in a partnership with the World Business Council for Sustainable Development and the World Resource Institute. Carbon dioxide and other greenhouse gases emitted is summarised under three main scopes below

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

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

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

Scopes	Tones of CO2e per year	%
Scope 1	98.15	2.2%
On site fuel - generators	3.77	0.1%
Company long term leased vehicles	94.38	2.1%
Scope 2	1,119.04	24.6%
Grid electricity	1,119.04	24.6%
Scope 3	3,338.29	73.2%
Grid electricity transmission and distribution loss	180.17	4.0%
Employee commuting	3,149.98	69.0%
Recycled waste	0.2	0.0%
Water supply	7.94	0.2%
Total	4,555.48	100.0%
Emission per employee	4.2 tCO2e per year	
Carbon footprint (tCO2e) per Rs. million of revenue		0.47

The Certificate of Carbon Footprint is printed on page 178.



Sustainability Report Contd.
Environment Contd.

Conserving Energy

The various initiatives to conserve energy usage through out the year has resulted in a significant reduction in per capita electricity consumption at head office.

Year	Consumption (Units)	Employees (Head office)	Units per employee
2008	702,600	382	1,839
2009	654,920	384	1,706
2010	668,040	415	1,610
2011	735,750	410	1,794
2012	675,200	507	1,332

The following initiatives were taken to reduce energy usage during the year

- All burnt electric bulbs were replaced with LED lighting.
- Converted “split type” units to “invert type” air conditioning units.
- All air conditioning units were programmed to switch off automatically after office hours.
- Head office and Motor Center are equipped with capacitor banks to minimise energy waste due to power factor variations.
- All lighting units were tagged and switches were numbered making it easy for staff members to switch on / off lighting of respective work stations.

Awareness Programmes

During the year UA launched several campaigns to increase awareness

among staff members in relation to their responsibility and consequences of their actions in order to minimise the impact of their activities on environment.

A sticker campaign carried out included pasting colourful eye-catching notices near electricity switchers and water supply units to remind staff about the necessity to conserve energy resources.

The “UA Bike to Work Day” was initiated with the objective of enhancing awareness among our staff members and the daily commuters to Colombo city of the significance of having a “Cleaner Colombo” where we spend the greater part a day.

Energy Audits

Energy flows of selected branches were analysed with the view of improving the efficiency of energy utilisation. Energy consumption was quantified at each branch and baseline energy consumption levels were established. Actions have been implemented to bring energy usage in line with the baseline levels at branches where energy wastage have been identified.

Recycling Printer Cartridges

Our agreement with R&G Toners to recycle printer cartridges continued in 2012. The company bought back 269 (2011 - 320) toners manufactured using used cartridges. This is yet another useful initiative which ensures that plastics are reused and environmentally hazardous chemicals are not disposed of irresponsibly.

Recycling E-Waste

During the year we have decomposed / recycled approximately 276 kilograms of electronic waste through Man Hing International (Asia) Ltd. The Central Environment Authority has appreciated the initiative UA has taken to ensure an e-waste free environment.

Recycle And Re-Use Of Papers

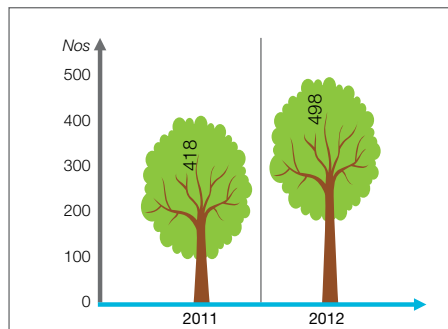
Our agreements with Neptune Papers (Private) Limited and National Paper Company (Private) Limited to recycle used paper continued throughout the year. The



“UA Bike to Work Day”

actual saving due to this arrangement, in terms of resources, is represented in the following table.

Description	Savings (Units)	
	2012	2011
Trees	498	418
Water (Liters)	93,004	78,064
Electricity (Kilowatts)	117,061	98,256
Oil (Liters)	51,360	43,110
Land fill (Cubic Meters)	87.79	73.69



No. of Trees Saved

Re-use Waste Water

Water, discharged by the cooling units of air conditioning machines at head office is re-used to wash all company vehicles. This initiative has helped UA save approximately 212,000 liters of water during the year.

Leveraging Technology to Reduce Paper Consumption

We continued with our efforts to reduce paper consumption through the use of information technology.

The Digital Adviser Toolkit (DAT) significantly reduces the paper based documents required in carrying out sales transactions. Details that customers require in relation to quotations and products could be e-mailed to customer to be accessed at his / her convenience.

Further, digital image transfer facility used in finalising hospitalisation claim payments has saved considerable amount of resources in terms of photocopying documents, thus reducing the burden on mother nature.

Implementation of e-learning and distance learning as alternatives to classroom training programmes and has resulted in less fuel consumption, paper consumption and lower carbon emissions, since staff are not required to travel to the point at which training is delivered, but could access it via web or closer to their areas of operations.



SUSTAINABILITY REPORT

CERTIFICATE OF CARBON FOOTPRINT



No 15, Havelock Place
Colombo 05
Phone : 0117 208 208
www.carbonconsultingcompany.com

22nd February 2013.

Certification of Carbon Footprint

This is to certify that The Carbon Consulting Company has calculated the carbon footprint emitted from the following emission sources for Union Assurance Plc.

- * Energy Consumption
- * Employee Commute
- * Long term leased vehicles
- * Water supply
- * Recycled Waste
- * Fugitive Emissions

Our calculations have been carried out in accordance with the **Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol)** developed in a partnership with the *World Business Council for Sustainable Development* and the *World Resources Institute*. This standard provides guidelines regarding organizational and operational boundaries, quantification and standard reporting practices.

Our calculations have applied the methodologies stipulated in the GHG Protocol to limited scope requested for by the company, and are based solely on information that the company has provided which has not been independently verified.

Yours faithfully,

The Carbon Consulting Company

Sanith de S. Wijeyeratne

Chief Operating Officer

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Carbon Consulting Company (Pvt) Ltd
Registered office : 104/11 Grandpass Road, Colombo 14, Sri Lanka.

SUSTAINABILITY REPORT

REINSURERS AND SUPPLIERS

Reinsurance Arrangements

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

Suppliers

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

Suppliers with Direct Contact to Customers

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

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

Other Suppliers

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




services. The supplier selection process considers the following attributes of a product or service (as applicable) prior to making a firm commitment.

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

SUSTAINABILITY REPORT

PERFORMANCE SUMMARY AND GOALS FOR 2013




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

Goals set for 2012	Commentary	Achievement
Significantly increase the customer satisfaction level in claims servicing	76% of motor customers surveyed were happy to renew their motor policies with UA.	
100% usage of e-motor and pre-underwritten solutions	Usage of e-motor system increased to 64% from 33% achieved last year	
Simplify policy documents to enhance transparency	Simplified sales process, pricing and documentation requirements for Union Health Net product	

Goals for 2013

- Continuous improvement in service standards
- Ensure optimal use of web based motor and non motor systems
- Continue to provide value added benefits to customers




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

Goals set for 2012	Commentary	Achievement
Expand unit linked product portfolio	Re-launched the unit linked product range; <ul style="list-style-type: none"> • Builder product: Introduced additional rider covers • Booster product: Higher allocation rates were introduced • Provider product: Improved life cover 	
Maintain life service standards	Maintained life service standards at satisfactory levels	
Implement customer portal to access details of unit linked products	Finalised the design specifications of new customer portal and development in progress	

Goals for 2013

- Upgrade health insurance products
- Maintain life service standards
- Expand the usage of bank standing orders

Status Key

Achievement	Colour
Achieved satisfactory	
Partly achieved	
Not achieved	

Employees - The Secret behind our Success

Goals set for 2012	Commentary	Achievement
Introduce behavioral / roof competencies	Launched behavioral / roof competencies	<input checked="" type="checkbox"/>
Introduce executive development programme	Launched an executive development programme	<input checked="" type="checkbox"/>
Introduce service champions award to recognise staff members involved in support services	Launched "Service Champions" award scheme to recognise best performers in support services	<input checked="" type="checkbox"/>

Goals for 2013

- Implement role clarification across the organisation to clearly define the role of each staff member
- Upgrade HR system and implement recruitment module to streamline talent attraction process
- Continue with talent management initiatives

Field Staff - Enabling Professionalism and Productivity

Goals set for 2012	Commentary	Achievement
Enhance new adviser productivity	Launched brilliant Starter and brilliant starter coach programmes to enhance new adviser productivity	<input checked="" type="checkbox"/>
Promote e-learning to significantly enhance the per capita learning	Per capita training hours in 2012 has increased to 79.4 hours from 71.5 hours in 2011	<input checked="" type="checkbox"/>

Goals for 2013

- Continue to promote IT based learning and development tools
- Introduce initiatives to brand field staff members

Community - Earning Community Trust

Goals set for 2012	Commentary	Achievement
Enhance awareness among the general public on preventable diseases.	Dengue awareness programmes conducted island-wide	<input checked="" type="checkbox"/>
Maintain Police hoardings in an organised manner	Maintained 332 Police hoardings throughout the country	<input checked="" type="checkbox"/>




Goals for 2013

- Enhance awareness among the general public on road safety
- Continue with health awareness programmes

Sustainability Report Contd.

Performance Summary and Goals for 2013 Contd.



Shareholders - Sustaining Shareholder Value

Goals set for 2012	Commentary	Achievement
Grow non life insurance premium by 26%	Non life insurance premium grew by 9%	
Grow life insurance premium by 33%	Life insurance premium grew by 13%	
Grow profit after tax by 14%	Profit after tax grew by 33%	

Goals for 2013

- Grow non life insurance premium by 20%
- Grow life insurance premium by 20%
- Grow profit after tax by 15%

Environment - Managing environmental impact

Goals set for 2012	Commentary	Achievement
Implement actions to reduce electricity usage at head office	Electricity usage at the head office reduced by 60,550 kwh	
Continue with 'recycle and re-use' practices to reduce the burden on resources	Continued with recycling and re-using of used papers and used cartridges	

Goals for 2013

- Implement actions to reduce energy usage
- Enhance awareness among staff members about the importance of minimising the impact on environment

SUSTAINABILITY REPORT

PERFORMANCE SNAPSHOTS

Section 1: Customers

Customers	2012	2011	2010
Number of life customers	224,602	207,220	198,983
Number of non life customers	113,686	82,462	69,283.00
Number of life insurance policies	250,511	244,343	221,982
Number of non life insurance policies	142,245	131,221	91,348
Insurance claims and benefits (net) The amount paid out in claims and benefits to life and non life policyholders during the year, as well as an estimate of how much we need to pay on unsettled claims less recoveries from reinsurers	Rs. 5.9 billion	Rs. 5.0 billion	Rs. 4.4 billion
Number of new products	-	2	2
Number of claims assessors	69	58	48
Number of branches	107	102	68
Number of sales and sales support staff trained in customer care	658	438	128
Number of possible location to pay life insurance premium	2,886	2,800	2,400
Intention to Renew (Motor insurance customers)	76% of customers surveyed	80% of customers surveyed	91% of customers surveyed
Number of disputes referred to insurance Ombudsman	Referred 23 Settled 5	Referred 35 Settled 16	Referred 9 Settled 6

Section 2: Employees

Employees - Key Work Place Indicators	2012 Nos	%	2011 Nos	%	2010 Nos	%
Non Sales	636	58	613	61	638	65
Sales	452	42	396	39	351	35
Total	1,088	100	1,009	100	989	100

Representation of Men and Women	2012		2011		2010	
	Women	Men	Women	Men	Women	Men
Board positions	17%	83%	17%	83%	14%	86%
Management positions	16%	84%	15%	85%	15%	85%
Executives	19%	81%	20%	80%	23%	77%
All levels	25%	75%	25%	75%	25%	75%
Staff turnover	18%		19%		18%	

Sustainability Report Contd.

Performance Snapshots Contd.

Employees - Age analysis	2012		2011		2010	
	No	%	No	%	No	%
20 - 30	425	39	377	37	362	37%
31- 40	411	38	379	38	391	40%
41 – 50	212	19	214	21	195	20%
Above 51	40	4	39	4	41	3%

Employees - Employee Engagement	2012	2011	2010
Number of "Shaktiya" magazines	2	1	N/A
Number of management meetings	6	5	4

Employees - Providing a Rewarding Career	2012	2011	2010
Local			
No. of programmes	270	261	298
No. of hours	33,680	31,299	28,165
Foreign			
No. of programmes	34	41	23

Employees - Providing a Rewarding Career contd.	2012		2011		2010	
Number of training days	Benchmark	Actual	Benchmark	Actual	Bench Mark	Actual
Managers	6	17.16	6	6.09	6	5.46
Executives	4	9.1	4	2.43	4	2.06
Non Executives	3	9.05	3	4.94	3	2.83
Learning and Development	Number	Amount (Rs. Mn)	No	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Number of employees on education support scheme	141	3	130	2.4	50	1.8
Number of employees on support for professional memberships	223	1.4	173	1.1	59	0.6
Total training and development expenditure		60		60		49
Number of employee recognition awards	Number	Amount (Rs. Mn)	No	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Sales	352	29	343	23.4	163	15.7
Non Sales	Will be finalised in 2013	N/A	54	0.3	83	0.5

Employees - Providing a Rewarding Career contd.	2012		2011		2010	
	Number	% of total staff	Number	% of total staff	Number	% of total staff
Performance appraisals conducted via PAMS	663	61%	655	65%	495	50%

Section 3: Field Staff

Field Staff	2012	2011	2010
Number of LIMRA International Quality Award winners	17	34	4
Number of LIMRA Productivity Award winners	89	78	34
Number of International Quality Management Awards	2	5	3
MDRT participants	21	2	2
Pass rate for life insurance technical competency test	75%	73%	70%
Pass rate for general insurance technical competency test	74%	N/A	N/A
Number of field staff	4,662	4,442	3,173
Per capita training hours	79.4	71.5	78.6
Commission paid to field staff (Rs. Mn.)	1,390	1,284	995

Section 4: Community

Community	2012	2011	2010
Dengue awareness programmes	69	3	N/A
Number of crime prevention hoardings available	332	332	332
Road Safety awareness programmes	62	-	N/A
Number of pre-school teacher training / parent education programmes	9	45	22
Pregnant mother education program	2	-	N/A
Union Day events	2	1	N/A
Blood Donation Campaign	1	1	1
Staff Volunteerism (Number of Volunteers)	37	11	43

Section 5: Environment

Environment	2012	2011	2010
Electricity use at UA Centre	675,200 kwh	735,750 kwh	668,040 Kwh
Number of toners recycled	269	320	182
Number of trees saved recycling used papers	498	418	343

SUSTAINABILITY REPORT

ASSURANCE REPORT



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INDEPENDENT ASSURANCE REPORT TO UNION ASSURANCE PLC

Introduction

We were engaged by the Board of Directors Union Assurance PLC ("Company") to provide assurance on the following elements of the Sustainability Report 2012 ("Report") for the year ended 31 December 2012:

- Reasonable assurance on Financial Performance Indicators, as reported on page 172 of the Report 2012;
- Limited assurance on Performance Snapshots for 2012 as specified on pages 183 to 185 and other information presented in the Report.

Managements' responsibilities and the criteria applied

Management is responsible for the preparation and presentation of the Report in accordance with the GRI Sustainability Reporting Guidelines as described in page 140 of the Report and the information and assertions contained within it: for determining the Company's objectives in respect of sustainable development performance and reporting, including the identification of stakeholder and material issues, and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable & limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with the Sri Lanka Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard requires amongst others that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable & limited assurance about whether the Report is free of material misstatement.

Summary of work performed

Financial data

A reasonable assurance engagement on Financial Performance Indicators reported on page 172 of the Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended 31 December 2012.

Performance Snapshots and the other information

A limited assurance engagement on Performance Snapshots and other information in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.

- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company

Our conclusion

Based on the procedures performed, as described above, we conclude that

- The data on Financial Performance Indicators, as reported on page 172 of the Report 2012 are properly derived from the financial statements of the Company for the year ended 31 December 2012 for which the independent auditors have issued an unqualified audit opinion dated 26 February 2013 on page 209 of this Annual Report;
- Nothing has come to our attention that causes us to believe that the Performance Snapshots for 2012 specified on pages 183 to 185 and other information presented in the Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in page 140 of the Report.

CHARTERED ACCOUNTANTS
Colombo
26 February 2013

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

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

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

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA
R.M.D.B. Rajapaksa ACA

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

SUSTAINABILITY REPORT

GLOBAL REPORTING INITIATIVE INDEX

GRI Indicator		Report Section	Page No
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organisation	Sustainability report - CEO's statement	137 - 138
1.2	Description of key impacts, risks, and opportunities	Management discussion and analysis / Risk management	25 - 81 / 125 - 135
2. Organisational Profile			
2.1	Name of the organisation	Union Assurance PLC	N/A
2.2	Primary brands, products, and/or services	Management discussion and analysis / Sustainability report – Customers	70 - 72 / 145 - 149
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Management discussion and analysis	25 - 81
2.4	Location of organisation's headquarters	No. 20, St Michael's road, Colombo 03	N/A
2.5	Number and name of countries where the organisation operates	Sri Lanka	N/A
2.6	Nature of ownership and legal form	Corporate information	Inner Back Cover
2.7	Markets served	Management discussion and analysis	29 - 56
2.8	Scale of the reporting organisation	Management discussion and analysis	29 - 81
2.9	Significant changes during the reporting period	Rights issue of 1 for 7 was carried out	N/A
2.10	Awards received in the reporting period	Sustainability report - Shareholders	174
3. Report Parameters			
3.1	Reporting period	1 st January 2012 to 31 st December 2012	N/A
3.2	Date of most recent previous report	December - 2011	N/A
3.3	Reporting cycle	Annually	N/A
3.4	Contact point for questions regarding the report or its contents	Sustainability report - Investor feedback form	193
3.5	Process for defining report content	Sustainability report - Sustainability Committee and charters	140 - 144
3.6	Boundary of the report	Sustainability report - Report scope and boundary	140 - 144
3.7	State any specific limitations on the scope or boundary of the report	Report covers the operations of the company	N/A
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	A single entity	N/A
3.9	Data measurement techniques	Based on actuals	N/A
3.10	Re-statements of information provided in earlier reports	Sustainability report - Shareholders (convergence to SLFRS / LKASs)	172
3.11	Significant changes from previous reporting periods	No significant changes.	N/A
3.12	Table identifying the location of the standard disclosures in the report	Sustainability report - Global Reporting Initiative Index	187 - 191
3.13	External assurance for the report	Independent assurance report from KPMG	186

Sustainability Report Contd.

Global Reporting Initiative Index Contd.

GRI Indicator		Report Section	Page No
4. Governance, Commitments and Engagement			
4.1	Governance structure of the organisation	Corporate governance	82 - 135
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate governance	86
4.3	Highest governance body that are independent and / or non-executive members	Corporate governance	86
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	BACC report / Sustainability report - Investor feedback form	203 - 205 193
4.5	Compensation and performance	Remuneration committee report	124
4.6	Avoiding conflicts of interest	Annual report of the Board of Directors	197 - 201
4.7	Expertise of the governance body	Board of Directors	86
4.8	Internally developed statements of mission or values	Vision, Mission and Our Values	3
4.9	Management of economic, environmental, and social performance	Management discussion and analysis	25 - 28
4.10	Processes for evaluating the highest governance body's own performance	Corporate governance	103 - 104
4.11	Precautionary approach or principle is addressed by the organisation	Risk management	125 - 135
4.12	Externally developed principles or other initiatives	Sustainability report - Community	168 - 171
4.13	Memberships in associations (such as industry associations)	None	N/A
4.14	List of stakeholder groups engaged by the organisation	Sustainability report - What Sustainability Means to Our Stakeholders	140 - 144
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability report - What Sustainability Means to Our Stakeholders	140 - 144
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Sustainability report - What Sustainability Means to Our Stakeholders	140 - 144
4.17	Key topics and concerns raised through stakeholder engagement	Sustainability report - What Sustainability Means to Our Stakeholders	140 - 144
Economic			
Economic performance			
EC1	Direct economic value generated and distributed	Management discussion and analysis	67
EC2	Financial implications due to climate change	Risk management	125 - 135
EC3	Coverage of the organisation's defined benefit plan obligations	Financial information - Note No. 34	302
EC4	Significant financial assistance received from government	None	N/A
Market presence			
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Corporate governance Sustainability Report	94 - 95 179
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Recruited locally / Management discussion and analysis	68 - 81

GRI Indicator		Report Section	Page No
Economic Contd.			
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Sustainability report - Community	168 - 171
Environmental			
Materials			
EN1	Materials used by weight or volume	Not applicable	N/A
EN2	Percentage of materials used that are recycled input materials	Sustainability report - Environment	171 - 178
Energy			
EN3	Direct energy consumption by primary energy source	Sustainability performance highlights	139
EN4	Indirect energy consumption by primary source	Sustainability performance highlights	139
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability report - Environment	176
Water			
EN8	Total water withdrawal by source	Sustainability performance highlights	139
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not applicable	N/A
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not applicable	N/A
Emissions, effluents and waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	Carbon footprint	175
EN17	Other relevant indirect greenhouse gas emissions by weight	Carbon footprint	175
EN19	Emissions of ozone-depleting substances by weight	Not reported	N/A
EN20	NOx, SOx, and other significant air emissions by type and weight	Not reported	N/A
EN21	Total water discharge by quality and destination	Carbon footprint	139
EN22	Total weight of waste by type and disposal method	Not reported	N/A
EN23	Total number and volume of significant spills	None	N/A
Products and services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Not applicable	N/A
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Not applicable	N/A
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	N/A

Sustainability Report Contd.

Global Reporting Initiative Index Contd.

GRI Indicator		Report Section	Page No
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Not reported	N/A
Overall			
EN30	Total environmental protection expenditures and investments by type	Not reported	N/A
Social: Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region	Management discussion and analysis	68 - 69
LA2	Total number and rate of employee turnover	Sustainability report - Performance snapshot	183 - 185
Labour / management relations			
LA4	Percentage of employees covered by collective bargaining agreements	Not applicable	N/A
LA5	Minimum notice period(s) regarding significant operational changes	Stated within the conditions of employment	N/A
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees	A 10 member safety committee is in place	N/A
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	Not reported during the year	N/A
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Not applicable	N/A
Training and education			
LA10	Average hours of training per year per employee by employee category	Sustainability report - People / Field staff	160
LA11	Programs for skills management and life long learning that support the continued employability of employees and assist them in managing career endings	Sustainability report - People / Field staff sections	158 - 161 164 - 165
Diversity and equal opportunity			
LA13	Employees per category according to diversity	Sustainability report - People	157
LA14	Ratio of basic salary of men to women by employee category	Not reported	N/A
Social: Human Rights			
Diversity and equal opportunity			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Not reported	N/A

GRI Indicator		Report Section	Page No
Social: Human Rights Contd.			
Diversity and equal opportunity Contd.			
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Not reported	N/A
Non-discrimination			
HR4	Total number of incidents of discrimination and actions taken	None	N/A
Freedom of association and collective bargaining			
HR5	Freedom of association and collective bargaining and actions taken to support these rights	Sustainability report - People	157
Child labour			
HR6	Child labour and measures taken to contribute to the elimination of child labour	Avoided at the recruitment	N/A
Forced and compulsory labour			
HR7	Forced or compulsory labour and measures to contribute to the elimination of forced or compulsory labour	None	N/A
Social: Society			
Community			
SO1	Impacts of operations on communities, including entering, operating, and exiting	Not reported	N/A
Corruption			
SO2	Percentage and total number of business units analysed for risks related to corruption	All business units are analysed	N/A
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Covered in the code of ethics accessible to all employees / Sustainability report - Employees	N/A
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying	No significant involvement during the year	N/A
Compliance			
SO8	Monetary value of significant fines	No fines were paid during the year	N/A
Social: Product Responsibility			
Marketing communications			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Internal code of conduct on marketing and communications / Sustainability report - Employees	N/A
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No fines were paid during the year	N/A

Sustainability Report Contd.
Global Reporting Initiative Index Contd.

Report Application Levels

		2002 in Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared			✓				
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	GRI Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured

30

15

135

220+

400 YEARS

A COLLECTIVE

ACHIEVEMENT

FINANCIAL REPORT

Content	Note No.	Page No.	Content	Note No.	Page No.
Reports / Statements			Notes to the Statement of Financial Position		
Annual report of the board of directors on the affairs of the company		197	Financial investments	20	273
Chief executive officer's and chief financial officer's responsibility statement		202	Property, plant and equipment	21	285
Board audit and compliance committee report		203	Loans to life policyholders	22	288
Certification of incurred but not reported (IBNR) claims and liability adequacy test (LAT)		206	Reinsurance receivable	23	289
Actuary's report - life		207	Premium receivable	24	291
Statement of directors' responsibility		208	Receivables and other assets	25	292
Independent auditors' report		209	Deferred expenses	26	293
Financial Statements			Cash, cash equivalents and bank overdraft	27	294
Statement of income		210	Stated capital	28	294
Statement of other comprehensive income		211	Other reserves	29	295
Statement of financial position		212	Insurance contract liabilities - life	30	296
Statement of changes in equity		213	Insurance contract liabilities - non life	31	298
Statement of cash flows		215	Reinsurance payables	32	302
Segmental review - statement of income 2012		217	Deferred revenue	33	302
Segmental review - statement of other comprehensive income 2012		218	Employee benefits	34	302
Segmental review - statement of income 2011		219	Other liabilities	35	304
Segmental review - statement of other comprehensive income 2011		220	Deferred tax liabilities	36	305
Segmental review - statement of financial position 2012		221	Cash generated from operating activities	37	306
Segmental review - statement of financial position 2011		222	Related party transactions	38	306
Insurance revenue account		223	Number of employees	39	308
Notes to the Financial Statements - Accounting Policies			Capital commitments	40	308
Reporting entity	1	224	Events after the reporting date	41	308
Basis of preparation	2	224	Contingencies	42	308
Significant accounting policies	3	225	Comparative information	43	308
First time adoption of SLFRS / LKASs	4	228	Directors' responsibility	44	308
Management of insurance and financial risk	5	246	Supplementary Information		
New standards and interpretations not yet adopted	6	260	Statement of financial position of the life insurance fund		310
Notes to the Statement of income			Notes to the supplementary information		311
Gross written premium	7	262	Financial investments	1	311
Premium ceded to reinsurance	8	263	Property, plant and equipment	2	314
Net finance income	9	264	Reinsurance receivable	3	315
Net realised gains	10	265	Receivables and other assets	4	315
Net fair value gains and losses	11	265	Cash and cash equivalents	5	315
Other operating income	12	265	Other reserves	6	316
Net benefits and claims	13	266	Insurance contract liability - life conventional	7	316
Underwriting and acquisition costs (net)	14	268	Employee benefits	8	317
Other operating and administrative expenses	15	268	Other liabilities	9	317
Profit before income taxation	16	269	Other Information		
Income tax expense	17	269	Shareholder information		318
Earnings per share	18	271	Quarterly analysis 2012		325
Dividend per share	19	272	Quarterly analysis 2011		326
			Ten year at a glance		327
			Ten year graphical review		329
			Understanding our financials		330
			Glossary of insurance terms		332
			Distribution network 2012		336
			Notice of meeting		339
			Proxy form		343

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

The Board of Directors has pleasure in presenting the annual report together with the audited financial statements for the year ended 31st December 2012 of Union Assurance PLC.

Principal Activities

The principal activity of the company, which is '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 company's vision and mission are provided on page 03 of this report. In achieving its vision and mission all Directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Ethics.

Review of Business

A review of the financial and operational performance and future business developments of the company is contained in the Chairman's Review, Chief Executive Officer's Review and the Management Discussion and Analysis sections of the annual report. These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of the affairs of the company. The segmental contribution of gross written premium, profits, assets and liabilities is provided on pages 217 to 222 of the financial statements.

Future Developments

An overview of the future developments of the company is presented in the Chairman's Review, Chief Executive Officer's Review and the Management Discussion and Analysis sections of the annual report.

Turnover

The total gross written premium generated by the company for the year was Rs. 9,733 million (2011 - Rs. 8,700 million).

Financial Results

The company recorded a net profit of Rs. 921 million for the year. A synopsis of the company's performance is presented below.

Financial Results	2012 Rs.'000	2011 Rs.'000
Profit after taxation	921,268	695,185
Profit brought forward from previous year	1,903,587	1,439,109
Profit available for appropriation	2,824,855	2,134,294
Appropriations		
Dividend paid for previous year	(375,000)	(234,375)
Transfer from revaluation reserve	5,068	3,668
Unappropriated profit carried forward	2,454,923	1,903,587

Financial Statements

The financial statements for the year ended 31st December 2012 are the first, the company has prepared, in accordance with SLFRS/LKASs, the accounting standards issued by The Institute of Chartered Accountants of Sri Lanka to converge with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

The financial statements duly signed by the Directors are provided on pages 210 to 317.

Accounting Policies

The accounting policies resulting from convergence to the accounting standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRS / LKASs) are provided in detail in the notes to the financial statements on pages 225 to 238.

Dividends

The Directors have declared a first and final dividend of Rs. 5.00 per share for the year 2012 (2011 - Rs. 5.00). The Directors have confirmed that the company satisfies the solvency test requirement under Section 56 of the Companies Act No. 7 of 2007 for the final dividend declared. A solvency certificate was obtained from the auditors.

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

Provision for Taxation

The tax position of the company is disclosed in note 17 to the financial statements.

Property, Plant and Equipment

The details of property, plant and equipment are shown in note 21 to the financial statements.

Market Value of Freehold Properties

The land and buildings owned by the company in Kurunegala and at No. 20, St. Michael's Road, Colombo 3 were revalued as at 31st December 2011 to reflect its market value.

The revaluation was performed by Mr. P. B. Kalugalagedera and Associates, Chartered Valuation Surveyor. The details of the revaluation and relevant accounting policies are provided in note 3 and 21 to the financial statements respectively.

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

Reserves

The movement in reserves during the year is set out in the statement of changes in equity. Rs. 5 million was transferred from the revaluation reserve to revenue reserves.

Investments

Details of investments held by the company are disclosed in note 20 to the financial statements.

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 total capital and reserves stood at Rs. 4,309 million as at 31st December 2012 (2011 - Rs. 3,247 million), details of which are provided in notes 28 and 29 to the financial statements.

In order to strengthen the capital position of the company in line with regulatory requirements, in October 2012, the company announced a rights issue of 1 ordinary share for every 7 ordinary shares held, at a price of Rs.70/- per share. At an Extraordinary General Meeting held on 12th November 2012, the shareholders approved the resolution which increased the number of ordinary shares in issue from 75,000,000 to 85,714,286. The rights issue was fully subscribed.

Share Information

Information relating to earnings, dividends, net assets and market value per share is given in the Ten Year Summary. Information on share trading is given on page 320 of this report.

Shareholdings

There were 1,422 registered shareholders, holding ordinary voting shares as at 31st December 2012 (2011 - 1,358). The distribution of shareholdings including the

percentage held by the public is given on page 321 of this report.

Equitable Treatment to all Shareholders

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

Substantial Shareholdings

The list of top twenty shareholders is given on page 322 of this report.

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 Directors declare that;

- a) The company has complied with all applicable laws and regulations in conducting its operations
- b) All material interests in contracts involving the company have been declared by the Directors and they have refrained from voting on matters in which they were materially interested
- c) The company has made all endeavours to ensure the equitable treatment of shareholders
- d) The business is a going concern
- e) A review of internal controls covering financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained a reasonable assurance of their effectiveness and successful adherence
- f) The Company, being listed on the Colombo Stock Exchange (CSE), is compliant with the rules on Corporate Governance under the Listing

Rules of the CSE with regard to the composition of the Board and its Sub Committees

- g) The Company is in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL)

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A fuller report on Corporate Governance is found on pages 82 to 135.

Board Audit and Compliance Committee

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 90. 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 203 to 205 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 executive management of the company have put in place a comprehensive risk identification, measurement and mitigation process. The risk management process is an integral part of the annual strategic planning cycle.

A detailed overview of the process is outlined in the Risk Management Report of the Corporate Governance section of the annual report.

Directors

As at 31st December 2012 the Board of Directors of Union Assurance PLC consisted of six Directors with diverse knowledge and experience. Brief profiles of the directors are given in the 'Board of Directors' section of the annual report and details of their appointment is given below.

Name of Director	Directorship	Year of appointment	Position / Status
A. D. Gunewardene	Chairman / Non-Executive Director	Appointed as alternate Director on 1 st May 1992 Appointed to the Board on 24 th February 2004 Appointed Chairman on 1 st January 2006	Chairman of the Board, BRC and BNC
A. S. De Zoysa	Independent Non-Executive Director	Appointed to the Board on 1 st April 2009	Director / Member of BACC, BNC and BIC
G. F. C. De Saram	Independent Non-Executive Director	Appointed to the Board on 1 st April 2009	Director / Member of BRC and BNC
H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director	Appointed to the Board on 7 th September 2011	Director / Chairman of BACC and Member of BRC
D. C. Alagaratnam	Non-Executive Director	Appointed to the Board on 16 th August 2011	Director
S. Rajendra	Non-Executive Director	Appointed to the Board on 16 th August 2011	Director / Member of BACC

Responsibility of the Board

Details of responsibilities of the Board and the manner in which those responsibilities were discharged during the year are disclosed in the corporate governance section of the annual report.

Retirement and re-election / Re-appointment of Directors

In terms of Article 84 of the Articles of Association of the company, Mr. G. F. C. De Saram and Mr. A. S. De Zoysa who retire by rotation are eligible for re-election.

Appointments of Directors

No new appointments were made to the Board during the year under review.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the company has also appointed Board Sub Committees to ensure control over certain affairs of the company as detailed in the corporate governance section of the annual report.

Directors' Interests Register

The company, in compliance with the Companies Act No. 7 of 2007 maintains an Interests Register. In compliance with the requirements of the Companies Act, this annual report also contains particulars of any entries made in the Interests Register as detailed below.

Directors' Interests in Transactions

The Directors of the company have made general declarations as provided for in section 192 (2) of the Companies Act No. 7 of 2007. Arising from this, details of contracts in which they have an interest are found in note 38 to the financial statements, under related party transactions.

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

Directors' Interests in Shares

The Directors' individual shareholdings in the company as at 31st December 2012 and 31st December 2011 were as follows;

Name of Director	No. of shares as at 31.12.2012	No. of shares as at 31.12.2011
A. D. Gunewardene	8,562	7,492
A. S. De Zoysa	Nil	Nil
G. F. C. De Saram	Nil	Nil
D. C. Alagaratnam	Nil	Nil
S. Rajendra	Nil	Nil
H. A. J. De Silva Wijeyeratne	Nil	Nil

Share Dealings

There have been no share dealings by the Directors during the year other than for Mr. A. D. Gunewardene subscribing for the shares offered during the rights issue. There have been no other entries in the interests register of the company for the year ended 31st December 2012.

Remuneration to Directors

Directors' remuneration is established within a framework approved by the Board Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the company. The remuneration of the Non-Executive Directors is determined according to scales of payment decided upon by the Board.

Details of Directors' fees and emoluments paid during the year are as follows;

	2012 Rs. '000	2011 Rs. '000
Executive Directors' fees and emoluments	N/A	N/A
Non-Executive Directors' fees and emoluments	5,400	4,050

Directors' Meetings

Details of Directors' meetings are presented on page 88 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 SLFRS / LKASs, the accounting standards 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.

Human Resources

The company continued to implement appropriate human resource management policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees. Some of the processes and procedures adopted in this regard are mentioned in the employee section in the sustainability report.

Related Party Transactions

There are no related party transactions which exceeds the lower of 10% of equity or 5% of the total assets of the company. Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures, in note 38 to the financial statements.

Donations

There were no donations granted during the year.

Compliance with Laws and Regulations

The company has complied with all applicable laws and regulations. A compliance checklist is signed on a monthly basis by responsible officers and any violations are reported to the Board Audit and Compliance Committee. Refer page 109 for a list of compliances.

Environment

Initiatives taken by the company to preserve the environment are presented in the 'environment' section of the sustainability report. The company has not engaged in any activity that is harmful to the environment.

Supplier Policy

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.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees have been made on time.

Capital Commitments

No significant capital expenditure commitments exist as at 31st December 2012 (2011 - Rs. Nil).

Contingencies and Outstanding Litigations

In the opinion of the Directors and in consultation with the company lawyers, litigations 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

Details of events after the reporting date are provided in note 41 to the financial statements.

Going Concern

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Directors have a reasonable expectation that the company possesses adequate resources

to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

The company's auditors during the period under review were Messrs. KPMG. A sum of Rs. 2,000,000/- (2011 - Rs. 1,700,000/-) was paid to them as audit fees during the year under review and a sum of Rs. 1,943,750/- (2011 - 1,810,000/-) was paid by the company for tax related services and other non-audit work.

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 in the company other than those disclosed in this paragraph.

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 209 of this annual report.


Approval of Financial Statements

The audited financial statements were approved by the Board of Directors on 26th February 2013.

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 Thursday 28th March 2013 at 9.00 a.m. The notice of the Meeting relating to the twenty sixth Annual General Meeting is given on page 340.

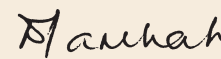
This Annual Report is signed for and on behalf of the Board of Directors by:



Ajit D. Gunewardene
Chairman



A. S. De Zoysa
Director



Keells Consultants (Private) Limited
Secretaries

26th February 2013

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements are prepared in accordance with the new Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

The Institute of Chartered Accountants of Sri Lanka issued a new volume of Sri Lanka Accounting Standards in line with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) which are applicable for financial periods beginning on or after 1st January 2012. These Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS).

These financial statements, for the year ended 31st December 2012, are the first, the company has prepared in accordance with SLFRS / LKASs. For periods up to and including the year ended 31st December 2011, the company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLASs).

Accordingly, the company has prepared financial statements which comply with SLFRS / LKASs and related interpretations applicable for period ending 31st December 2012, together with the comparative period data as at and for the year ended 31st December 2011, as described in the accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1st January 2011, the company's date of transition to SLFRS.

In addition, SLFRS 1 - First Time Adoption of Sri Lanka Financial Reporting Standards, SLFRS 4 - Insurance Contracts, SLFRS 7 - Financial Instruments, Disclosure, LKAS 39 - Financial Instruments, Recognition and Measurement and SLFRS 8 - Operating Segments which are new to the Sri Lankan financial reporting framework and applicable to Union Assurance have been applied.

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. The accounting policies resulting from convergence to the new standards issued by the Institute of Chartered Accountants of Sri Lanka are provided in detail in the accounting policies to these 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. 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, the Independent Auditors.

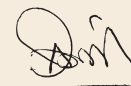
The BACC pre - approves the audit and non-audit services provided by KPMG

in order to ensure that the provision of such services does not impair KPMG's independence. The BACC also reviews the external audit plan and the management letters and follows up on any issues raised during the statutory audit. The BACC also meets with the external and internal auditors to review the effectiveness of the audit.

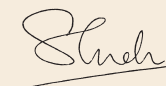
We confirm that the company has complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting insurance business.

We also confirm that the company has complied with the following IBSL requirements:

- a) The company has complied with all the legal and regulatory provisions of the RII Act.
- b) The company has arranged treaty and facultative reinsurance with approved reinsurers as per IBSL guidelines, for all risk commitments exceeding retention limits.
- c) Reserving and solvency guidelines have been complied with and total reserves are backed by matching admissible assets.
- d) The equity capital meets the set minimum capital requirements in accordance with the applicable regulations.
- e) The company has implemented the necessary processes to implement the premium warranty clause.



Dirk Pereira
Chief Executive Officer



Sherin Cader
Chief Financial Officer

26th February 2013

BOARD AUDIT AND COMPLIANCE COMMITTEE REPORT

Role of the Board Audit and Compliance Committee (BACC)

The role of the BACC is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to:

- Ensuring the integrity of the financial statements of the company and that a good financial reporting system is in place and is well managed in order to give accurate, appropriate and timely information to the management, regulatory authorities and shareholders in accordance with Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000, Companies Act No. 7 of 2007 and other financial reporting related regulations and requirements
- Ensuring that the company's risk management processes are effective to identify and mitigate risks
- Reviewing the design and operational effectiveness of internal controls and implement changes where required
- Ensuring that the conduct of the business is in compliance with the applicable laws and regulations and policies of the company
- Assessing the independence and monitoring the performance and functions of internal and external auditors
- Assessing the company's ability to continue as a going concern in the foreseeable future

The BACC is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports, risk management reports etc. to achieve the objectives as stated above. The Committee has reviewed and discussed with management and internal and external auditors, the audited financial statements, the quarterly unaudited financial statements as well as matters relating to the company's internal control

over financial reporting, key judgments and estimates in the preparation of financial statements and the processes that support certification of the financial statements by the CEO and CFO.

Composition of the Committee

The Board Audit and Compliance Committee (BACC) comprises of the following Directors who conduct Committee proceedings in accordance with the terms of reference approved by the Board as a whole.

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

All Directors are Non-Executive Directors, including the Chairman and Mr. A. S. De Zoysa who function as independent Directors in terms of the Rules on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

Mr. H. A. J. De Silva Wijeyeratne is an Associate Member of both the Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK. He has over 24 years of experience in the fields of general management, financial management and auditing.

Mr. A. S. De Zoysa holds a Bachelor of Commerce Degree from the University of New South Wales and has overseas and local exposure in a wide variety of disciplines and industries.

Mr. S. Rajendra is a Fellow member of the Chartered Institute of Management Accountants of UK. He has over 21 years of experience in the fields of finance, travel and tourism, and business development acquired both in Sri Lanka and overseas.

The Board has determined that the Committee possesses an adequate blend

of financial and insurance expertise in order to efficiently carry out its duties. The Committee operates pursuant to a charter which is formally approved by the Board.

Meetings of the BACC

The Committee had seven meetings during the year under review which were attended by the external auditors and internal auditors as required. All the meetings were attended by Executive Committee members including the CEO, CFO and general managers responsible for underwriting, marketing, distribution and IT by invitation.

Numerous other informal meetings and communications among the Chairman, various Committee members, internal and external auditors and members of the Executive Committee also occurred.

The activities and views of the Committee have been communicated to the Board of Directors through papers tabled and verbal discussion, as well as by tabling the minutes of the Committee's meetings.

Financial reporting

The Committee has reviewed and discussed the company's interim and annual financial statements prior to publication with management and the external auditors, including the extent of compliance with Sri Lanka Accounting Standards, the appropriateness of the policies adopted and materiality of the judgments used.

The Committee is satisfied with the structured approach adopted over the past year and half by the management for a smooth convergence to the new accounting standards in line with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) issued by The Institute of Chartered Accountants of Sri Lanka which is applicable for financial periods beginning on or after 1st January 2012.

Board Audit and Compliance Committee Report Contd.

These Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS).

The financial statements, for the year ended 31st December 2012, are the first, the company has prepared in accordance with SLFRS / LKASs. For periods up to and including the year ended 31st December 2011, the company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLASs).

Accordingly, the company has prepared financial statements which comply with SLFRS / LKASs and related interpretations applicable for period ending 31st December 2012, together with the comparative period data as at and for the year ended 31st December 2011, as described in the accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1st January 2011, the company's date of transition to SLFRS.

In addition, SLFRS 1 - First Time Adoption of Sri Lanka Financial Reporting Standards, SLFRS 4 - Insurance Contracts, SLFRS 7 - Financial Instruments, Disclosure, LKAS 39 - Financial Instruments, Recognition and Measurement and SLFRS 8 - Operating Segments which are new to the Sri Lankan financial reporting framework and applicable to Union Assurance have been applied.

Internal Audit

The internal audit is outsourced to Pricewaterhouse Coopers (PWC), a leading firm of Chartered Accountants. The Committee monitors the effectiveness of the internal audit function and is responsible for approving their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

During the year, the BACC reviewed the adequacy of the internal audit coverage,

the internal audit plan and monitored progress on a regular basis. The sections covered and the regularity of audits depended on the risk level of each section, with higher risk sections being audited more frequently.

The Committee reviewed 28 internal audit reports covering the operations of 16 branch locations and several head office functions including underwriting, claims, reinsurance, credit control, finance, investments and information technology. Audit findings presented in the reports were prioritised based on the level of risk. The Committee followed up on internal audit recommendations. Internal audit reports were made available to external auditors as well. The BACC met the internal auditors without the management being present.

Fraud Risk

The internal auditors reviewed the company's systems and processes to mitigate risks / frauds. The review focused on the systems and processes as applicable to the underwriting, claims, reinsurance, investment, finance, marketing, human resource development, administration and credit management operations to mitigate the risk of fraud and highlighted areas for improvement.

Independence and objectivity of the external auditors

The BACC has policies aimed at safeguarding and supporting the independence and objectivity of the external auditors. The BACC reviewed the audit and non-audit work that is assigned to Messrs. KPMG, our external auditors 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 and work is assigned to prevent a conflict of interest for the external auditors.

The Committee has received a declaration from Messrs. KPMG, as required by the Companies Act No. 7 of 2007, confirming that they do not have any relationship or interest in the company, which may have a bearing on their independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.

The BACC reviewed the external audit plan as well as management letters and followed up on issues raised. In addition to the statutory audit, the external auditors reviewed the key reconciliations which have an impact on the financial reporting framework of the company.

The BACC met the external auditors without the presence of the management during the year.

The BACC has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ended 31st December 2013, subject to approval by the shareholders at the next Annual General Meeting. The BACC recommends the fees payable to the statutory auditors for approval by the Board.

IT Risk and Control Assessment

The BACC receives a report detailing above from Messrs. KPMG, on an annual basis.

Internal Control and Risk Management

The effectiveness of the Company's internal controls and risk management processes are evaluated mainly by the reports furnished by the management, and the External and Internal Auditors.

Report of External Actuaries

The BACC received written representations from the life and general independent external actuaries, summarising their observations and comments with regard to the work performed valuing

life policyholder liabilities and non life insurance incurred but not reported claims.

Whistle Blowing

The company encourages any employee who suspects wrong doing at work - whether by his management, peer, or another employee to raise his concern through an internal whistle blowing procedure directly to the BACC. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. The BACC may use management resources to conduct necessary investigations.

Compliance with the Code of Best Practice on Audit Committees

The BACC's scope and functions are in compliance with the requirements of the above code.

Compliance with the Code of Best Practice on Corporate Governance

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

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

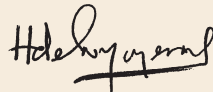
The BACC has conducted its affairs in compliance with the requirements of the above code.

Evaluation of Committee

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

Conclusion

The Committee is satisfied that the internal controls have been operating as designed and the company's assets have been adequately safeguarded as at the end of the period and that the company's internal and external auditors have been effective and independent throughout the period. The Committee also believes that the company's accounting policies are appropriate and have been applied accurately.



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

26th February 2013

CERTIFICATION OF INCURRED BUT NOT REPORTED (IBNR) CLAIMS AND LIABILITY ADEQUACY TEST (LAT)



To the shareholders of Union Assurance PLC

Union Assurance PLC 31 December 2012 Net IBNR and LAT Certification

We hereby certify that the IBNR provision of Rs. 338,749,000 is adequate in relation to the Claim Liabilities of Union Assurance PLC as at 31st December 2012, net of reinsurance. This IBNR provision, together with the case reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's reported claims obligations as at 31st December 2012, in many but not all scenarios of future experience.

We also certify that the UPR provisions of Rs. 2,174,275,000 on a net of reinsurance basis and Rs. 2,613,711,000 on a gross of reinsurance basis are adequate in relation to the future liabilities of the unexpired risks as at 31st December 2012, for many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). We hereby certify that the UPR is adequate in relation to the unexpired risks of Union Assurance PLC as at 31st December 2012. As such, there is no premium deficiency to be recognised by the Company.

Our results have been determined in accordance with internationally accepted actuarial principles.

We have relied upon information and data provided by the management of the above company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.

A handwritten signature in black ink, appearing to read 'M Maguire'.

Matthew Maguire

*Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting*

22nd February 2013

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Actuarial & Management
Consultants (Pvt) Limited

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

To the Shareholders of Union Assurance PLC

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31ST DECEMBER, 2012

We have carried out an actuarial valuation of the long term insurance business as at 31st December, 2012. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the company, which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31 December, 2012, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) The Long Term Insurance Fund, excluding the Unit Fund and the Non Unit Fund, as included in the audited accounts, exceeds required actuarial reserves, excluding the reserves for the Unit Fund and the Non Unit Fund, as at 31 December 2012 by Rs. 1,270.615 million, before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.
- 4) The Non Unit Fund, as included in the audited accounts, exceeds the required actuarial reserves by Rs.195.460 million.
- 5) The solvency margin required under the Regulation of insurance industry Act No. 43 of 2000 is Rs. 678.604 million, including the solvency margin for the new reversionary bonus allotted as at 31st December 2012 and the Non Unit Fund and, is fully provided for.

M Poopalanathan
Actuary

28th January 2013

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.

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, which presents a true and fair view of the profit or loss of the company for the financial year; and
- A statement of other comprehensive income; 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.

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 as relevant have been applied;
- 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 comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors have also ensured that the company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the company and to ensure that the financial statements presented comply with the requirements of the Companies Act No. 7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion.

Further, as required by Section 56(2) of the Companies Act No. 7 of 2007, the Board of Directors have confirmed that the company, based on the information available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 5 per share for the year ended 31st December 2012, to be paid on 19th March 2013.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the company, and all other known statutory dues as were due and payable by the company as at the balance sheet date have been paid or, where relevant provided for.

By Order of the Board



Keells Consultants (Private) Limited
Secretaries

26th February 2013

INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

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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 December 31, 2012, and the statements of income, other comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes as set out on pages 210 to 317 of this Annual Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 151(2) of the Companies Act No. 07 of 2007. Pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 Section 47 (2), we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

Chartered Accountants
Colombo

26th February 2013

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

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

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

STATEMENT OF INCOME

For the year ended 31 December	Note	Page	Sustainability report page	2012 Rs. '000	2011 Rs. '000	Change %
Gross written premium	7	262	145	9,732,756	8,699,900	12
Net change in reserve for unearned premium				(218,231)	(319,881)	(32)
Gross earned premium				9,514,525	8,380,019	14
Premium ceded to reinsurers	8	263	179	(1,161,873)	(1,087,226)	7
Net change in reserve for unearned reinsurance premium				32,488	58,461	(44)
Net earned premium				8,385,140	7,351,254	14
Other revenue						
Net finance income	9	264		2,255,490	1,908,705	18
Net realised gains	10	265		20,438	18,436	11
Net fair value gains and losses	11	265		(45,530)	(317,666)	(86)
Other operating revenue	12	265		102,827	49,236	109
				2,333,225	1,658,711	41
Total net revenue				10,718,365	9,009,965	19
Benefits, losses and expenses						
Net benefits and claims	13	266	145	(5,892,875)	(4,956,196)	19
Underwriting and net acquisition costs (including reinsurance)	14	268	163	(1,169,233)	(1,087,919)	7
Other operating and administrative expenses	15	268	179	(2,504,658)	(2,075,216)	21
Depreciation on property, plant and equipment				(143,347)	(128,694)	11
Total benefits, losses and expenses				(9,710,113)	(8,248,025)	18
Profit before income tax	16	269		1,008,252	761,940	32
Income tax expense	17	269		(86,984)	(66,755)	30
Profit for the year			172	921,268	695,185	33
Earnings per share						
Basic (Rs.)	18	271	172	12.28	9.27	
Diluted (Rs.)	18	271	172	12.28	9.27	
Dividend per share (Rs.)	19	272	172	5.00	5.00	

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

The Independent Auditors' Report is on page 209.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Note	2012 Rs. '000	2011 Rs. '000
Profit for the year		921,268	695,185
Other comprehensive income			
Net change in fair value of available for sale financial assets	9.b	(82,662)	(156,308)
Income tax effect		-	-
		(82,662)	(156,308)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	9.b	(126,196)	(340,910)
Income tax effect		-	-
		(126,196)	(340,910)
Net change in liabilities of insurance contracts arising from revaluation of land and buildings		-	147,759
Income tax effect		-	(14,213)
		-	133,546
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	10	(20,438)	(18,436)
Income tax effect		-	-
		(20,438)	(18,436)
Other comprehensive income for the year, net of tax		(229,296)	(382,108)
Total comprehensive income for the year		691,972	313,077

As required by SLFRS / LKASs, other comprehensive income includes net change in fair valuation of available for sale financial assets and land and building. If similar transactions occurred under SLASs, it would have been routed via the statement of changes in equity.

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	Risk management reference	2012 Rs. '000	2011 Rs. '000	01.01.2011 Rs. '000
Assets						
Financial investments	20	273	251	20,071,094	16,579,094	14,337,860
Property, plant and equipment	21	285		1,363,845	1,298,380	1,108,723
Life policyholders loans	22	288	255	284,744	246,674	232,618
Reinsurance receivable	23	289	254	400,627	545,774	619,228
Premiums receivable	24	291	254	1,459,440	1,236,299	1,237,594
Receivables and other assets	25	292	255	1,841,545	1,795,727	1,552,089
Deferred expenses	26	293		146,097	147,495	139,176
Cash and cash equivalents	27	294	255	315,634	373,413	390,138
Total assets				25,883,026	22,222,856	19,617,426
Equity and liabilities						
Equity						
Stated capital	28	294		1,133,305	388,433	388,433
Other reserves	29	295		720,830	955,194	1,340,970
Retained earnings				2,454,923	1,903,587	1,439,109
Total equity				4,309,058	3,247,214	3,168,512
Liabilities						
Insurance contract liabilities - life	30	296	257	15,356,340	13,440,459	11,769,308
Insurance contract liabilities - non life	31	298	257	3,200,838	3,050,976	2,813,250
Insurance contract liabilities - unit linked				1,143,546	555,541	165,835
Reinsurance payable	32	301	257	415,394	441,567	405,764
Deferred revenue	33	302		96,904	89,467	83,032
Employee benefits	34	302		163,572	154,702	132,422
Other liabilities	35	304		998,381	1,038,486	912,102
Current tax liabilities				87,907	67,549	81,558
Deferred tax liability	36	305		28,161	28,161	13,948
Bank overdraft	27			82,925	108,734	71,695
Total liabilities				21,573,968	18,975,642	16,448,914
Total liabilities and equity				25,883,026	22,222,856	19,617,426

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

I certify that the above financial statements comply with the requirements of the Companies Act No. 7 of 2007.



Sherin Cader
Chief Financial Officer

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

Signed on behalf of the Board



Ajit D. Gunewardene
Chairman



A. S. De Zoysa
Director

Colombo
26 February 2013

STATEMENT OF CHANGES IN EQUITY

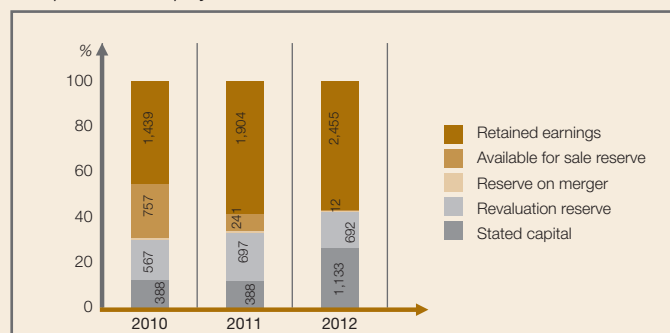
For the year ended 31 December 2011		Other reserves			Available for sale reserves	Retained earnings	Total equity
Note	Stated capital Rs. '000	Revaluation reserve Rs. '000	Reserve on merger Rs. '000	Rs. '000			
Balance as at 1 January 2011							
- As per SLAS		388,433	567,426	16,752	-	1,660,498	2,633,109
Effect of transition to SLFRS					756,792	(221,389)	535,403
Balance as at 1 January 2011							
- As per SLFRS / LKASs - restated		388,433	567,426	16,752	756,792	1,439,109	3,168,512
Total comprehensive income for the year							
Profit for the year		-	-	-	-	695,185	695,185
Other comprehensive income							
Net change in fair value of available for sale financial assets, net of tax							
29.b.ii		-	-	-	(156,308)	-	(156,308)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets, net of tax							
29.b.i		-	-	-	(359,346)	-	(359,346)
Change in liabilities of insurance contracts arising from revaluation of land and buildings, net of tax							
29.a.ii		-	133,546	-	-	-	133,546
Transfer from revaluation reserve to retained earnings							
		-	(3,668)	-	-	3,668	-
Other comprehensive income							
		-	129,878	-	(515,654)	3,668	(382,108)
Total comprehensive income for the year							
		-	129,878	-	(515,654)	698,853	313,077
Transactions with owners							
First and final dividend 2010							
		-	-	-	-	(234,375)	(234,375)
Total transactions with owners							
		-	-	-	-	(234,375)	(234,375)
Balance as at 31 December 2011							
		388,433	697,304	16,752	241,138	1,903,587	3,247,214

Statement of Changes in Equity contd.

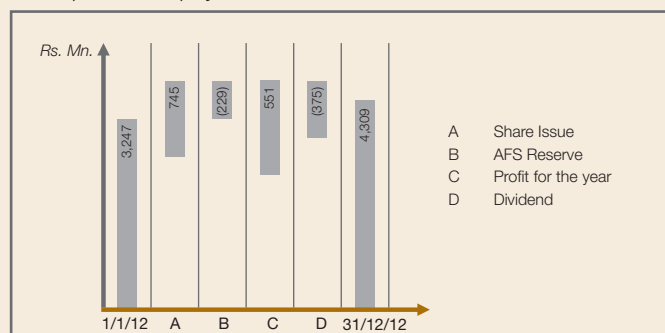
For the year ended 31 December 2012		Other reserves					Retained earnings Rs. '000	Total equity Rs. '000
Note	Stated capital Rs. '000	Revaluation reserve Rs. '000	Reserve on merger Rs. '000	Available for sale reserves Rs. '000	for sale reserves Rs. '000			
As at 1 January 2012	388,433	697,304	16,752	241,138	1,903,587	3,247,214		
Profit for the year	-	-	-	-	921,268	921,268		
Other comprehensive income for the year								
Net change fair value of available for sale financial assets, net of tax								
29.b.ii.	-	-	-	(82,662)	-	(82,662)		
Net change in liabilities of insurance contracts arising from fair value changes in available - for -sale financial instruments, net of tax								
29.b.i.	-	-	-	(146,634)	-	(146,634)		
Transfer from revaluation reserve to retained earnings								
	-	(5,068)	-	-	5,068	-		
Total other comprehensive income	-	(5,068)	-	(229,296)	5,068	(229,296)		
Total comprehensive income for the year	-	(5,068)	-	(229,296)	926,336	691,972		
Transactions with owners								
Issue of share capital	28	744,872	-	-	-	744,872		
First and final dividend 2011		-	-	-	(375,000)	(375,000)		
Total transactions with owners		744,872	-	-	(375,000)	369,872		
Balance as at 31 December 2012		1,133,305	692,236	16,752	11,842	2,454,923	4,309,058	

As of 31 December 2012, equity amounted to Rs. 4.3 billion an increase of 33% from previous year. The increase was mainly driven by net profit during the period and net proceeds from the rights issue which amounted to Rs. 921 million and Rs. 745 million respectively. The dividend for 2011 was paid in the first quarter of 2012. The figures below depicts the composition of equity for three years and the development of equity in 2012, respectively.

Composition of equity



Development of equity



STATEMENT OF CASH FLOWS

For the Year ended 31 December	Note	2012 Rs. '000	2011 Rs. '000 Restated
Cash flow from operating activities			
Insurance premium received		9,509,615	8,913,396
Reinsurance premium paid		(959,783)	(881,163)
Insurance benefits and claims paid	13. (a)	(3,492,121)	(3,077,780)
Reinsurance claims received	13. (b)	249,628	254,210
Payments to intermediaries to acquire insurance contracts		(1,292,476)	(1,283,310)
Cash paid to and on behalf of employees		(1,037,383)	(860,169)
Dividends received		43,661	27,070
Interest received		2,009,010	1,740,415
Other operating cash flows		(1,043,860)	(1,245,744)
Cash generated from operating activities	Note A	3,986,291	3,586,925
Retiring gratuity paid	34. (c)	(16,114)	(9,263)
Income tax paid		(25,018)	(69,827)
Net cash from operating activities		3,945,159	3,507,835
Cash flow from investing activities			
Acquisition of financial investments		(11,967,874)	(7,364,354)
Proceeds from financial investments		7,779,075	4,182,105
Acquisition of property, plant and equipment	21	(208,910)	(170,626)
Proceeds on sale of property, plant and equipment		466	3,992
Net cash used in investing activities		(4,397,243)	(3,348,883)
Net cash (used in) / inflow before financing activities		(452,084)	158,952
Cash flow from financing activities			
Proceeds from issue of share capital	28	750,000	-
Transaction costs for share issue	28	(5,128)	-
Dividends paid to equity holders of the parent		(338,652)	(213,057)
Net cash from / (used in) financing activities		406,220	(213,057)
Net decrease in cash and cash equivalents	Note B	(45,864)	(54,105)

Statement of Cash Flows Contd.

Notes to the Cash Flow Statement

For the Year ended 31 December	Note	2012 Rs. '000	2011 Rs. '000 Restated
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A. Reconciliation of profit before taxation with cash from operating activities

Profit for the year		1,008,252	761,940
Adjustment for:			
Depreciation on property, plant and equipment	21	143,347	128,694
(Reversal) / losses on impairment of reinsurance receivable		(1,639)	4,346
(Reversal) of premium receivable		(425)	-
Provision for employee benefits	15. (a)	23,457	31,542
Fair value gains and losses	11	45,530	317,666
Net realised gains and losses	10	(20,438)	(18,436)
Gain on sale of property, plant and equipment	12	(369)	(3,959)
Amortisation of deferred acquisition expenses (net)		(6,039)	(14,754)
Exchange (gain) / loss	12	(14,235)	(341)
Cash flows from operating activities		1,177,441	1,206,698
Net change in operational assets	37	(17,262)	(80,544)
Net change in operational liabilities	37	2,826,112	2,460,771
Cash flows from operating activities		3,986,291	3,586,925

B. Increase in cash and cash equivalents

Cash and cash equivalents		315,634	373,413
Bank overdraft		(82,925)	(108,734)
Net cash at bank and in hand and cash equivalents		232,709	264,679
Effect of exchange rate fluctuations on cash held		(14,235)	(341)
Net cash and cash equivalents for the current year		218,474	264,338
Net cash and cash equivalents for the previous year		(264,338)	(318,443)
Increase / (decrease) in cash and cash equivalents		(45,864)	(54,105)

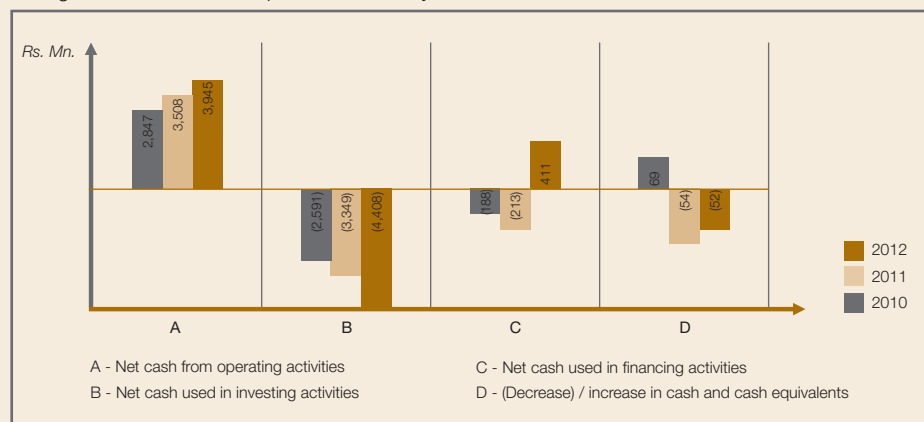
The notes as set out in pages 224 to 317 form an integral part of these financial statements.

Net cash flow from operating activities amounted to Rs. 3.9 billion in 2012, increasing by Rs. 437 million compared to the previous year. This increase was mainly driven by the incremental revenue reported in both life and non life insurance segments.

Net cash outflow used in investing activities increased from Rs. 3.3 billion in 2011 to Rs. 4.4 billion in 2012.

Net cash from financing activities changed as a result of the proceeds from the rights issue.

Change in cash and cash equivalents for the year ended 31 December



SEGMENTAL REVIEW

STATEMENT OF INCOME - 2012

For the year ended 31 December 2012	Non life insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Gross written premium	4,626,433	5,106,323	-	9,732,756
Net change in reserve for unearned premium	(218,231)	-	-	(218,231)
Gross earned premium	4,408,202	5,106,323	-	9,514,525
Less: Premium ceded to reinsurers	(912,278)	(249,595)	-	(1,161,873)
Net change in reserve for unearned reinsurance premium	32,488	-	-	32,488
Net earned premium	3,528,412	4,856,728	-	8,385,140
Other revenue				
Net finance income	552,088	1,703,402	-	2,255,490
Net realised gains	-	20,438	-	20,438
Net fair value gains and losses	(1,852)	(43,678)	-	(45,530)
Other operating revenue	57,422	65,071	(19,666)	102,827
	607,658	1,745,233	(19,666)	2,333,225
Total net revenue	4,136,070	6,601,961	(19,666)	10,718,365
Benefits, losses and expenses				
Net benefits and claims	(2,320,105)	(3,572,770)	-	(5,892,875)
Underwriting and policy acquisition costs (including reinsurance)	(278,697)	(890,536)	-	(1,169,233)
Other operating and administrative expenses	(976,503)	(1,547,821)	19,666	(2,504,658)
Depreciation on property, plant and equipment	(85,332)	(58,015)	-	(143,347)
Total benefits, losses and expenses	(3,660,637)	(6,069,142)	19,666	(9,710,113)
Profit before income tax	475,433	532,819	-	1,008,252
Income tax expense	(86,984)	-	-	(86,984)
Profit for the year	388,449	532,819	-	921,268

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

SEGMENTAL REVIEW

STATEMENT OF OTHER COMPREHENSIVE INCOME - 2012

For the year ended 31 December 2012	Non life insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Profit for the year	388,449	532,819		921,268
Net change in fair value available for sale financial assets	(82,662)	-	-	(82,662)
Income tax effect	-	-	-	-
	(82,662)	-		(82,662)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	-	(126,196)	-	(126,196)
Income tax effect	-	-	-	-
	-	(126,196)	-	(126,196)
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	-	(20,438)	-	(20,438)
Income tax effect	-	-	-	-
	-	(20,438)	-	(20,438)
Total other comprehensive income for the year, net of tax	(82,662)	(146,634)	-	(229,296)
Total comprehensive Income for the year	305,787	386,185	-	691,972

As required by SLFRS / LKASs, other comprehensive income includes net change in fair valuation of available for sale financial assets. If similar transaction occurred under SLASs, it would have been routed via the statement of changes in equity.

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

The Independent Auditors' Report is on page 209.

SEGMENTAL REVIEW

STATEMENT OF INCOME - 2011

For the year ended 31 December 2011	Non life insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Gross written premium	4,228,273	4,471,627	-	8,699,900
Net change in reserve for unearned premium	(319,881)	-	-	(319,881)
Gross earned premium	3,908,392	4,471,627	-	8,380,019
Less: Premium ceded to reinsurers	(884,319)	(202,907)	-	(1,087,226)
Net change in reserve for unearned reinsurance premium	58,461	-	-	58,461
Net earned premium	3,082,534	4,268,720	-	7,351,254
Other revenue				
Net finance income	468,472	1,440,233	-	1,908,705
Net realised gains	-	18,436	-	18,436
Net fair value losses	(18,993)	(298,673)	-	(317,666)
Other operating revenue	33,218	42,220	(26,202)	49,236
	482,697	1,202,216	(26,202)	1,658,711
Total net revenue	3,565,231	5,470,936	(26,202)	9,009,965
Benefits, losses and expenses				
Net benefits and claims	(2,164,561)	(2,791,635)	-	(4,956,196)
Underwriting and policy acquisition costs (including reinsurance)	(268,843)	(819,076)	-	(1,087,919)
Other operating and administrative expenses	(702,549)	(1,398,869)	26,202	(2,075,216)
Depreciation on property and equipment	(83,510)	(45,184)	-	(128,694)
Total benefits, losses and expenses	(3,219,463)	(5,054,764)	26,202	(8,248,025)
Profit before income tax	345,768	416,172	-	761,940
Income tax expense	(66,755)	-	-	(66,755)
Profit for the year	279,013	416,172	-	695,185

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

The Independent Auditors' Report is on page 209.

SEGMENTAL REVIEW

STATEMENT OF OTHER COMPREHENSIVE INCOME - 2011

For the year ended 31 December 2011	Non life insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Profit for the year	279,012	416,173		695,185
Net change in available for sale financial assets	(156,308)	-	-	(156,308)
Income tax effect	-	-	-	-
	(156,308)	-		(156,308)
Net change in liabilities of insurance contracts arising from available for sale financial assets	-	(340,910)	-	(340,910)
Income tax effect	-	-	-	-
	-	(340,910)	-	(340,910)
Net change in liabilities of insurance contracts arising from revaluation of land and buildings	-	147,759	-	147,759
Income tax effect	-	(14,213)	-	(14,213)
		133,546		133,546
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	-	(18,436)	-	(18,436)
Income tax effect	-	-	-	-
	-	(18,436)		(18,436)
Other comprehensive income for the year, net of tax	(156,308)	(225,800)	-	(382,108)
Total comprehensive income for the year	122,704	190,373	-	313,077

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

The Independent Auditors' Report is on page 209.

SEGMENTAL REVIEW

STATEMENT OF FINANCIAL POSITION - 2012

As at 31 December 2012	Non life insurance Rs. '000	Life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Assets				
Financial investments	4,201,539	15,869,554	-	20,071,094
Property, plant and equipment	265,589	1,098,257	-	1,363,845
Life policyholders loans	-	284,744	-	284,744
Reinsurance receivable	356,441	44,186	-	400,627
Premiums receivable	1,268,350	191,090	-	1,459,440
Receivables and other assets	847,504	1,066,608	(72,568)	1,841,545
Deferred expenses	146,097	-	-	146,097
Cash and cash equivalents	167,243	148,391	-	315,634
Total assets	7,252,764	18,702,831	(72,568)	25,883,026
Equity and liabilities				
Equity				
Stated capital	512,578	620,727	-	1,133,305
Other reserves	474,405	246,425	-	720,830
Retained earnings	1,800,060	654,863	-	2,454,923
Total equity	2,787,043	1,522,015	-	4,309,058
Liabilities				
Insurance contract liabilities - life	-	15,356,340	-	15,356,340
Insurance contract liabilities - non life	3,200,838	-	-	3,200,838
Insurance contract liabilities - unit linked	-	1,143,546	-	1,143,546
Reinsurance payable	350,825	64,570	-	415,394
Deferred revenue	96,904	-	-	96,904
Employee benefits	56,752	106,820	-	163,572
Other liabilities	600,961	469,988	(72,568)	998,381
Current tax liabilities	87,907	-	-	87,907
Deferred tax liabilities	13,085	15,076	-	28,161
Bank overdraft	58,450	24,475	-	82,925
Total liabilities	4,465,721	17,180,815	(72,568)	21,573,968
Total liabilities and equity	7,252,764	18,702,830	(72,568)	25,883,026

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

Note: During the year retained earnings were segregated between life and non life shareholders. As a result an additional Rs. 275 million was transferred to life shareholders.

SEGMENTAL REVIEW

STATEMENT OF FINANCIAL POSITION - 2011

As at 31st December 2011	Non life insurance Rs. '000	life insurance Rs. '000	Elimination Rs. '000	Total Rs. '000
Assets				
Financial investments	3,687,020	12,892,074	-	16,579,094
Property, plant and equipment	228,803	1,069,577	-	1,298,380
Life policyholders loans	-	246,674	-	246,674
Reinsurance receivable	498,895	46,879	-	545,774
Premiums receivable	1,236,299	-	-	1,236,299
Receivables and other assets	1,401,352	859,341	(464,966)	1,795,727
Deferred expenses	147,495	-	-	147,495
Cash and cash equivalents	162,130	211,283	-	373,413
Total assets	7,361,994	15,325,829	(464,966)	22,222,856
Equity and liabilities				
Equity				
Stated capital	388,433	-	-	388,433
Other reserves	559,111	396,083	-	955,194
Retained earnings	2,056,545	(152,958)	-	1,903,587
Total equity	3,004,089	243,125	-	3,247,214
Liabilities				
Insurance contract liabilities - life	-	13,440,459	-	13,440,459
Insurance contract liabilities - non life	3,050,976	-	-	3,050,976
Insurance contract liabilities - unit linked	-	555,541	-	555,541
Reinsurance payable	373,078	68,489	-	441,567
Deferred revenue	89,467	-	-	89,467
Employee benefits	55,578	99,124	-	154,702
Other liabilities	629,810	873,642	(464,966)	1,038,486
Current tax liabilities	67,549	-	-	67,549
Deferred tax liabilities	13,085	15,076	-	28,161
Bank overdraft	78,362	30,373	-	108,734
Total liabilities	4,357,905	15,082,703	(464,966)	18,975,642
Total liabilities and equity	7,361,994	15,325,829	(464,966)	22,222,856

The notes as set out in pages 224 to 317 form an integral part of these financial statements.

INSURANCE REVENUE ACCOUNT

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
NON LIFE INSURANCE		
Gross written premium	4,626,433	4,228,273
Outward reinsurance	(912,278)	(884,318)
Net written premium	3,714,155	3,343,954
Net change in reserve for unearned premium / unearned reinsurance premium	(185,744)	(261,420)
Net earned premium	3,528,412	3,082,534
Policy fee income	27,799	16,610
Total net income	3,556,211	3,099,144
Net claims incurred	(2,320,107)	(2,164,561)
Underwriting and net acquisition costs (including reinsurance)	(278,697)	(268,843)
Other operating and administrative expenses	(1,061,834)	(786,060)
Total benefits and expenses	(3,660,638)	(3,219,464)
Underwriting loss	(104,427)	(120,320)
Finance and operating income	579,857	466,086
Income tax expense	(86,984)	(66,755)
Profit for the year	388,446	279,011
Key Ratios Non Life Insurance		
Net loss ratio	65.8%	70.2%
Net expense ratio*	37.2%	33.7%
Net combined ratio	103.0%	103.9%
* net of policy fee income		
LIFE INSURANCE		
Gross written premium	5,106,323	4,471,627
Outward reinsurance	(249,595)	(202,907)
Net written premium	4,856,728	4,268,720
Finance and other operating income	1,722,070	1,215,043
Net benefits and claims	(3,572,769)	(2,791,635)
Underwriting and net acquisition costs (including reinsurance)	(890,536)	(819,076)
Other operating and administrative expenses	(1,590,493)	(1,444,052)
Surplus from life insurance fund	525,000	429,000
Finance and other income not attributable to policyholders	23,164	(12,826)
Expenses not attributable to policyholders	(15,343)	-
Profit for the year	532,822	416,174
Profit for the year - Company	921,268	695,185

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Union Assurance PLC is a public limited company ("The company"), incorporated and domiciled in Sri Lanka. The ordinary shares of the company are listed on the Colombo Stock Exchange. The registered office of the company is at Union Assurance Centre, No. 20 St. Michael's Road, Colombo 03. The company is primarily involved in the life and non life insurance business.

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements have been prepared in accordance with new Sri Lanka Accounting Standards (hereinafter referred to as SLFRS / LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No.7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

For all periods up to and including year ended 31 December 2011, the company prepared its financial statements in accordance with Sri Lanka Accounting Standards effective as at 31 December 2011. These financial statements for the year ended 31 December 2012 are the first the company has prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKASs) which are effective from 1 January 2012.

Accordingly, the company has prepared financial statements which comply with SLFRS and LKAS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the

accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1 January 2011, the company's date of transition to SLFRS / LKAS.

The effect of transition to SLFRS / LKASs on the previously reported financial positions, financial performance and cash flows of the company is provided in note 4 to these financial statements.

2.2 Approval of Financial Statements

The financial statements for the year ended 31 December 2012 were authorised for issue by the Board of Directors on 26 February 2013.

2.3 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Assets held for trading are measured at fair value
- Financial instruments designated at 'fair value through profit or loss' are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Unit linked financial assets are measured at fair value
- Land and buildings are measured at revalued amounts as explained in note 21.
- Policyholders' liability have been measured at actuarial-determined values
- The liability for defined benefit obligations are actuarially valued and recognised as the present value of the defined benefit obligation

The company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the respective notes.

2.4 Functional and Presentation Currency

These financial statements are presented in Sri Lankan Rupees (Rs), which is the company's functional and presentation currency. All financial information presented in rupees have been rounded to the nearest thousands (Rs'000), except when otherwise indicated.

2.5 Use of Estimates and Judgments

The preparation of the financial statements in conformity with SLFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods which are affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Critical Accounting Estimate / Judgment	Disclosure Reference	
	Note	Page
Reinsurance receivables	23	289
Insurance contract liabilities - life	30	296
Insurance contract liabilities - non life	31	298
Deferred acquisition cost	26	293
Measurement of employee benefit obligations	34	302
Estimates related to income and deferred tax	17 / 36	269 / 305
Valuation of property plant and equipment	21	285
Impairment of assets	21 / 24	285 / 291
Provisions and contingencies	42	308
Fair valuation measurements of certain financial assets	20 / 25	273 / 292

2.6 Materiality and Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening SLFRS statement of financial position as at 1 January 2011 for the purposes of the transition to SLFRS, unless otherwise indicated.

The company's financial position represents the assets, liabilities and equity. The life insurance financial position presented as supplemental information on page 310 which represents assets, liabilities and reserves of the life insurance fund. The statement of income reflects the total revenue, benefits and claims and expenses of the non life insurance business and the life insurance business.

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.

3.1 Insurance and Investment Contracts

3.1.1 Product classification

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.

Once a contract has been classified as an insurance contract, it remains as 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 ("DPF").

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;
- That are 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
 - The profit or loss of the company, fund or other entity that issues the contract

Notes to the Financial Statements Contd.

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the statement of income 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 profit and loss.

IBSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

3.1.2 Impact of unrealised gains and losses on available for sale assets on liabilities from insurance contracts

Where unrealised gains or losses arise on available for sale assets, the adjustment to the liabilities arising from insurance contracts and investment contracts with DPF is equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognised directly in other comprehensive income.

3.2 Foreign Currency Transactions

Sri Lankan Rupee is the functional currency of the company. Transactions in foreign currencies are translated to the functional currency of the company at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are generally recognised in the statement of income.

- Available for sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective

3.3 Financial Investments

3.3.1 Non derivative financial assets

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.

A financial asset is measured initially at fair value, in the case of financial assets not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The company derecognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when and only when the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The company classifies its non derivative financial assets into following categories:

- Financial assets at fair value through profit or loss,
- Held to maturity,
- Loans and receivables, and
- Available for sale financial assets.

Income and expenses are presented on a net basis only when permitted under SLFRS, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

The company classifies non-derivative financial assets into the following categories:

(a) Fair value through profit or loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's investment strategy. Attributable transaction costs are recognised in the statement of income as incurred.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of income.

Financial assets designated at fair value through profit or loss comprises quoted equity instruments.

(b) Held to maturity financial assets (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the company has the positive intention and ability to hold it to maturity. Held to maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in finance income in the statement of income. The losses arising from impairment are recognised as finance cost in the statement of income.

Held to maturity financial assets comprise of debt securities and Treasury bonds.

(c) Loans and Receivables (L&R)

Loans and Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents.

(d) Available for sale financial assets (AFS)

Available for sale financial assets are financial assets that are designated as available for sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available for sale equity instruments are recognised in other comprehensive income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of income.

Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos and investments in treasury bills and bonds.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, and call deposits with original maturities of three months or less. Bank overdrafts are included in the statement of financial position under liabilities.

For the purpose of the cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

3.3.2 Non derivative financial liabilities

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.

The company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset or settle the liability simultaneously.

Notes to the Financial Statements Contd.

Other financial liabilities comprise interest bearing borrowings, reinsurance payables, other liabilities and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

3.3.3 Derivative financial instruments

The company holds derivative financial instruments to hedge its interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

(a) Separable embedded derivatives

Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

(b) Other non-trading derivatives

When a derivative is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss as a component of income from other financial instruments at fair value through profit or loss.

3.3.4 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) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

3.3.5 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.

3.3.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The fair value of financial instruments that are traded in an active market at each

reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation model.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 20.

3.3.7 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.

3.3.8 Impairment

3.3.8.1 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.

(a) Impairment losses on financial assets carried at amortised cost

The company considers evidence of impairment for financial assets measured

at amortised cost (loans and receivables and held to maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for 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 the statement of income under other cost and reflected in an allowance account against loans and receivables or held to maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of income.

(a) Impairment losses on available for sale financial assets

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the statement of income. 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 statement of income.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through the statement of income and increase in their fair value after impairment are recognised directly in other comprehensive income.

3.4 Intangible Assets

3.4.1 Goodwill

All business combinations are accounted for by applying the purchase method.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

3.4.2 Impairment of Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.5 Deferred Expenses

3.5.1 Deferred acquisition costs (DAC) – non life

Deferred acquisition costs which comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Income.

DAC are derecognised when the related contracts are either settled or disposed.

3.5.2 Reinsurance commissions - unearned commission reserve (UCR) – Non life

Commissions receivable on outward reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Notes to the Financial Statements Contd.

3.5.3 Deferred expenses - investment management services

Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF (under which the company will render investment management services), are deferred and recognised as an asset, to the extent that they can be identified separately, measured reliably and it is probable that they will be recovered from future revenue margins. Incremental cost is a cost that would not have been incurred if the company had not secured the investment contract without DPF. All other origination costs are recognised as an expense when incurred.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the financial liability. Subsequent to initial recognition, these costs are amortised in line with fee income. Amortisation is recorded in the Statement of Income.

An impairment review is performed at each reporting date, or more frequently, when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of income. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Investment management services are de-recognised when the related contracts are settled or disposed.

3.6 Property, Plant and Equipment

3.6.1 Recognition and measurement

Items of property, plant and equipment are measured at cost / revaluation less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the 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;
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When part 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 (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in other operating income in the statement of income. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

3.6.2 Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day-to-day servicing of property and equipment are recognised in the statement of income as incurred.

3.6.3 Repairs and maintenance

Repairs and maintenance are charged to the statement of Income during the financial period in which they are incurred. The cost of major renovations are included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.6.4 Revaluations

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses are recognised after the date of the revaluation. Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverse a revaluation decrease of the same asset previously recognised in the Statement of Income, in which case the increase is recognised in the Statement of Income. A revaluation deficit is recognised in the Statement of Income, 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.

3.6.5 Depreciation

Depreciation is recognised in the statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied with the asset. Land is not depreciated.

The estimated useful lives of the current and comparative periods are as follows:

Asset Class	Basis
Buildings	50 years
Office equipment	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation method, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.6.6 Capital work-in-progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment as well as system development, awaiting capitalisation.

3.6.7 Carrying amount

The carrying amount of an asset or significant group of assets within the class is assessed annually with its fair value and where the fair value is less than the carrying amount, the asset is written down to its fair value. The consequent adjustment is recognised in the statement of income.

The residual values of assets that are not insignificant are reassessed annually.

Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of revaluation.

3.6.8 De-recognition

An item of property, plant and equipment is de recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is de-recognised.

3.7 Reinsurance

The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balance due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as long 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 balance sheet 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 statement of income.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.8 Premium Receivable

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or is receivable. The carrying value of premium receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in the statement of income.

Premium receivables are de-recognised when the de-recognition criteria for financial assets, as described in note 3.3.4 have been met.

3.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is generally determined by reference to the weighted average cost. Net realisable value is the estimated market price in the ordinary course of business less any estimated expense to sell.

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3.10 Impairment

3.10.1 Non-financial assets

The carrying amount of the company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and infinite intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination

Impairment losses are recognised in the statement of income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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.

3.11 Equity Movements

3.11.1 Ordinary share

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.

3.11.2 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.

Dividend for the year that are approved after the reporting date are dealt with as an event after the reporting date.

3.12 Insurance contract liabilities

3.12.1 Life insurance contract liabilities

These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for

risk and adverse deviation is generally included. Adjustments to the liabilities at each reporting date are recorded in the statement of income in 'Increase in life insurance contract liabilities.'

The liability is de-recognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made whether the recognised life insurance liabilities are adequate, by using an existing liability adequacy test in accordance with SLFRS 4 as set out in Note 3.12.1.1.

For products containing DPF the amount of the DPF is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealised gains / (losses) and retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realised as of the statement of financial position date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared / undeclared additional benefits, are recorded in liabilities.

3.12.1.1 Liability adequacy test (LAT) - Life insurance

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 sufficient 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. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any deficiencies shall be recognised in the Statement of Income by setting up a provision for liability adequacy.

3.12.2 Non life insurance liabilities

Non life insurance contract liabilities include the outstanding claim 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.

3.12.2.1 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 an obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is decided by an independent external actuary.

3.12.2.2 Provision for unearned premiums

The provision for unearned premiums represents the 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 by 1/ 24th basis except for marine / cargo class which is subject to 60-40 basis.

At each reporting date, the company reviews its unexpired risk and the liability adequacy is tested to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premium which is disclosed in note 3.12.3.

The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement in comprehensive income by setting up a provision for premium deficiency.

3.12.2.3 Title insurance reserve

Title insurance reserve is maintained by the company to pay potential claims arising from title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised until validity of the policy expires.

3.12.3 Liability adequacy test (LAT) - Non life insurance

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 statement of income by setting up a provision for liability adequacy.

Non life insurance liability adequacy is decided by an independent external actuary.

3.12.4 Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium in the consolidated statement of income.

Notes to the Financial Statements Contd.

Fair value adjustments are performed at each reporting date and are recognised in the statement of income in “gross change in contract liabilities.” Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued and adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non-unitised contracts are subsequently carried at fair value, which is determined by using valuation techniques.

The liability is de-recognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position as described above.

3.13 Employee Benefits

3.13.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed when the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation

to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.13.2 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 statement of income in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available. Contributions to a defined contribution plan and which are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

3.13.3 Defined benefit plans

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 separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

The company recognises all actuarial gains and losses arising from defined benefit plans immediately in the statement of income including all expenses related to defined benefit plans in employee benefit expense.

The obligation is not externally funded

3.14 Interest Bearing Loans and Borrowings

Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of income when the liabilities are de-recognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of income.

3.15 Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

De-recognition of insurance payables

Insurance payables are de-recognised when the obligation under the liability is settled, cancelled or expired.

3.16 Provisions (other than insurance provisions)

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 as finance cost.

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.

NON LIFE INSURANCE

3.17 Gross Written Premiums

Gross written premiums comprise of the total premium receivable for the whole period of cover provided by contracts entered during the accounting period. They are recognised on the date on which the policy commence. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

3.18 Unearned Premium Reserve (UPR)

Unearned premiums are those proportion 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 1/24th basis except for 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.

3.19 Reinsurance Premium

Reinsurance premium comprise the total premium payable for the whole cover provided by contracts entered during the period, and are recognised on the date on which the policy incepts.

3.20 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 1/24th basis except for the marine policies which are computed on a 60-40 basis.

3.21 Unexpired Risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at the reporting date.

3.22 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.

3.23 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.

3.24 Gross Claims Expense

Gross claims expense include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct cost of setting those claims. The provision in respect of IBNR is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. While the Directors consider that the provision for claims is fairly stated on the basis of information currently

available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

3.25 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 also.

LIFE INSURANCE

3.26 Gross Written Premiums

Gross recurring premiums on life and investment contracts with DPF are recognised as revenue when receivable from the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective.

3.27 Reinsurance Premiums

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.

3.28 Acquisition Cost

All acquisition cost are recognised as an expense when incurred.

3.29 Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

3.30 Gross Benefits and Claim Expenses

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

Notes to the Financial Statements Contd.

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. Changes in the valuation of insurance contract liabilities are disclosed in the statement of financial position under increase in life fund.

3.30.1 Reinsurance claims recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

OTHER REVENUE

3.31 Finance Income

Finance income comprises interest income on funds invested (including available for sale financial assets) and dividend income. Interest income is recognised in the statement of income as it accrues and is calculated by using the effective interest rate method (EIR). Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Finance income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Finance expenses consist of costs relating to investment such as custodial fees, bank guarantee fee and brokerage fee etc. These expenses are recognised on an accrual basis.

3.32 Realised Gains and Losses

Realised gains and losses recorded in the statement of income on investments include gains and losses on financial assets, investment properties and property plant and equipment. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and

are recorded on occurrence of the sale transaction.

3.33 Fair Value Gains and Losses

Faire value gains and losses recorded in the statement of income on investments include fair value gains on financial assets at fair value through profit or loss and investment properties.

3.34 Other Operating Revenue

Other operating income comprises fees charged for policy administration services, disposal gains on property plant and equipment, gains on foreign currency translations, and miscellaneous income. Gains on foreign currency translations are recognised on a net basis.

EXPENSES AND TAXATION

3.35 Expenditure Recognition

Expenses are recognised in the statement of income 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 statement of income.

3.36 Finance cost

Interest paid is recognised in the statement of income as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

3.37 Income Tax Expense

Tax expense comprise current and deferred tax. Current tax and deferred tax is recognised in items recognised directly in equity or in other comprehensive income.

3.37.1 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.

3.37.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. 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.

3.37.3 Tax exposures

In determining the amount of current and deferred tax, the company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the company to change its judgment regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.37.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

3.37.5 Nation Building Tax (NBT)

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

3.38 Operating Segments

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the company's other components. All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which finance information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

For management purposes, the company is organised into business units based on their products and services and has two reportable operating segments as follows:

- The life insurance segment offers savings, protection products and other long-term contracts (both with and without insurance risk and with and without discretionary participating features). It comprises a wide range of whole life, term assurance, guaranteed pensions, pure endowment pensions and mortgage endowment products. Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.
- The non life insurance segment comprises non life insurance to individuals and businesses. Non life insurance products offered include motor, fire, accident and liability, cargo and workmen compensation. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of

policyholder's accident, e.g. employee liability claims. Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. The company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The activities of the company are located mainly in Sri Lanka. Consequently, the economic environment in which the company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

3.39 Earnings Per Share (EPS)

The company presents basic and diluted earnings per share data for its ordinary shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares determined in accordance with LKAS 33.

Notes to the Financial Statements Contd.

3.40 Cash Flow Statements

The cash flow statement has been prepared using the "direct method." Interest paid, interest received and dividend received is classified as operating cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the cash flow statement.

3.41 Events Occurring After the Reporting Date

All material post balance sheet events have been considered and where appropriate adjustment to or disclosures have been made in the financial statements.

3.42 Dividend Declaration

Dividend declared by the Board of Directors after the balance sheet date is not recognised as a liability and is disclosed as a note to the financial statements.

3.43 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the company are disclosed in the financial statements.

4. FIRST TIME ADOPTION OF SLFRS / LKASs

These financial statements, for the year ended 31 December 2012, are the first annual financial statements prepared by the company in accordance with Sri Lanka Accounting Standards (SLFRS).

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2012 and in the preparation of an opening SLFRS statement of financial position at 1 January 2011 (the company's date of transition).

In preparing its opening IFRS statement of financial position, the company has adjusted amounts reported previously in financial statements prepared in accordance with previous SLAS. An explanation of how the transition from previous SLAS to SLFRSs has affected the company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

4.1 Company has Applied the Following Optional Exemptions

SLFRS 1 First-Time Adoption of Sri Lanka Financial Reporting Standards allows first-time adopters certain optional exemptions from retrospective application.

- Designation of previously recognised financial instruments - The company has designated unquoted equity instruments held as at 1 January 2011 as available-for-sale investments.
- SLFRS 4 - Insurance contracts transitional provisions.

4.2 Company has Applied the Following Mandatory Exceptions from Retrospective Application

Significant accounting judgments, estimates and assumptions at 1 January 2011 and at 31 December 2011 are consistent with those made for the same dates in accordance with SLAS (after adjustments to reflect any differences in accounting policies).

The estimates used by the company to present these amounts in accordance with SLFRS / LKASs effective from 1 January 2012 reflect conditions at 1 January 2011, the date of transition to SLFRS / LKASs and as of 31 December 2011.

4.3 Reconciliation of Equity as at 1 January 2011 (date of transition to SLFRS / LKASs)

	Notes	As per SLAS	Effect of transition to SLFRS / LKASs	As per SLFRS / LKASs
Assets				
Intangible assets	4.6.1	49,500	(49,500)	-
Property, plant and equipment		1,108,723	-	1,108,723
Financial Investments	4.6.2	13,752,957	584,903	14,337,860
Life policyholders loans		232,618	-	232,618
Reinsurance receivable	4.6.3	579,009	40,219	619,228
Premiums receivable		1,237,594	-	1,237,594
Other assets		1,552,089	-	1,552,089
Deferred expenses	4.6.4	-	139,176	139,176
Cash and cash equivalents		390,138	-	390,138
Total assets		18,902,628	714,798	19,617,426
Equity and liabilities				
Equity				
Stated capital		388,433	-	388,433
Other reserves	4.6.2.a	584,178	756,792	1,340,970
Retained earnings	4.6.5	1,660,498	(221,389)	1,439,109
Total equity		2,633,109	535,403	3,168,512
Liabilities				
Insurance contract liabilities - life		11,769,308	-	11,769,308
Insurance contract liabilities - non life	4.6.6	2,716,888	96,363	2,813,251
Insurance contract liabilities - unit linked		165,835	-	165,835
Reinsurance payable		405,764	-	405,764
Deferred revenue	4.6.7	-	83,032	83,032
Employee benefits		132,422	-	132,422
Other liabilities		912,101	-	912,101
Current tax liabilities		81,558	-	81,558
Deferred tax liabilities		13,948	-	13,948
Bank overdraft		71,695	-	71,695
Total liabilities		16,269,519	179,395	16,448,914
Total liabilities and equity		18,902,628	714,798	19,617,426

Notes to the Financial Statements Contd.

4.4 Reconciliation of Equity as at 31 December 2011

	Notes	As per SLAS	Effect of transition to SLFRS / LKASs	As per SLFRS / LKASs
Assets				
Intangible assets	4.6.1	49,500	(49,500)	-
Property, plant and equipment		1,298,380	-	1,298,380
Financial investments	4.6.2	16,480,289	98,805	16,579,094
Life policyholders loans		246,674	-	246,674
Reinsurance receivable	4.6.3	495,776	49,998	545,774
Premiums receivable	4.6.8.2	1,056,375	179,924	1,236,299
Other assets		1,795,727	-	1,795,727
Deferred expenses	4.6.4	-	147,495	147,495
Cash and cash equivalents		373,413	-	373,413
Total assets		21,796,134	426,722	22,222,856
Equity and liabilities				
Equity				
Stated capital		388,433	-	388,433
Other reserves	4.6.2.a	714,056	241,139	955,194
Retained earnings	4.6.5	2,125,376	(221,789)	1,903,587
Total equity		3,227,865	19,350	3,247,214
Liabilities				
Insurance contract liabilities - life		13,440,459	-	13,440,459
Insurance contract liabilities - non life	4.6.6	2,942,950	108,026	3,050,976
Insurance contract liabilities - unit linked		555,541	-	555,541
Reinsurance payable		441,567	-	441,567
Deferred revenue	4.6.7	-	89,467	89,467
Employee benefits		154,702	-	154,702
Other liabilities	4.6.8	828,607	209,879	1,038,486
Current tax liabilities		67,549	-	67,549
Deferred tax liabilities		28,161	-	28,161
Bank overdraft		108,734	-	108,734
Total liabilities		18,568,270	407,372	18,975,642
Total liabilities and equity		21,796,135	426,722	22,222,856

4.5 Reconciliation of Statement of Income and Other Comprehensive Income for the Year Ended 31 December 2011

4.5.1 Statement of income

	Notes	As per SLASs	Effect of transition to SLFRS / LKASs	As per SLFRS / LKASs
Gross written premium	4.6.9	8,732,176	(32,277)	8,699,900
Net change in reserve for unearned premium		(319,881)	-	(319,881)
Gross earned premium		8,412,295	(32,277)	8,380,018
Premium ceded to reinsurers	4.6.9	(1,119,502)	32,277	(1,087,225)
Net change in reserve for unearned reinsurance premium		58,461	-	58,461
Net earned premium		7,351,254	-	7,351,254
Other revenue				
Finance income	4.6.10	1,819,224	89,481	1,908,705
Net realised gains		18,436	-	18,436
Net Fair value losses		(287,711)	(29,955)	(317,666)
Other operating revenue	4.6.11	74,369	(25,133)	49,236
		1,624,318	34,393	1,658,711
Total net revenue		8,975,572	34,393	9,009,965
Benefits, losses and expenses				
Insurance claims and benefits (net)		(4,956,196)	-	(4,956,196)
Underwriting and net acquisition costs (including reinsurance)		(1,087,919)	-	(1,087,919)
Other operating and administrative expenses		(2,040,423)	(34,793)	(2,075,216)
Depreciation on property, plant and equipment		(128,694)	-	(128,694)
Total benefits, losses and expenses		(8,213,232)	(34,793)	(8,248,025)
Profit before income tax		762,340	(400)	761,940
Income tax expense		(66,755)	-	(66,755)
Profit for the year		695,585	(400)	695,185

Notes to the Financial Statements Contd.

4.5.2 Statement of other comprehensive income

	Notes	As per SLASs	Effect of transition to SLFRS / LKASs	As per SLFRS / LKASs
Profit for the year		695,585	(400)	695,185
Change in fair value of available-for-sale financial assets	4.6.2.a	-	(156,308)	(156,308)
Income tax effect		-	-	-
			(156,308)	(156,308)
Change in liabilities for insurance contracts arising from fair value changes in available for sale net gains	4.6.2.aa		(340,910)	(340,910)
Income tax effect		-	-	-
			(340,910)	(340,910)
Change in liabilities for insurance contracts arising from revaluation of land and building		147,759	-	147,759
Income tax effect		(14,213)	-	(14,213)
		133,546	-	133,546
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	4.6.2.aa		(18,436)	(18,436)
Income tax effect		-	-	-
			(18,436)	(18,436)
Other comprehensive income for the year, net of tax		133,546	(515,654)	(382,108)
Total comprehensive income for the year, net of tax		829,131	(516,054)	313,077

4.6 Notes to the Reconciliation of Equity as at 1 January 2011 and 31 December 2011, Statement of income and Other Comprehensive Income for the Year Ended 31 December 2011

4.6.1 Intangible assets

Under SLAS, the company has recognised intangible assets amounting to Rs. 110 million on acquisitions of businesses from the four former branches, Aitken Spence Insurance Limited, Carsons Insurance Limited, ACW Insurance (Private) Limited and Whitall Boustead Limited during 1995. The intangible asset recognised was amortised up to 2005 and the balance of Rs. 49.5 million was carried forward and tested for impairment as per SLAS 25 - Business Combinations (revised 2005).

As per SLFRS 3 - Business Combinations, the company re-measured the cost of business combination as at SLFRS transition date (1 January 2011) and identified that other intangible assets mainly consisted of the acquired customer list. Had other intangibles been identified (alternative to goodwill) as per SLFRS 3, such intangibles would have been fully amortised by transition date. Hence the company fully amortised this balance as at the transition date as per SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards.

4.6.2 Financial investments

Description	Notes	As at 31 December 2011	As at 1 January 2011
Unrealised fair value gain on available for sale financial assets	a	241,139	756,792
Adjustment on effective interest rate (EIR)	4.6.5.1	(142,334)	(171,889)
Total		98,805	584,903

a. Unrealised fair value gain on available for sale financial assets

Under SLASs, the company accounted for its investments (other than quoted shares and investments pertaining to unit linked insurance) at cost. However, in accordance with LKAS 39 - Financial Instruments: Recognition and Measurement, part of the financial assets were designated as available for sale financial assets as at the transition date and have been recognised at fair value.

The difference between the fair value under SLFRS / LKASs and carrying amount under SLASs has been recognised as a separate component of equity in the available for sale reserve in accordance with LKAS 39. As at 1 January 2011 (date of transition), the fair value of the financial assets designated as available for sale financial assets is Rs. 7,336 million and their carrying amount under SLAS was Rs. 6,579 million.

Analysis of AFS reserve is provided as follows:

Description	Notes	As at 31 December 2011	As at 1 January 2011
Reserve for available for sale investments	a.1.	83,252	239,559
Reserve in liabilities for insurance contracts arising from unrealised available for sale net gains	b.1.	157,887	517,233
Total		241,139	756,792

a.1. Reserve for available for sale investments

This represents the fair value change in available for sale financial assets pertaining to shareholders

b.1. Reserve in liabilities for insurance contracts arising from unrealised available for sale net gains

This represents the fair value change in available for sale financial assets relating to life policyholders which are relating to insurance contract liabilities.

4.6.3 Reinsurance receivable

Under SLASs, the company recognised Incurred but Not Reported (IBNR) net of reinsurance. However, as per SLFRS 4 - Insurance Contracts the company recognised IBNR on gross basis and reinsurance share has been restated accordingly.

4.6.4 Deferred expenses

Unamortised amount of the commissions and other variable costs directly connected with acquisition or renewals of insurance contracts were recognised under "Insurance contract liabilities - non life" as per SLAS. However as per SLFRS 4 - Insurance Contracts, the company reclassified these under deferred expenses (See note 4.6.6).

4.6.5 Retained earnings

Description	Notes	As at 31 December 2011	As at 1 January 2011
Adjustment due to effective interest rate (EIR)	4.6.5.1	(142,334)	(171,889)
Intangible asset written off	4.6.1	(49,500)	(49,500)
Recognition of derivative financial instrument	4.6.5.2	(29,955)	-
Total		(221,789)	(221,389)

4.6.5.1 Adjustment due to effective interest rate (EIR)

As per SLAS, company recognised interest income using the contracted interest rate on the capital granted using the straight line method. According to SLFRS / LKASs interest shall be computed using the effective interest rate (EIR) method.

Notes to the Financial Statements Contd.

4.6.5.2 Recognition of derivative financial instrument

Under SLASs company was not required to identify and recognise derivatives. Under SLFRS / LKASs derivatives are treated as separate assets and liabilities unless certain criteria are met. These financial assets and liabilities are measured at fair value and changes in fair value are recognised in the statement of income.

4.6.6 Insurance contract liabilities - non life

Description	Notes	As at 31 December 2011	As at 1 January 2011
Reclassification of deferred acquisition cost	4.6.4	147,495	139,176
Grossing up of IBNR	4.6.3	49,998	40,219
Reclassification of unearned commission reserve (UCR)	4.6.7	(89,467)	(83,032)
Total		108,026	96,363

4.6.7 Deferred revenue

Under SLASs, deferred commission income on outwards reinsurance contracts are recognised under "Insurance contract liabilities - non life". However as per SLFRS 4 - Insurance Contracts, the company reclassified these under deferred revenue (See note 4.6.6).

4.6.8 Other liabilities**4.6.8.1 Recognition of derivatives**

Under SLASs company was not required to identify and recognise derivatives. As per SLFRS / LKASs derivatives are treated as separate assets and liabilities unless certain criteria are met. These assets and liabilities are measured at fair value and changes in fair value are recognised in the statement of income.

4.6.8.2 Grossing up of premium receivables

As per SLASs, premium receivable was accounted on the net basis while as required by SLFRS / LKASs the company has recognised this on gross basis.

4.6.9 Gross written premium / premium ceded to reinsurers

This includes elimination of co-insurance premium from GWP and related reinsurance premium.

4.6.10 Finance income

The impact arising from the change is summarised as follows;

Description	Notes	Year ended 2011
Reclassification of interest income on loans to life policyholders and employees		59,927
Adjustment due to effective interest rate		29,554
Recognition of derivative financial instrument	4.6.5.2	(29,955)
Total		59,526

4.6.11 Other operating revenue

The impact arising from the change is summarised as follows;

Description	Year ended 2011
Reclassification of interest income on loans provided to life policyholders and employees	(59,927)
Reclassification of administrative expenses	34,793
Total	(25,134)

4.7 Reconciliation of Statement of Financial Position – life fund as at 31 December 2011

	Notes	As per SLAS	Effect of transition to SLFRS/ LKAS	As per SLFRS / LKAS
Assets				
Property, plant and equipment		1,069,577	-	1,069,577
Financial investments	4.8.1	12,857,189	34,884	12,892,074
Life policyholders loans		246,674	-	246,674
Reinsurance receivable		46,879	-	46,879
Other assets	4.8.2	859,341	152,958	1,012,300
Cash and cash equivalents		211,283	-	211,283
Total assets		15,290,944	187,843	15,478,787
Reserves and liabilities				
Reserves				
Other reserves	4.6.2.b.1	238,196	157,887	396,083
		238,196	157,887	396,083
Liabilities				
Insurance contract liabilities - life		13,440,459	-	13,440,459
Insurance contract liabilities - unit linked		555,541	-	555,541
Reinsurance payable		68,489	-	68,489
Employee benefits		99,124	-	99,124
Other liabilities	4.6.5.2	843,686	29,955	873,642
Deferred tax liability		15,076	-	15,076
Bank overdraft		30,373	-	30,373
Total liabilities		15,052,748	29,955	15,082,703
Total liabilities and reserves		15,290,944	187,843	15,478,787

Notes to the Financial Statements Contd.

4.8 Notes to the Life Fund Statement of Financial Position as at 31 December 2011

4.8.1 Financial investments

Description	Notes	As at 31 December 2011
Gain on available for sale financial assets	4.6.2.b.1	157,887
Adjustment on effective interest rate (EIR)	4.6.5.1	(123,003)
Total		34,884

4.8.2 Other assets

Description	Notes	As at 31 December 2011
Receivable due to recognition of derivative financial instrument	4.6.5.2	29,955
Receivable due to the adjustment on effective interest rate (EIR)		123,003
Total		152,958

4.9 Statement of cash flows

The transition from SLAS to SLFRS / LKAS has not had a material impact on the statement of cash flows.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

5.1 Introduction and Overview

Union Assurance PLC (UA) has implemented a risk management framework in order to identify, measure, mitigate and manage the various risks falling within credit, liquidity, market, and insurance categories. Risk reporting entails not only accounting but also the activities of risk management. The disclosures in the risk report largely adopt an economic view.

UA has exposure to the following risks;

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

This section deals in detail with the various risks from insurance contracts and describes uncertainties in measuring them. In accordance with the requirements of SLFRS 4, the effects of a change in the assumptions underlying the measurement of insurance contracts and / or in the market environment are also quantified. In relation to financial instruments, SLFRS 7 stipulates that the disclosures must comprise information on the maximum credit risk exposure, the remaining terms, the rating, and a sensitivity analysis regarding the market risk. This information is also relevant for assessing the risk stemming from financial instruments.

To obtain a complete overview of the risks to which UA is exposed and objectives, policies, process and method adopted for manage those risks, the reader needs to refer this section along with the risk management report in the corporate governance section and further information in the individual notes.

5.2 Insurance Risk

By the very nature of an insurance contract, risk is based on fortuity and is therefore unpredictable. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces is that the actual claim and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Table 5.A - Risk management procedures adopted by UA to manage insurance risk

Area	Risk management procedure
<p>Underwriting discipline</p>	<ul style="list-style-type: none"> • Selective underwriting with certain insurance covers being restricted to certain regions / locations due to risks associated with that particular geographical area • Limits are set on underwriting capacity, and authority is granted to individuals based on their specific expertise. • Appropriate pricing guidelines have been set, with a focus on consistent technical pricing across the organisation. • Statistical databases are maintained and regular reviews of premium versus sums assured by location are carried out to identify the accumulation impact.
<p>Reinsurance UA obtains reinsurance to limit its exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. The types of reinsurance obtained are as follows;</p> <ul style="list-style-type: none"> • Risk excess of loss reinsurance obtained to protect a range of individual inwards contracts which could give rise to individually large claims. • Facultative reinsurance obtained to reduce risk relating to an individual specific inwards contract. 	<ul style="list-style-type: none"> • Review adequacy of reinsurance support for catastrophe / extreme events on a regular basis • Obtain formal approval of the reinsurance panel from UA Board of Directors on an annual basis. • Ensure that reinsurance transaction are conducted with parties which meet the minimum IBSL rating requirements. • Obtain formal sign off that large risks are adequately reinsured.

5.2.1 Life insurance contracts

Concentration risk

UA defines concentration risk in the life business is the risk of exposure to increased losses associated with inadequately diversified portfolios of assets and / or obligations.

A more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of risks.

Any potential change in the mix of the portfolio could significantly alter the nature of the overall risk. Hence the Executive Committee reviews risks inherent in all new business propositions against the risk appetite of the life business.

Risk management – traditional life insurance

Traditional life insurance products include protection and annuity covers.

Protection products carry mortality, longevity and morbidity risks as well as market and credit risk. The most significant factors that could increase the frequency of mortality claims are epidemics, such as strains of influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims experience would not only be affected by the factors mentioned above, but because disability is defined in terms of the ability to perform an occupation, it could also be affected by economic conditions. In order to reduce cross-subsidies in the pricing basis, premiums are differentiated, where permitted, for example by product, age, gender and smoker status.

The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss.

In the life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

In addition to the specific risks listed above, the company is exposed to policyholder behavior and expense risks. Policyholder behavior risk is mitigated by product designs that match revenue and

Notes to the Financial Statements Contd.

expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses and by regular expense analyses and allocation exercises.

Certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees.

Risk management - unit linked products

Unit linked products have been designed in order to reduce much of the market and credit risk associated with traditional products. Under unit linked contracts those 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 mitigated by explicit mortality and morbidity charges.

UA is exposed to two main types of concentration risks in its life business:

- Market risk: Interest rate guarantees expose UA to financial losses that may arise as a result of adverse movements in financial markets.
- Insurance risk: Main factors include mortality risk, morbidity risk, longevity risk, policyholder behavior risk (lapse, anti-selection) and expense risk.

Accordingly having a well-diversified portfolio of traditional as well as unit linked products reduces risk associated with the life business.

The Table below shows the concentration of the life insurance by type of contract.

The UA's exposure to life insurance risks varies significantly by the product lines and may change over time.

The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behavior.

Concentration risk within the life business

31 December 2012

Description	Insurance contract liabilities
Participating	6,951,248
Non participating	7,962,761
Total traditional life insurance	14,914,009
Non unit fund of linked insurance	103,637
Total	15,017,646

31 December 2011

Description	Insurance contract liabilities
Participating	6,809,372
Non participating	6,331,581
Total traditional life insurance	13,140,953
Non unit fund of linked insurance	70,407
Total	13,211,360

Assumptions in determining life insurance contract liabilities

Life insurance contract estimates are made in two stages. At inception of the contract, the company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest estimates. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deterioration in estimates have an impact.

The assumptions used for the insurance contracts disclosed in this note are as follows:

Assumption	Description
Mortality	The mortality table used was the A67 / 70 ultimate for all assurances and deferred annuities before vesting and, a (90) ultimate table of annuitants after vesting.
Investment returns	Investment returns affect the assumed level of future benefits due to the contract holders and the selection of the appropriate discount rate.

Sensitivity analysis

The table below presents the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. 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 2012 or 2011, based on the results of the liability adequacy test.

Sensitivity of the value of insurance liabilities

31 December 2012

Assumption	Change in assumptions	Impact on liabilities
Mortality	+10%	+ 0.43%
	-10%	- 0.41%
Discount rate	+50 basis points	- 1.82%
	-50 basis points	+ 2.11%

5.2.2 Non life insurance contracts

Non life insurance risks includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the company's main lines of business:

Line business	Description
Motor	Includes automobile physical damage, loss of the insured vehicle and automobile third party liability insurance
Fire and engineering (property)	Includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake and flood), engineering lines (for example boiler explosion, machinery breakdown and construction)
Marine / cargo	Coverage for special risk insurance and trip cargo insurance. Contrasts with open policy cargo insurance that covers all of a shipper's goods in transit.
Accident and liability	Includes general / public and product liability, excess and professional liability including medical malpractice, and errors and omissions liability.

UA's underwriting strategy is to take advantage of the diversification of general insurance risks across industries. The company seeks to optimise shareholder value by achieving its equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility. At the core of the company's underwriting is a robust governance process.

Concentration risk

For non life insurance contracts, the most significant risks arise from climate changes, and natural disasters. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

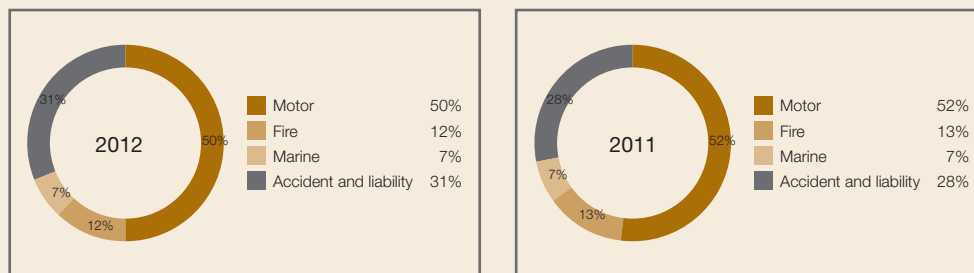
The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts in to different classes as mentioned earlier. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

This is largely achieved through diversification of its product portfolio. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the company. The company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

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Concentration risk within the non life insurance business based on GWP

Class	2012				2011			
	Gross Written Premium	Reinsurance	Net Written Premium	%	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	2,328,111	(97,080)	2,231,031	60	2,183,207	(113,318)	2,069,888	62
Fire	569,700	(513,051)	56,649	2	538,279	(478,176)	60,102	2
Marine	319,230	(188,327)	130,903	4	310,359	(193,866)	116,493	3
Accident and liability	1,409,392	(113,820)	1,295,572	34	1,196,428	(98,957)	1,097,470	33
	4,626,433	(912,278)	3,714,155		4,228,273	(884,318)	3,343,954	
Motor / Non Motor composition								
Motor	2,328,111	(97,080)	2,231,031	60	2,183,207	(113,318)	2,069,889	62
Non Motor	2,298,322	(815,198)	1,483,124	40	2,045,066	(770,999)	1,274,066	38
	4,626,433	(912,278)	3,714,155		4,228,273	(884,318)	3,343,954	

Class wise GWP*Sources of uncertainty in the estimation of future claim payments*

UA is liable for all insured events that occurred during the term of the contracts, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported (IBNR) claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopt.

Estimation for IBNR reserve

The IBNR claims reserve has been actuarially computed by NMG Consulting (NMG). The valuation is determined using internationally accepted actuarial reserving techniques.

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate the quantitative sensitivity analysis. NMG use several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the Chain-Ladder and the Bornhuetter-Ferguson methods.

The Chain - Ladder method may be applied to premiums, paid claims or reported claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of development factors based on this historical pattern. The selected development factors are then applied to the cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter – Ferguson (BF) method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure such as premiums, the latter is based on the paid or reported claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available, for the projection of recent accident years or new classes of business.

Generally, NMG has given higher credibility to the chain ladder method on a cumulative claims reported basis for each class of business. In general, the reported basis would display more stability relative to the paid basis, especially for more recent accident years. To increase consistency, the BF method uses results from the 31 December 2011 analysis as the seed loss ratio for each accident year and a projected loss ratio for the latest accident year.

Loss development factors

NMG has used loss development factors based on weighted averages except where:

- The weighted average is contrary to a trend in the recent ratios. For some classes, the trend in loss development factors applies only to certain development years.
- Payments in particular years are clearly out of line relative to those in other years, in which case such outliers are disregarded in selecting the loss development factors.

Note 31 shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

Sensitivity analysis

The table below shows the sensitivity of net profit before tax (PBT) and the sensitivity of net assets (NA) as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity. The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net profit before tax and net assets.

Sensitivity of PBT and net assets due to increase in net claim ratio

	2012 Rs.'000	2011 Rs.'000
<i>+1% in claim ratio</i>		
Net impact to profit before tax	(22,135)	(21,179)
Impact to net assets	(26,164)	(25,033)

5.3 Financial Risk

5.3.1 Introduction and overview

UA is exposed to a range of financial risks through its;

- Financial assets
- Financial liabilities
- Reinsurance receivables and
- Insurance liabilities

In particular, the key financial risk is investment proceeds not being sufficient to fund the obligations arising from insurance contracts. The key risk categories are;

- Credit risk
- Liquidity risk and
- Market risk

5.3.2 Credit risk

This is the risk that arises when one party to a financial arrangement fails to discharge an obligation and causes the other party to incur a financial loss. Credit risks could arise from

- Financial investments in debt securities
- Reinsurance receivable
- Premiums receivable
- Loans to life policyholders and others
- Cash and cash equivalents and
- Other financial receivables

In the unit linked business, the policyholder bears the investment risk on the assets held in the unit linked funds, as the policy benefits are directly linked to the value of the assets in the fund. UA has no credit risk through unit linked financial investments. Therefore such investments are excluded from the detailed analysis of credit risk exposure.

UA manages credit risk exposure within parameters that reflect the UA's strategic objectives and risk tolerance. Sources of credit risk are identified, assessed and monitored, and the company has policies to manage the specific risks within the various subcategories.

Credit risk exposure

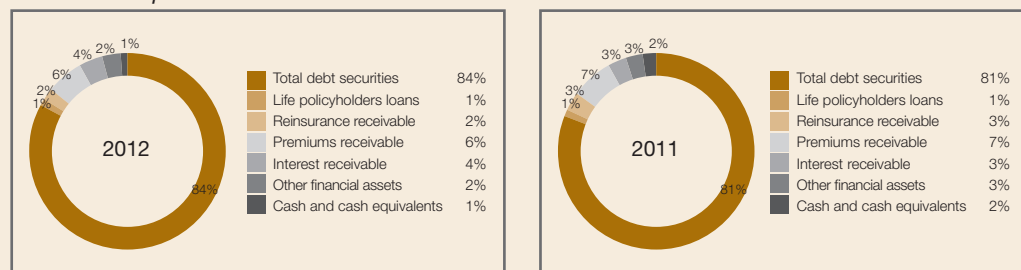
UA's exposure to credit risk as at the balance sheet date is given in table overleaf with the comparative figures and has been derived as per the company risk management policy of using the carrying values in the statement of financial position. There were no off-balance sheet exposures as at the dates. The values do not include the exposure that would arise in the future as a result of changes in values.

Notes to the Financial Statements Contd.

Credit risk exposure

As at 31 December	Note	2012 Rs.'000	% of allocation	2011 Rs.'000	% of allocation
Financial investments*					
Debt securities - Held to maturity	20	13,860,318	63	7,444,466	40
Debt securities - Loans and receivables	20	2,118,365	10	1,869,325	10
Debt securities - Available for sale	20	2,204,159	10	5,682,970	31
Total debt securities		18,182,843	84	14,996,761	81
Life Policyholders loans	22	284,744	1	246,674	1
Reinsurance receivable	23	400,627	2	545,774	3
Premiums receivable	24	1,459,440	7	1,236,299	7
Interest receivable	25	832,159	4	629,340	3
Other financial assets	25	513,600	2	533,517	3
Cash and cash equivalents	27	232,709	1	264,679	2
Total credit risk exposure		21,906,123	100	18,453,044	100

* Excluding financial investments relating to unit linked policies

Credit risk exposure

As of December 31 2012 the largest credit risk exposure of 83% (2011 – 81%) is arising from investments in debt securities.

5.3.2.1 Credit risk - financial investments in debt securities

UA is exposed to credit risk on securities issued by third parties. UA limits its exposure by analysing the creditworthiness of each debt security investment. The credit worthiness of a potential debt security investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue. The debt security investments are broadly categorised into investments in government securities and investments in corporate debt securities.

Credit risk - financial investments in debt securities

As at 31 December	2012		2011	
	Rs. 000	%	Rs. 000	%
Government securities and related institutions	15,604,770	86	12,492,870	83
Corporate debt securities	2,578,073	14	2,503,891	17
Total	18,182,843	100	14,996,761	100

Credit exposure of debt securities

a) Government securities

As shown in table below, as at 31 December 2012, 86% (2011 83%) of debt securities comprise investments in government securities comprising treasury bonds, bills and reverse repo investments. Government securities are usually referred to as risk free due to the sovereign nature of the instrument.

b) Corporate debt securities

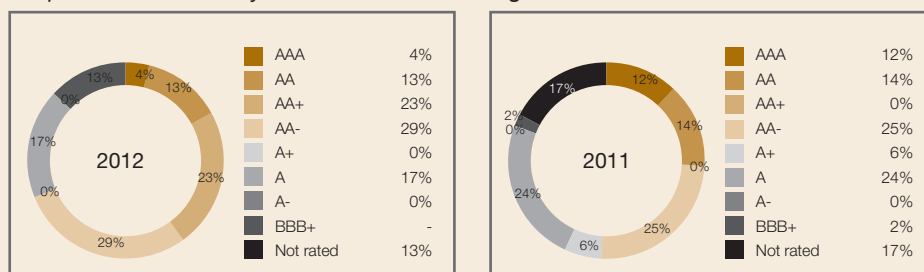
As at 31 December 2012, corporate debt securities comprise 14% (2011- 17%) of the total investments in debt securities, out of which 87% (2011 – 81%) were rated “A” or better, or guaranteed by a banking institution with a rating of “A” or better.

Corporate debt security allocation 2012 vs 2011 - credit rating wise

As at 31 December Rating	2012		2011	
	Rs. millions	% of total	Rs. millions	% of total
AAA	100	4	300	12
AA	345	13	345	14
AA+	600	23	-	-
AA-	749	29	626	25
A+	0	0	148	6
A	450	17	600	24
A-	10	0	-	-
BBB+	-	-	60	2
Not rated*	324	13	424	17
Total	2,579	100	2,504	100

* Comprises Rs. 150 million (2011- Rs. 250 million) - with an issuer rating of “A” and Rs. 174 million (2011 – Rs. 174 million) investment in government related institution.

Corporate debt security allocation - credit rating wise



c) 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 balance sheet date, UA holds treasury bonds worth Rs.2.18 billion as collateral for reverse repo investments amounting to Rs.1.92 billion.

d) Concentration risk of corporate debt securities

UA actively manages its investment mix to ensure that there is no significant concentration of credit risk.

5.3.2.2 Credit risk relating to reinsurance receivable

As part of its overall risk management strategy, UA cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the company to credit risk.

Reinsurance is placed in line with policy guidelines approved by the Board of Directors on an annual basis in line with the guidelines issued by the Insurance Board of Sri Lanka and concentration of risk is managed by reference to counterparties’ limits that are set each year and are subject to regular reviews. On a regular basis management assesses the creditworthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

Reinsurance receivables amount to Rs. 400.6 million as at 31 December,2012 (2011 - Rs. 545.7 million). This mainly consists of reinsurance receivable on paid claims amounting to Rs. 43 million (2011 - Rs. 77.3 million) and reinsurance share of claim reserve (receivables on outstanding claims) of Rs. 357.6 million as at 31 December 2012. (2011 - Rs. 468.4 million).

As at 31 December 2012, 72% (2011 - 52%) of our reinsurance receivables were due from reinsurers with a rating of “A-” or better and from the National Insurance Trust Fund (NITF).

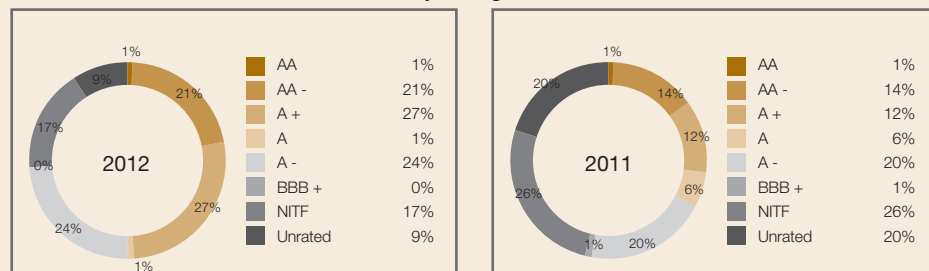
Notes to the Financial Statements Contd.

There were no collateral against reinsurance receivables as at balance sheet date.

Credit risk of reinsurance receivables by rating class

Rating	2012				2011			
	On paid claims	On reserve	Total	%	On paid claims	On reserve	Total	%
AA	0.3	0.0	0.3	1%	1.4	0.4	1.8	1%
AA -	4.4	79.2	83.6	21%	6.9	69.3	76.2	14%
A +	7.7	100.5	108.2	27%	2.5	60.5	63.0	12%
A	3.2	0.5	3.7	1%	3.7	30.5	34.2	6%
A -	12.1	82.1	94.2	24%	8.1	102.2	110.3	20%
BBB +	0.1	0.6	0.7	0%	2.2	0.9	3.2	1%
NITF	15.2	53.6	68.8	17%	52.5	91.5	144.0	26%
Unrated	-	41.1	41.1	9%	-	113.0	113.0	20%
Total	43.0	357.6	400.6	100%	77.3	468.4	545.7	100%

Credit risk of reinsurance receivables by rating class



5.3.2.3 Credit risk relating to premiums receivable

UA's has a credit risk exposure to receivables where the policyholder or the intermediary cannot settle their dues to the company.

In life insurance, credit risk is minimal, since premium is collected before the policy is issued.

In non life insurance, the premium warranty clause which states that a claim is not payable if the premium is not settled within 60 days has reduced the credit risk to a greater extent.

The following steps have also been taken to further minimise credit risk;

- Customers are regularly reminded on the premium warranty clause
- Outstanding credit is followed up on a daily basis.
- Policies not settled within a reasonable period are monitored and cancelled
- Outstanding receivables are checked and confirmed prior to settling claims
- Until premium is settled a temporary certificate for 60 days issued for motor policies.

See note 24 of the statement of financial position for additional information on premium receivables.

5.3.2.4 Credit risk relating to loans to life policyholders and others

The credit risk exposure arising from loans granted to life policyholders, staff and field staff are as follows;

Loan category	2012 Rs.'000	2011 Rs.'000
Life policyholders	284,744	246,674
Staff loans	356,122	365,911
Loans to agent / advisory loans	89,484	122,519
Total	755,440	735,105

5.3.2.4.1 Loans to life policyholders

A loan issued by an insurance company considers the surrender value of the life policy as collateral. As at the balance sheet date, the value of policy loans granted amounted to Rs. 285 million (2011 - 247 million) and its related surrender value is Rs. 696 million (2011 – 607 million).

5.3.2.4.2 Other loans

Company grants loan facilities to staff including field staff after a robust process of evaluating the credit worthiness of the individual, value of the facility and the related collateral. The staff loan portfolio is largely made up of vehicle loans and company has undertaken the absolute ownership of those vehicles as collateral. As at the balance sheet date value of the collateral is higher than the balance sheet value.

5.3.2.5 Credit risk relating to cash and cash equivalents

In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the company limits the maximum cash amount that can be deposited with a single counterparty. In addition, the company maintains an authorised list of acceptable cash counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators. The company held cash and cash equivalents of Rs. 233 million at 31 December 2012 (2011 - Rs. 265 million). The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better.

Notes to the Financial Statements Contd.

5.3.2.6 Other financial receivables

The table below provides an age analysis of other financial assets that are past due but not impaired.

	Financial investments	Premiums receivable	Reinsurance receivable	Life Policyholders loans and other loans	Other financial assets
As at 31 December 2012					
Neither past due nor impaired financial assets	19,760,584	1,129,472	353,631	730,350	67,993
Past due but not impaired financial assets	817	329,968	46,996	-	-
Financial assets impaired	-	7,606	4,394	-	-
Gross carrying value	19,761,401	1,467,046	405,021	730,350	67,993
Less: impairment allowance					
Individually assessed impairment allowances	-	(7,606)	(4,394)	-	-
Collectively assessed impairment allowances	-	-	-	-	-
Total credit risk exposure	19,761,401	1,459,440	400,627	730,350	67,993
As at 31 December 2011					
Neither past due nor impaired financial assets	16,658,611	1,057,277	462,707	735,105	45,086
Past due but not impaired financial assets	-	170,990	83,067	-	-
Financial assets impaired	-	8,031	6,033	-	-
Gross carrying value	16,658,611	1,236,298	551,807	735,105	45,086
Less: impairment allowance					
Individually assessed impairment allowances	-	(8,031)	(6,033)	-	-
Collectively assessed impairment allowances	-	-	-	-	-
Total credit risk exposure	16,658,611	1,236,299	545,774	735,105	45,086

5.3.3 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.

The following policies and procedures are in place to mitigate the exposure to liquidity risk:

- The Board Investment Committee (BIC) 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.

Maturity profiles

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.

For insurance contracts liabilities and reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premium reserve, deferred acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations. Unit linked liabilities are repayable or transferable on demand and are included as 'current' Repayments which are subject to notice and are treated as if notice were to be given immediately.

Maturity profile

31 December 2012	Carrying amount	Current	Non current	No maturity date	Unit linked	Total
Financial assets						
Held to maturity	13,860,318	335,000	13,525,318	-	-	13,860,318
Loans and receivables	2,118,361	1,906,536	314,316	-	-	2,220,852
Available for sale	2,304,784	1,996,647	195,670	100,625	-	2,292,942
Financial assets at fair value through profit or loss	644,957	-	-	644,957	1,142,668	1,787,626
Life policyholders loans	284,744	42,314	242,430	-	-	284,744
Reinsurance receivable	400,627	400,627	-	-	-	400,627
Premiums receivable	1,459,440	1,459,440	-	-	-	1,459,440
Other financial assets	1,345,759	968,415	367,428	-	9,916	1,345,759
Cash and cash equivalents	315,355	315,355	-	-	279	315,634
Total undiscounted assets	22,741,951	7,431,939	14,645,163	745,582	1,152,863	23,575,548
Financial liabilities						
Insurance contract liabilities - life	(15,356,340)	(1,568,535)	(13,787,805)	-	(1,143,546)	(16,499,886)
Insurance contract liabilities - non life	(1,026,563)	(1,026,563)	-	-	-	(1,026,563)
Reinsurance payable	(415,394)	(415,394)	-	-	-	(415,394)
Other financial liabilities	(893,276)	(740,914)	(152,362)	-	(9,317)	(902,592)
Bank overdraft	(82,925)	(82,925)	-	-	-	(82,925)
Total undiscounted liabilities	(17,774,498)	(3,834,331)	(13,940,167)	-	(1,152,863)	(18,927,361)
Total liquidity excess	4,967,453	3,597,947	704,657	745,582	-	4,648,187

Notes to the Financial Statements Contd.

Maturity profile – Contd.

31 December 2011	Carrying amount	Current	Non current	No maturity date	Unit linked	Total
Financial assets						
Held to maturity	7,444,466	-	7,444,466			7,444,466
Loans and receivables	1,869,325	1,399,454	546,390			1,945,844
Available for sale	5,783,595	2,453,974	3,088,482			5,542,456
Financial assets at fair value through profit or loss	931,885			931,885	549,823	1,481,708
Life policyholders loans	246,674	44,540	202,135	-	-	246,674
Reinsurance receivable	545,774	545,774	-	-	-	545,774
Premiums receivable	1,236,299	1,236,299	-	-	-	1,236,299
Other financial assets	1,162,857	242,169	920,688	-	8,705	1,171,562
Cash and cash equivalents	373,413	373,413	-	-	357	373,770
Total undiscounted assets	19,594,288	6,295,623	12,202,160	931,885	558,885	19,988,553
Financial liabilities						
Insurance contract liabilities - life	(13,440,459)	(1,592,100)	(11,848,359)	-	(555,541)	(13,996,001)
Insurance contract liabilities - non life	(1,062,444)	(1,062,444)	-	-	-	(1,062,444)
Reinsurance payable	(441,567)	(441,567)	-	-	-	(441,567)
Other financial liabilities	(944,958)	(806,371)	(138,587)	-	(3,344)	(948,302)
Bank overdraft	(108,734)	(108,734)	-	-	-	(108,734)
Total undiscounted liabilities	(15,998,163)	(4,011,216)	(11,986,946)	-	(558,885)	(16,557,048)
Total liquidity excess	3,596,126	2,284,407	215,214	931,885	0	3,431,506

5.3.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks:

- Equity price risk
- Foreign exchange risk and
- Interest rate risk

For unit linked policies, the policyholder bears the investment risk on the assets held in the unit linked fund as the policy benefits are directly linked to the value of the assets in the fund. Exposure to market risk on these products is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

5.3.4.1 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. The company's equity risk management policies are;

- 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 BIC on a monthly basis

5.3.4.1.1 Equity risk exposure

The risk exposure to listed equity securities as at 31 December 2012 with the comparatives are as follows;

Listed equity investments

Segment	2012 Rs.'000	2011 Rs.'000
Life	596,274	856,715
Non life	48,683	64,279
Total	644,957	920,993

5.3.4.1.2 Concentration risk of equity

Company has no significant concentration of equity price risk as it has a diversified portfolio. The table on the opposite column shows the sector diversity of quoted equity investments of the company.

Portfolio diversification of equity investments

Sector	2012		2011	
	Rs.'000	%	Rs.'000	%
Banks Finance and Insurance	234,097	36%	199,869	22%
Beverage Food and Tobacco	67,230	10%	84,081	9%
Diversified Holdings	67,776	11%	137,258	15%
Manufacturing	165,697	26%	295,097	32%
Construction & Engineering	67,455	10%	68,488	7%
Telecommunications	29,425	5%	33,334	4%
Motors	13,277	2%	102,868	11%
Total	644,957	100%	920,993	100%

5.3.4.1.3 Sensitivity analysis

The table below shows the estimated impact from a 10 percent decline in the stock markets, on the portfolio as at 31 December, 2012 with indicative comparatives.

Sensitivity of PBT and PAT to decline in equity prices

	2012 Rs.'000	2011 Rs.'000
Non life insurance business		
<i>10% decline in stock markets</i>		
Investments	(4,868)	(6,428)
Liabilities	-	-
Net impact before tax	(4,868)	(6,428)
Tax impact	886	1170
Net impact after tax	(3,982)	(5,258)
Life insurance business		
<i>10% decline in stock markets</i>		
Investments	(59,627)	(85,671)
Liabilities	59,627	85,671
Net impact before tax	(34,615)	(45,748)
Tax impact	-	-
Net impact after tax	(34,615)	(45,748)

5.3.4.2 Foreign exchange risk

Currency risk is the risk of loss resulting from changes in exchange rates. UA's principle operation is based in Sri Lanka, therefore it is not exposed to the financial impact arising from changes in the exchange rates of various currencies.

Notes to the Financial Statements Contd.

5.3.4.3 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.

UA has adopted the following policies to manage interest rate risk

- The BIC members keep a regular track of macroeconomic scenarios and their likely impact on interest rates
- Initial recognition of investments is closely monitored

Floating rate instruments expose the company to cash flow fluctuations, whereas fixed interest rate instruments expose the company to changes in fair values.

As at 31 December 2012 there were no cash flow interest rate exposures, as UA did not have any floating rate investments. However, UA is exposed to fair value fluctuations on fixed rate investments which are measured at fair value.

5.3.4.4 Sensitivity analysis

The table below shows the estimated impact on profitability and equity due to fluctuation of interest rates on the fixed rate available for sale financial assets.

Sensitivity of PBT and equity to changes in interest rates

As at 31 December 2012

Change in variables	Impact on profit before tax	Impact on equity			
		Up to one year	1 - 5 years	Over 5 years	Total
Non life					
+ 100 basis points	(5,489)	(1,671)	(3,818)	-	(5,489)
- 100 basis points	5,605	1,685	3,920	-	5,605
Life segment*					
+ 100 basis points	(2,118)	(2,118)	-	-	(2,118)
- 100 basis points	2,134	2,134	-	-	2,134

* Subject to actuarial valuation.

As at 31 December 2011

Change in variables	Impact on profit before tax	Impact on equity			
		Up to one year	1 - 5 years	Over 5 years	Total
Non life					
+ 100 basis points	(17,763)	(2,920)	(14,843)	-	(17,763)
- 100 basis points	18,144	2,942	15,202	-	18,144
Life segment*					
+ 100 basis points	(19,876)	(8,366)	(11,510)	-	(19,876)
- 100 basis points	20,133	8,430	11,703	-	20,133

* Subject to actuarial valuation

6. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations has been introduced by ICSL, and company have not applied in preparing these financial statements. Those which may be relevant to the company are set out below.

(a) SLFRS 9 Financial Instruments (2010), SLFRS 9 Financial Instruments (2009)

SLFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under SLFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. SLFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of SLFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

SLFRS 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of SLFRS 9 (2010) is expected to have an impact on the company's financial assets, but not on the company's financial liabilities.

(b) SLFRS 10 Consolidated Financial Statements, SLFRS 11 Joint Arrangements, SLFRS 12 Disclosure of Interests in Other Entities (2011)

SLFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the company may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees.

Under SLFRs 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

Currently, the company has not invested in joint arrangements.

SLFRS 12 brings together into a single standard all the disclosure requirements related to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The company is currently assessing the disclosure requirements for interests in subsidiaries, interests in joint arrangements and associates and unconsolidated structured entities in comparison with the existing disclosures. SLFRS 12 requires the disclosure of information about the nature, risks and financial effects of these interests.

(c) SLFRS 13 Fair Value Measurement (2011)

SLFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout SLFRS. Subject to limited exceptions, SLFRS 13 is applied when fair value measurements or disclosures are required or permitted by other SLFRSs. The company is currently reviewing its methodologies in determining fair values.

Application of these standards have been deferred by the ICASL.

Notes to the Financial Statements Contd.

7. GROSS WRITTEN PREMIUM

Gross written premium (GWP) represents the premium charged by UA to underwrite risk in order to pay customer claims / benefits if the event insured against occurs / specified term is completed. GWP is accounted on an accrual basis. The accounting policy is related to non life insurance GWP and life insurance GWP are provided in note 3.17 and 3.26 to the financial statements.

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

For the year ended 31 December	2012			2011		
	GWP excluding non motor SRCC/TC	Non motor SRCC/TC**	Total	GWP excluding non motor SRCC/TC	Non motor SRCC/TC**	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non life insurance						
Accident and liability	1,369,609	39,783	1,409,392	1,158,238	38,190	1,196,428
Fire	421,027	148,673	569,700	373,051	165,228	538,279
Marine	317,304	1,926	319,230	308,671	1,688	310,359
Motor	2,328,111	-	2,328,111	2,183,207	-	2,183,207
	4,436,051	190,382	4,626,433	4,023,167	205,106	4,228,273
Life insurance***						
Conventional premiums			4,267,936			3,776,357
Unit linked premiums			838,387			695,270
			5,106,323			4,471,627
Total Gross Written Premium			9,732,756			8,699,900

** Non motor Strike Riot and Civil Commotion Cover (SRCC) and Terrorism Cover (TC) premiums are collected on behalf of the National Insurance Trust Fund (NITF)

*** The company has opted to record Life Insurance premium on an accrual basis. The prior year balances has not been restated since the impact is immaterial

Figure 7 (a) analyses the composition of 2012 gross written premium (GWP) of UA. The consolidated GWP increased by 12% from Rs. 8.7 billion in 2011 to Rs. 9.7 billion in 2012. This was mainly due to a 14% growth in life insurance premiums, which increased from Rs. 4.5 billion in 2011 to Rs. 5.1 billion in 2012. Non life insurance premium also grew by 9% from Rs. 4.2 billion in 2011 to Rs. 4.6 billion in 2012. Figure 7 (b) provides a comparison of 2012 segmental GWP versus 2011.

Figure 7 (a)

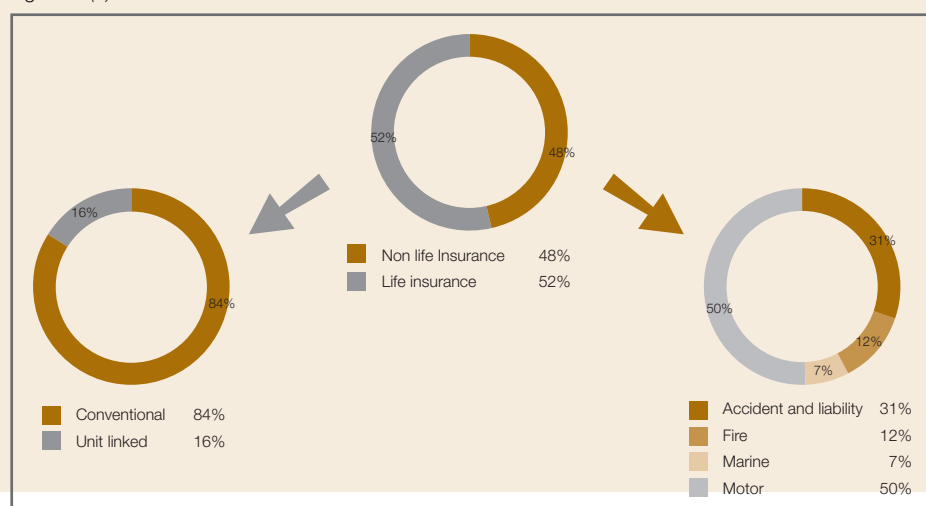
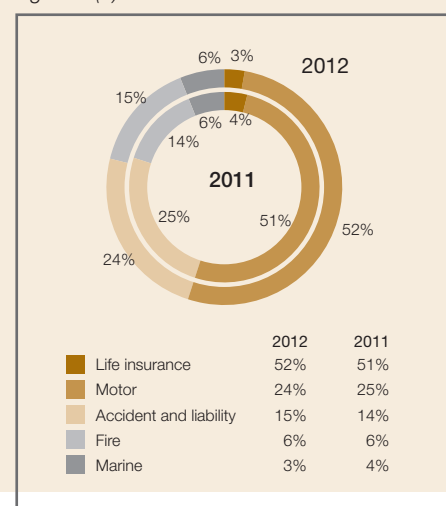


Figure 7 (b)



8. PREMIUM CEDED TO REINSURERS

Premium ceded to reinsurers represents the premium paid by UA to its reinsurance in order to manage its underwriting risk. This is accounted on an accrual basis. The accounting policy on reinsurance is provided in note 3.19 and risk management policy is outlined in note 3.20 in the notes to the financial statements.

For the year ended 31 December	2012			2011		
	Ceded premium without non motor SRCC / TC	Non motor SRCC / TC**	Total	Ceded premium without non motor SRCC/ TC	Non motor SRCC/ TC**	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Non life insurance						
Accident and liability	74,037	39,783	113,820	60,767	38,190	98,957
Fire	364,378	148,673	513,051	312,949	165,228	478,177
Marine	186,401	1,926	188,327	192,178	1,688	193,866
Motor	97,080	-	97,080	113,318	-	113,318
	721,896	190,382	912,278	679,212	205,106	884,318
Life insurance						
Conventional premiums			243,627			201,658
Unit linked premiums			5,968			1,250
			249,595			202,908
Total premium ceded to reinsurers			1,161,873			1,087,226

** Non motor Strike Riot and Civil Commotion Cover (SRCC) and Terrorism Cover (TC) premiums are collected on behalf of the National Insurance Trust Fund (NITF)

Figure 8 (a) analyses the composition of 2012 premium ceded to reinsurers. Non life insurance premium ceded to reinsurers increased by Rs. 28 million and life premium ceded to reinsurers increased by Rs. 47 million. The overall increase in premium ceded to reinsurers is amounted to Rs. 75 million which is 7% from Rs. 1.1 billion in 2011 to Rs. 1.2 billion in 2012. Figure 8 (b) provides a comparison of 2012 segmental premium ceded to reinsurers versus 2011.

Figure 8 (a)

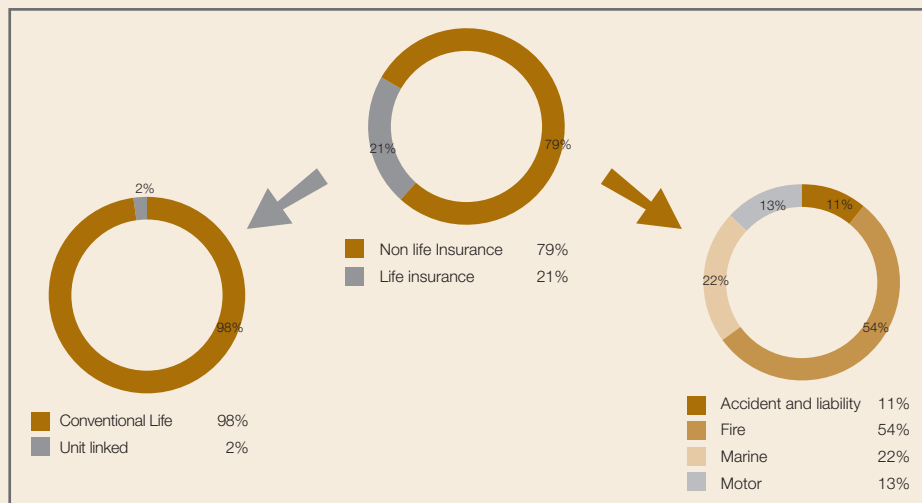
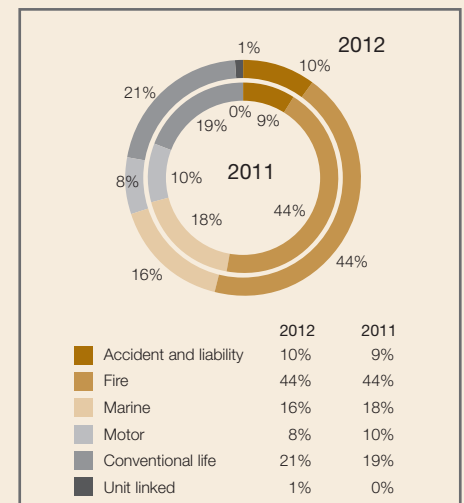


Figure 8 (b)



Notes to the Financial Statements Contd.

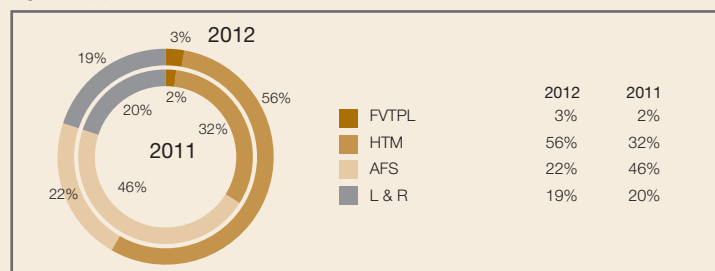
9. NET FINANCE INCOME**a. Recognised in Statement of Income**

This note analyses the finance income generated by the UA from its financial investments.

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Finance Income		
Financial assets at fair value through profit or loss		
- Held for trading		
Interest income - debt securities	7,238	4,574
Dividend income - from equity securities	43,567	27,070
- Designated upon initial recognition	11,887	259
Interest income from held to maturity financial assets - debt securities	1,289,401	624,106
Available for sale financial assets		
Interest income - debt securities	503,424	894,679
Dividend income - from equity securities	94	-
Interest income from loans and receivables	454,288	387,149
Interest income accrued on impaired loans and receivables	-	-
Finance cost - investment related	(54,409)	(29,132)
Net finance income	2,255,490	1,908,705

Figure 9 (a) provides comparison and composition of net finance income. The net finance income increase by 18% from Rs. 1.9 billion in 2011 to Rs. 2.3 billion in 2012 due to the growth in investment portfolio and rise in interest rates in the market.

Figure 9 (a)

**b. Recognised in Other Comprehensive Income**

This note provide an analysis of items presented in the statement of other comprehensive income applicable to the current year with comparatives.

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Net change in fair value of available for sale financial assets	(82,662)	(156,308)
Change in liabilities for insurance contracts arising from fair value changes in available-for-sale financial assets, net of tax	(126,196)	(340,910)
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	(20,438)	(18,436)
Finance income recognised in other comprehensive income	(229,296)	(515,654)

10. NET REALISED GAINS

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Available for sale financial assets		
Realised gains		
Equity securities	-	-
Debt securities	20,438	18,436
	20,438	18,436

11. NET FAIR VALUE GAINS AND LOSSES

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Fair value gains and losses on derivative financial instruments	29,955	(29,955)
Fair value gains and losses on financial assets at fair value through profit or loss (held for trading purposes)	(75,485)	(287,711)
Fair value gains and losses on financial assets at fair value through profit or loss (designated upon initial recognition)	-	-
Total net fair value losses	(45,530)	(317,666)

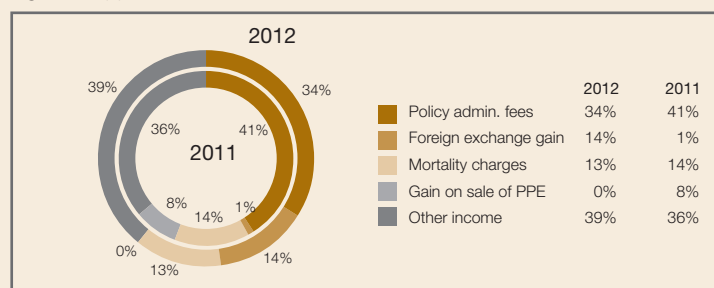
12. OTHER OPERATING INCOME

This note provides details of UA's other operating income

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Policy administration fees	35,107	20,012
Gain on foreign currency translation	14,235	341
Mortality charges	13,371	7,023
Gain on sale of property, plant and equipment	368	3,959
Miscellaneous income	39,746	17,901
	102,827	49,236

Figure 12 (a) reflects the year on year comparison of other income and illustrates the composition of other income in percentages for the year 2012 and 2011. During the year 2012, other income increase by 109% compared to 2011, This is mainly due to increases in policy fees, gains on foreign currency translation and miscellaneous income.

Figure 12 (a)



Notes to the Financial Statements Contd.

13. NET BENEFITS AND CLAIMS

Non life insurance net claims incurred reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the reporting date. Such claims are commonly referred to as incurred but not reported (IBNR) claims, and is computed based on internationally accepted actuarial principles.

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

Accounting policies for life and non life claims are provided in note 3.12 to the financial statements.

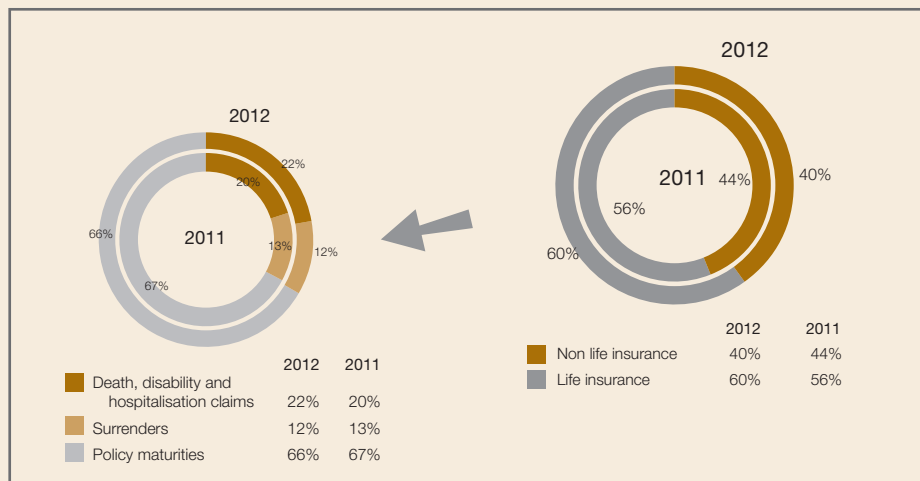
For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
(a) Gross benefits and claims paid		
Life insurance contracts	1,079,537	749,931
Non life insurance contracts	2,412,584	2,327,849
Total gross benefits and claims paid	3,492,121	3,077,780
(b) Claims ceded to reinsurers		
Life insurance contracts	(50,628)	(44,220)
Non life insurance contracts	(199,050)	(209,990)
Total claims ceded to reinsurers	(249,678)	(254,210)
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities	2,541,168	2,083,018
Change in non life outstanding claims provision	(48,042)	6,594
Change in premium deficiency provision	-	-
Total gross change in contract liabilities	2,493,126	2,089,612
(d) Change in contract liabilities ceded to reinsurers		
Change in life insurance contract liabilities	2,693	2,906
Change in non life outstanding claims provision	154,613	40,108
Change in premium deficiency provision	-	-
Total change in contract liabilities ceded to reinsurers	157,306	43,014
Total net benefits and claims	13. (e) 5,892,875	4,956,196

13. (e) Total Net Benefits and Claims

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Non life insurance		
Gross claims incurred	2,448,641	2,394,220
Reinsurance recoveries	(128,534)	(229,659)
Non life insurance net claims	2,320,107	2,164,561
Life insurance		
Death, disability and hospitalisation claims	266,039	156,762
Surrenders	135,846	103,494
Policy maturities	787,244	528,575
Reinsurance recoveries	(47,935)	(41,314)
Life insurance net claims and benefits excluding actuarial change in life contract liability	1,141,194	747,517
Change in life insurance contract liabilities due to actuarial reserving	2,431,574	2,044,118
Life insurance net claims and benefit	3,572,768	2,791,635
Total net benefits and claims	5,892,875	4,956,196

Figure 13 (a) provides a comparison of segmental net claims and benefits in 2012 and 2011 and illustrates the composition in net insurance claims and benefits in 2012 and 2011. Non life insurance claims (net of reinsurance recoveries) increased by Rs. 156 million and life insurance claims, benefits and maturity payments increased by Rs. 394 million. This is mainly due to increase in policy maturities payment amounted to Rs. 259 million from Rs. 529 million in 2011 to Rs. 787 million in 2012. The claims ratio in Non life insurance decreased from 70.2% in 2011 to 65.8% in 2012.

Figure 13 (a)



Notes to the Financial Statements Contd.

14. UNDERWRITING AND NET ACQUISITION COSTS (INCLUDING REINSURANCE)

This note includes acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts and commission income generated from reinsurance business during the year.

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Acquisition cost	1,388,661	1,292,189
Net change in reserve for deferred acquisition cost (DAC)	1,398	(8,319)
Reinsurance commission income	(228,263)	(202,537)
Net change in reserve for unearned commission (UCR)	7,437	6,586
Total underwriting and net acquisition costs	1,169,233	1,087,919

15. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

This note provides details of UA's expenses.

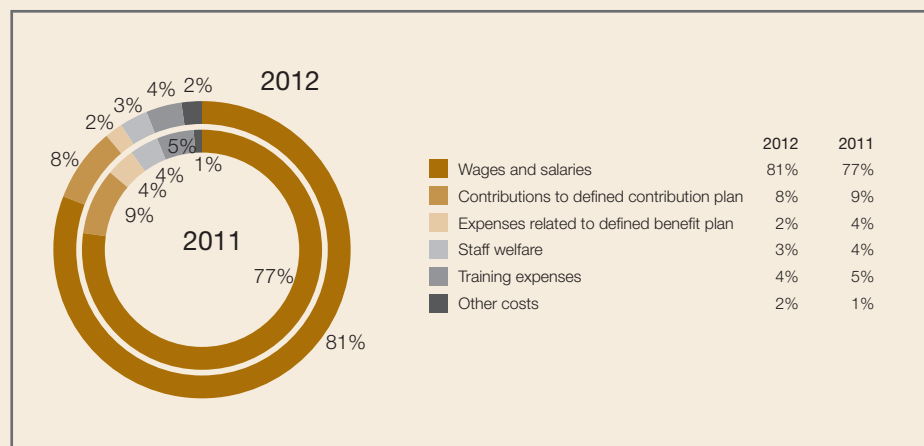
For the year ended 31 December		2012 Rs. '000	2011 Rs. '000
Employee benefits expenses	15. (a)	1,090,331	874,794
Administration and establishment expenses		956,694	838,049
Selling expenses		457,633	362,373
Total operating and administrative expenses		2,504,658	2,075,216

15. (a) Employee Benefits Expenses

Wages and salaries	878,190	682,658
Contributions to defined contribution plans	89,527	78,275
Expenses related to defined benefit plans	23,457	31,542
Staff welfare	30,147	31,468
Training expenses	45,536	40,863
Other costs	23,474	9,988
Total employee benefits expenses	1,090,331	874,794

Figure 15 (a) illustrates the composition of staff expenses in 2012 and comparison with year 2011.

Figure 15 (a)



16. PROFIT BEFORE INCOME TAX

This note provides additional details of expenses incurred by UA.

The profit before taxation for the year is stated after charging the following expenses

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Auditors remuneration		
Statutory audit services	2,000	1,700
Audit related services	2,350	785
Non audit related services	1,356	1,085
Legal fees	8,571	622
Depreciation on property, plant and equipment	143,347	128,694
Remuneration to Executive Directors	-	-
Remuneration to Non Executive Directors	5,400	4,050

17. INCOME TAX EXPENSE

This note analyses the tax charge for the year and provides a reconciliation between the tax charge and the value derived from multiplying the accounting profit by the applicable tax rate.

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

17. (a) Statement of Income

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Current income tax charge	87,907	66,597
Adjustments in respect of current income tax of previous year	(923)	158
	17. (c) 86,984	66,755
Deferred tax expense relating to origination and reversal of temporary differences	-	-
Income tax expense recognised in statement of income	86,984	66,755
Income tax expense relating to policyholders	-	-
Income tax expense relating to shareholders	86,984	66,755

17. (b) Statement of Other Comprehensive Income

Net gain on revaluation of land and buildings	-	14,213
Income tax charged directly to other comprehensive income	17. (d) -	14,213
Tax charge to other comprehensive income relating to policyholders	-	14,213
Tax charge to other comprehensive income relating to shareholders	-	-

Notes to the Financial Statements Contd.

17. (c) Reconciliation of Effective Tax Rate

A reconciliation between tax expense and the product of accounting profit multiplied by tax rate for the years ended 31 December 2012 and 2011 is as follows:

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Accounting profit before income tax	1,008,252	761,940
Aggregate net allowable income	(1,271,449)	(1,226,485)
Aggregate disallowed expenditure	424,374	375,452
Aggregate allowed expenditure	(342,002)	(290,989)
Notional tax credit added for tax purposes	189,106	172,154
Utilisation of notional tax credit	-	-
Tax losses incurred during the year which is carried forward	474,726	573,846
Tax losses brought forward and utilised	(169,052)	(128,071)
Taxable profit	313,955	237,847
Statutory tax rate	28%	28%
Current income tax expense	87,907	66,597
Adjustments in respect of current income tax of previous year	(923)	158
	86,984	66,755

Union Assurance PLC is liable to income tax at 28% (2011 - 28%) in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto. Current year income tax charge wholly consists of income tax on non life insurance division. However, there is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by payments made in lieu of economic service charge and credit available on the notional withholding tax from government securities. The tax loss carried forward as at 31 December 2012 is Rs. 2,591 million (2011 - Rs. 2,246 million) which is made up as follows.

As at 31 December	2012 Rs.'000	2011 Rs.'000
Loss brought forward	2,246,647	1,800,714
Claimed during the year	(169,052)	(128,071)
	2,077,595	1,672,643
Loss incurred in the business of life insurance	474,726	573,846
Over recognition of tax losses in respect of previous year	38,247	158
Total tax loss carried forward	2,590,568	2,246,647

17. (d) Movement in Temporary Differences During the Year

	Recognised in statement of		Recognised in other		Recognised in statement of		Recognised in other	
	Balance 1 Jan 2011	comprehensive income	comprehensive income	Balance 31 Dec 2011	comprehensive income	comprehensive income	Balance 31 Dec 2012	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Property, plant and equipment	13,948	-	14,213	28,161	-	-	28,161	

17. (e) Notional Tax Credit for Withholding Tax on Treasury Bills and Bonds

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

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

As at 31 December	2012 Rs.'000	2011 Rs.'000
Balance as at 1 January	785,909	613,755
Tax credit for the year	189,106	172,154
Set off against tax liability	-	-
	975,015	785,909

18. BASIC EARNINGS PER SHARE

This note indicates how earnings per share is computed.

18. (a) Basic Earnings Per Share

The calculation of basic earnings per share as at 31 December 2012 was based on the profit attributable to ordinary shareholders of Rs. 921 million (2011 - Rs. 696 million) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2012 of 75 million (2011 - 75 million)

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Profit for the year	921,268	695,185
Weighted average number of shares		
Shares ('000)	2012	2011
Issued ordinary shares as at 1 January	75,000	37,500
Effect of sub division of shares	-	37,500
Effect of shares issued in December 2012 *	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	75,000	75,000
Earnings per share (Rs.)	12.28	9.27

* The weighted average number of shares was not affected due to the rights issue taking place during the latter part of December 2012.

Notes to the Financial Statements Contd.

Figure 18 (a) and figure 18(b) depict the growth in earning per share over the previous five years with the year on year growth in profits.

Figure 18 (a)

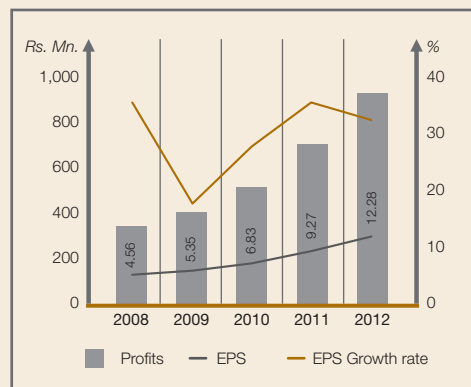
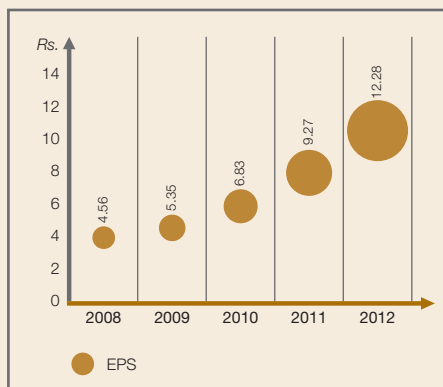


Figure 18 (b)



18. (b) Diluted Earning Per Share

There was no potential diluted ordinary shares outstanding at any time during the year. Therefore, diluted earning per share is the same as basic earning per share as shown in note 18.a.

19. DIVIDEND PER SHARE

This note indicates how dividend per share has been computed

19. (a) Dividend Declared (Not recognised as a liability as at 31 December)

The Board of Directors of the company has declared a first and final dividend of Rs. 5 per share for the financial year ended 31 December 2012.

As required by section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors has confirmed that the company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the auditors, prior to declaring the dividend.

	2012	2011
Dividend Declared (Rs. '000)	428,571	375,000
Number of ordinary shares ('000)	85,714	75,000
Dividend per share (Rs.)	5.00	5.00

The figure 19 (a) depict the growth in DPS and the profit for the year over five years. Figure 19 (b) depict the DPS over past five years.

Figure 19 (a)

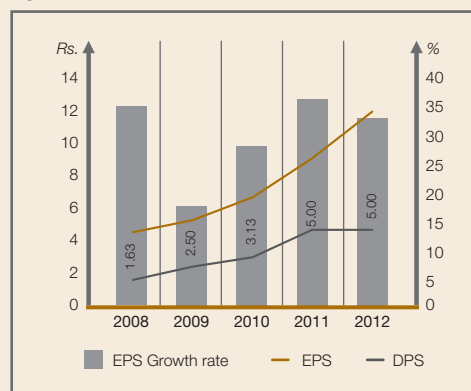
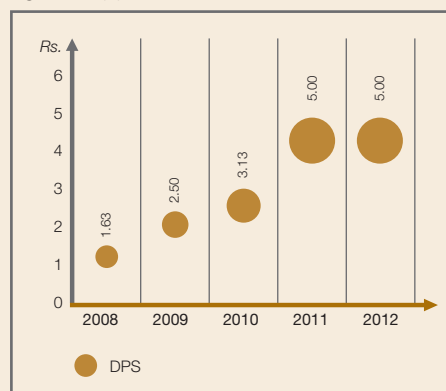


Figure 19 (b)



19. (b) Compliance with Section 56 and 57 of Companies Act No 7 of 2007

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the company satisfied the solvency test in accordance with the section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 26 February 2012 has been audited by Messrs KPMG.

19. (c) Dividend Paid During the Year

	2012 Rs. '000	2011 Rs. '000
First and final dividend for 2012 - Rs.5 per share (2011 - Rs. 3.13 per share)	375,000	234,375

20. FINANCIAL INVESTMENTS

This note provides details of how life policyholder funds and non life insurance funds have been invested. The relevant accountings policies are detailed in note 3.3. The risk management practices adopted by UA in relation to the investment portfolio are outlined on note 5. The decision making process adopted by the Board Investment Committee with regard to which assets / classes / duration to invest is detailed on page 253. The majority of UA's investments i.e. 78% (2011 - 80%) are in government securities. Corporate debt securities (which comprise quoted and unquoted debentures) account for a further 15% of investments (2011 - 15%) and 7% (2011 - 5%) in equities.

The company's financial instruments other than derivative financial instruments are summarised by the following categories:

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Held to maturity financial assets	20a 13,860,318	7,444,466	4,800,684
Loans and receivables	20b 2,118,365	1,869,325	1,255,031
Available for sale financial assets	20c 2,304,785	5,783,595	7,335,859
Financial assets at fair value through profit or loss	20d 1,787,626	1,481,708	946,286
Total financial investments	20,071,094	16,579,094	14,337,860

The company's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 5.

Notes to the Financial Statements Contd.

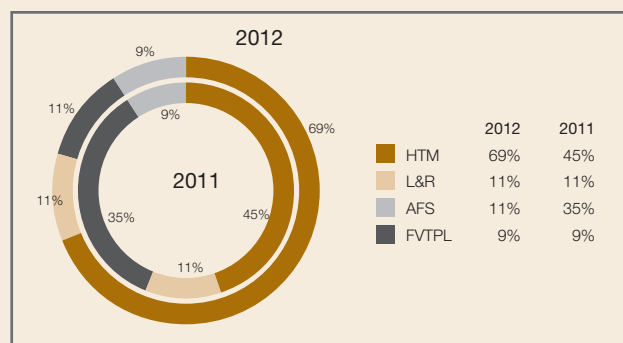
The current portion of financial assets is Rs. 4,216 million (2011 - Rs. 4,935 million) the remaining being non current. The assets comprised in each of the categories above are detailed in the following notes.

Financial investments are not pledged as security as at statement of financial statement date.

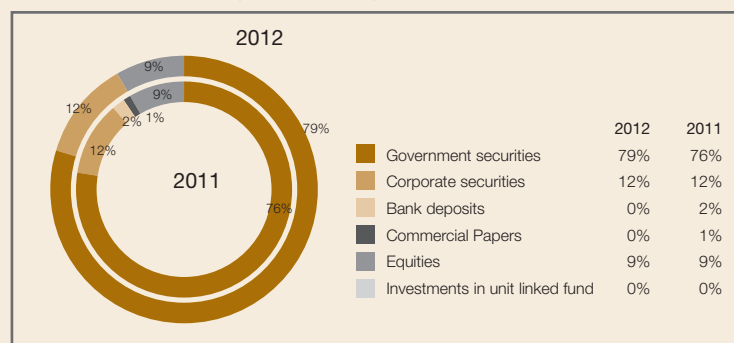
Please refer financial risk management disclosure in note 5 to the financial statements for additional details.

Union Assurance's investments portfolio mainly derives from our core business of insurance. The composition of financial investments is analysed below. The majority (79%) of investments were in government securities (2011 - 76%).

Classification of investments



Movements and the composition in the portfolio from 2011 to 2012



20. (a) Held to Maturity Financial Assets (HTM)

At amortised cost	Note	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Debt securities - fixed interest rate:				
– Listed	20. (a) (i)	2,233,523	1,561,522	959,300
– Unlisted - Treasury bonds		11,626,795	5,882,944	3,841,384
		13,860,318	7,444,466	4,800,684
Provision for impairment:		-	-	-
Total HTM financial assets		13,860,318	7,444,466	4,800,684

Financial assets held to maturity are not presented in the company's statement of financial position at their fair value. The fair value of the held to maturity assets is Rs. 13,642 million (2011 - Rs. 7,601 million).

Fair values for HTM financial assets are based on the weekly market rate published by the Central Bank of Sri Lanka. If 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 HTM assets that were overdue but not impaired.

20. (a) (i) Debt securities – Quoted debentures: fixed interest rate

2012					
Issuer	Maturity date	No of debentures	Cost Rs. '000	Market value Rs. '000	Interest rate %
Bank of Ceylon	11/29/2017	6,000,000	600,000	600,000	16.00
DFCC Bank PLC	09/26/2016	250,000	250,000	250,000	14.00
DFCC Vardhana Bank PLC	08/30/2016	2,222,222	222,222	222,222	11.50
Hatton National Bank PLC	07/31/2022	2,000,000	200,000	200,000	16.75
LB Finance PLC	09/22/2013	10,000	10,000	9,971	24.00
Merchant Bank of Sri Lanka PLC	11/15/2015	1,050,000	105,000	105,000	11.80
Nations Trust Bank PLC	08/04/2016	275,000	275,000	275,000	11.50
Nations Trust Bank PLC	08/19/2013	1,750,000	175,000	175,000	21.00
Sampath Bank PLC	11/10/2017	715,500	72,001	71,550	16.50
Singer Sri Lanka PLC	09/30/2013	1,500,000	150,000	150,000	19.75
Urban Development Authority	10/05/2015	1,743,000	174,300	174,143	11.00
			2,233,523	2,232,886	

20. (a) (i) Debt securities – Quoted debentures: fixed interest rate

2011					
Issuer	Maturity date	No of debentures	Cost Rs. '000	Market value Rs. '000	Interest rate %
DFCC Bank PLC	9/26/2016	250,000	250,000	250,000	14.00
Hatton National Bank PLC	7/31/2022	2,000,000	200,000	200,000	16.75
LB Finance PLC	9/22/2013	10,000	10,000	9,971	24.00
Nations Trust Bank PLC	8/19/2013	1,750,000	175,000	175,000	21.00
Singer Sri Lanka PLC	9/30/2013	1,500,000	150,000	177,000	19.75
Urban Development Authority	10/5/2015	1,743,000	174,300	174,143	11.00
Nations Trust Bank PLC	8/4/2016	2,750,000	275,000	275,000	11.50
DFCC Vardhana Bank Limited	8/30/2016	2,222,222	222,222	222,222	11.50
Merchant Bank of Sri Lanka	11/15/2015	1,050,000	105,000	105,000	11.80
			1,561,522	1,588,336	

20. (a) (i) Debt securities – Quoted debentures: fixed interest rate

1 January 2011					
Issuer	Maturity date	No of debentures	Cost Rs. '000	Market value Rs. '000	Interest rate %
DFCC Bank PLC	9/26/2016	250,000	250,000	250,000	14.00
Hatton National Bank PLC	7/31/2022	2,000,000	200,000	200,000	16.75
LB Finance PLC	9/22/2013	10,000	10,000	10,000	24.00
Nations Trust Bank PLC	8/19/2013	1,750,000	175,000	175,000	21.00
Singer Sri Lanka PLC	9/30/2013	1,500,000	150,000	177,000	19.75
Urban Development Authority	10/5/2015	1,743,000	174,300	174,300	11.00
			959,300	986,300	

Notes to the Financial Statements Contd.

20. (b) Loans and Receivables (L&R)

At amortised cost	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Debt securities - fixed interest rate:			
Bank deposit	100,000	350,000	300,000
Commercial papers	-	247,369	-
Unquoted debentures	245,000	345,000	270,000
Reverse repurchase agreements	1,773,365	926,956	685,031
Provision for impairment:	-	-	-
Total L&R financial investments	2,118,365	1,869,325	1,255,031
Current portion	1,873,365	1,390,124	
Non current portion	245,000	479,201	
	2,118,365	1,869,325	

The effective interest rates on non-current receivables were as follows: 14% 11%

Loans and receivable financial investments are not presented on the company's Statement of financial position at their fair value. The fair value of the loans and receivable assets is Rs. 2,107 million (2011 - Rs. 1,876 million).

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

20. (c) Available for sale Financial Assets (AFS)

Fair value	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Equity securities - unlisted	20. (c) (i) 100,625	100,625	100,625
Debt securities - unlisted	20. (c) (ii) 2,204,160	5,682,970	7,235,234
Total available for sale financial assets	2,304,785	5,783,595	7,335,859

All debt securities, both listed and unlisted, pay a fixed interest rate.

Unlisted equity security classified at AFS is designated in this category upon initial recognition.

At the reporting date there were no AFS assets that were overdue but not impaired.

Interest bearing AFS financial assets have a carrying amount of Rs. 2,292 million at 31 December 2012 (2011 - Rs. 5,543 million)

20. (c) (i) Equity securities - unlisted

	2012		2011		1 January 2011	
	No of shares	Rs. '000	No of shares	Rs. '000	No of shares	Rs. '000
Fitch Rating Lanka Limited	62,500	625	62,500	625	62,500	625
Central Hospitals	5,882,353	100,000	5,882,353	100,000	5,882,353	100,000
Total		100,625		100,625		100,625

20. (c) (ii) Debt securities - unlisted

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Treasury bonds	1,806,994	5,469,654	6,932,188
Treasury bills	397,166	61,549	145,447
Reverse repurchase agreements	-	151,767	157,599
Total	2,204,160	5,682,970	7,235,234

20. (d) Financial Assets at Fair Value Through Profit or Loss (FVTPL)

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Fair value			
Held for trading			
Equity securities	20. (d) (i) 644,957	920,993	767,431
Investments in unit linked funds - equity	20. (d) (ii) b 926,935	380,055	122,993
Investments in unit linked funds - managed and fixed	-	10,891	10,746
Debt securities	20. (d) (ii) a 72,124	31,983	8,700
Designated upon initial recognition			
Unit linked Investments	20. (d) (ii) 143,610	137,786	36,416
Total financial assets at fair value through profit or loss	1,787,626	1,481,708	946,286

20. (d) (i) Equity securities

This note indicates our investments in quoted equities excluding unit linked investments. As per accounting policy in note 3.3.1.(a) these investments are measured at fair value through profit and loss. Approximately 37% of quoted equities are invested in the banks, finance and insurance sector. The manufacturing and diversified holding sectors account for 26% and 11% of the portfolio respectively.

	2012			2011		1 January 2011	
	No. of shares	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
Banks Finance and Insurance							
Central Finance Company PLC	-	-	-	-	-	31,640	81,686
Commercial Bank PLC (Non-Voting)	453,480	27,878	41,312	52,958	63,798	14,991	33,380
Commercial Bank PLC	336,000	36,106	34,608	-	-	13,752	35,087
Hatton National							
Bank PLC (Non-Voting)	626,469	51,943	70,478	51,943	50,673	28,495	63,929
Sampath Bank PLC	267,222	36,027	53,578	36,027	50,926	35,554	100,761
Aviva NDB Insurance PLC	53,499	15,253	17,644	17,677	15,339	9,092	9,324
Singer Finance (Lanka) PLC	-	-	-	-	-	272	272
HNB Assurance PLC	336,266	23,645	16,477	23,645	19,134	-	-
Sector Total		190,852	234,097	182,250	199,870	133,796	324,439

Notes to the Financial Statements Contd.

	2012			2011		1 January 2011	
	No. of shares	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
Diversified Holding							
Hemas Holdings PLC	405,750	6,708	10,955	6,708	13,390	6,708	18,056
Expolanka Holdings PLC	6,376,700	89,589	44,637	89,589	57,390	-	-
Softlogic Holdings PLC	1,117,806	32,416	12,184	107,103	66,478	-	-
Sector total		128,713	67,776	203,400	137,258	6,708	18,056
Hotels and Travels							
Aitken Spence Hotel Holdings PLC	-	-	-	-	-	6,722	32,852
Sector total						6,722	32,852
Beverage Food and Tobacco							
Distilleries Company of Sri Lanka PLC	405,000	63,890	67,230	63,890	59,576	30,525	40,028
Ceylon Tobacco Company PLC	-	-	-	19,454	24,505	-	-
Sector total		63,890	67,230	83,344	84,081	30,525	40,028
Construction & Engineering							
Colombo Dockyard PLC	301,140	66,814	67,455	66,814	68,488	31,168	41,800
Sector total		66,814	67,455	66,814	68,488	31,168	41,800
Manufacturing							
Chevron Lubricants Lanka PLC	272,200	35,927	54,984	35,927	46,274	7,503	16,269
Royal Ceramics Lanka PLC	-	-	-	46,394	87,730	21,404	94,519
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	16,660	7,817	25,631	7,817	32,039
Tokyo Cement Company (Lanka) PLC (Non Voting)	2,757,500	84,147	53,220	84,147	84,104	30,481	64,782
Lanka Floortiles PLC	455,200	61,211	29,588	61,211	36,553	15,015	16,747
Piramal Glass PLC	1,874,100	16,585	11,245	16,585	14,805	-	-
Sector total		205,687	165,697	252,081	295,097	82,220	224,356
Motors							
Diesel and Motor Engineering PLC	22,062	33,340	13,277	66,436	57,243	-	-
United Motors Lanka PLC	-	-	-	53,978	45,625	-	-
Sector total		33,340	13,277	120,414	102,868		
Power & Energy							
Laugfs Gas PLC (Voting)	-	-	-	-	-	1,334	1,502
Laugfs Gas PLC (Non Voting)	-	-	-	-	-	1,197	1,476
Sector total						2,531	2,978
Telecommunication							
Dialog Axiata PLC	2,000,000	14,241	16,600	17,801	19,500	35,603	59,000
Sri Lanka Telecom PLC	288,200	13,844	12,825	13,844	13,831	23,452	23,922
Sector total		28,085	29,425	31,645	33,331	59,055	82,922
Total		717,381	644,957	939,948	920,993	352,725	767,431

20. (d) (ii) Investments in unit linked fund

This note provides the details of investments made under the unit linked product. As per note no. 3.3.1.(a) unit linked investments are stated at fair value through profit and loss.

		2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Government securities	20. (d) (ii) a	215,734	169,768	45,116
Quoted equities	20. (d) (ii) b	926,935	380,055	122,993
		1,142,669	549,823	168,109

20. (d) (ii) a Government securities

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Treasury bills	72,124	31,982	8,700
Reverse repurchase agreements	143,610	137,786	36,416
	215,734	169,768	45,116

20. (d) (ii) b Quoted equities

	2012			2011		1 January 2011	
	No. of shares	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
Banks Finance and Insurance							
Commercial Bank of Ceylon PLC*	1,437,754	153,977	148,089	49,355	40,626	11,123	11,332
Commercial Bank of Ceylon PLC - Non Voting	53,222	4,222	4,849	4,297	4,039	999	1,069
DFCC Bank PLC*	-	-	-	-	-	6,637	6,507
Hatton National Bank PLC*	96,287	9,678	10,832	37,376	25,010	9,108	9,358
Janashakthi Insurance PLC*	632,575	6,449	6,642	3,028	2,871	718	738
Merchant Bank of Sri Lanka PLC*	-	-	-	2,991	2,792	829	843
National Development Bank PLC*	-	-	-	-	-	3,881	3,845
Nations Trust Bank PLC*	402,456	23,634	22,538	8,714	6,965	2,291	2,310
Pan Asia Banking Corporation PLC*	350,266	68,589	70,228	4,059	3,973	1,058	1,061
Sampath Bank PLC*	-	-	-	20,603	16,300	4,839	5,065
Seylan Bank PLC*	-	-	-	6,975	6,239	1,604	1,614
AVIVA NDB Insurance PLC	-	-	-	4,491	3,909	2,033	1,960
LB Finance PLC	635,373	10,401	8,768	5,706	5,087	-	-
Union Bank of Colombo PLC	3,241,697	10,036	12,643	-	-	-	-
Browns Investments PLC	183,087	30,294	29,715	-	-	-	-
Central Finance Company PLC	4,880,909	17,301	18,547	-	-	-	-
Lanka Orix Finance PLC	436,841	4,625	4,281	-	-	-	-
Sector total		339,206	337,132	147,595	117,811	45,120	45,702

Notes to the Financial Statements Contd.

	2012			2011		1 January 2011	
	No. of shares	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
Beverage Food and Tobacco							
Distilleries Company of Sri Lanka*	61,410	10,029	10,194	31,828	26,993	8,407	8,753
Ceylon Tobacco Company PLC	-	-	-	2,456	3,088	-	-
Sector total		10,029	10,194	34,284	30,081	8,407	8,753
Chemicals and Pharmaceuticals							
Chemical Industries Colombo PLC*	-	-	-	-	-	1,098	1,224
Sector total		-	-	-	-	1,098	1,224
Construction and Engineering							
Colombo Dockyard PLC*	43,365	9,993	9,714	2,644	2,245	3,026	2,915
Sector total		9,993	9,714	2,644	2,245	3,026	2,915
Diversified Holdings							
John Keells Holdings PLC*	1,510,084	299,536	332,067	94,263	76,051	22,795	22,798
Richard Pieris and Company PLC*	3,382,492	29,300	26,383	11,393	9,257	2,356	2,438
Aitken Spence PLC	-	-	-	29,943	25,994	-	-
Expolanka Holdings PLC	4,650,722	30,900	32,555	2,539	1,719	-	-
Softlogic Holdings PLC	1,359,411	17,556	14,818	1,351	839	-	-
Hemas Holdings PLC	-	-	-	11,992	9,125	-	-
Colombo Land & Development Company PLC	-	-	-	6,415	4,773	-	-
Free Lanka Capital Holdings PLC	2,375,204	6,022	5,700	-	-	-	-
Vallibel One PLC	1,898,703	35,263	34,367	-	-	-	-
Sector total		418,577	445,890	157,896	127,758	25,151	25,236
Heath Care							
Nawaloka Hospitals PLC*	-	-	-	2,867	2,799	689	631
The Lanka Hospital Corporation PLC	391,365	15,100	15,342	5,592	6,184	-	-
Sector total		15,100	15,342	8,459	8,983	689	631
Hotels and Travels							
Asian Hotels and Properties PLC*	-	-	-	-	-	5,012	5,141
Keells Hotels PLC*	-	-	-	13,651	10,531	3,577	3,476
Sector total		-	-	13,651	10,531	8,589	8,617
Investment Trusts							
Environmental Resources Investments PLC*	607,788	19,010	9,056	11,692	6,701	3,109	3,213
Sector total		19,010	9,056	11,692	6,701	3,109	3,213

	2012			2011		1 January 2011	
	No. of shares	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000	Cost Rs. '000	Market value Rs. '000
Land and Property							
Overseas Reality Ceylon PLC*	-	-	-	-	-	1,709	1,626
Colombo Land & Development Company PLC	348,050	14,292	12,356	-	-	-	-
East West Properties PLC	243,267	3,435	3,552	-	-	-	-
The Colombo Fort Land & Building Company	313,599	13,500	10,851	-	-	-	-
Sector total		31,227	26,759	-	-	1,709	1,626
Manufacturing							
ACL Cables PLC*	-	-	-	-	-	500	468
Chevron Lubricants Lanka PLC*	39,600	6,957	7,999	4,257	4,437	2,642	2,600
Lanka Tiles PLC	128,000	9,938	8,320	2,532	1,486	382	403
Tokyo Cement Company Lanka PLC	410,600	10,217	7,925	2,061	2,190	2,061	2,894
Royal Ceramics Lanka PLC	-	-	-	12,575	11,688	-	-
Piramal Glass Ceylon PLC	1,656,631	10,979	9,940	4,307	3,931	-	-
Ceylon Grain Elevators PLC	104,267	7,689	6,204	3,571	3,397	-	-
Sector total		45,780	40,388	29,303	27,129	5,585	6,365
Power and Energy							
Lanka IOC PLC*	-	-	-	-	-	884	885
Laugfs Gas PLC	583,893	17,110	14,948	7,344	6,753	81	91
Laugfs Gas PLC - Non voting	-	-	-	-	-	63	78
Sector total		17,110	14,948	7,344	6,753	1,028	1,054
Telecommunication							
Dialog Axiata PLC*	-	-	-	41,991	33,213	13,516	13,699
Sri Lanka Telecom PLC	-	-	-	-	-	1,481	1,568
Sector total		-	-	41,991	33,213	14,997	15,267
Trading							
Browns and Company PLC*	123,971	21,364	15,383	10,201	8,850	2,235	2,390
PC House PLC	394,381	2,486	2,130	-	-	-	-
Sector total		23,850	17,513	10,201	8,850	2,235	2,390
Total		929,882	926,935	465,060	380,055	120,743	122,993

* Investments made by Union Assurance PLC under the unit linked Equity Tracker Fund, which invests in the 25 companies that comprise the Milanka Price Index. From January 2013, the Tracker Fund will track the Standard & Poor (S&P) Sri Lanka 20 Index.

Notes to the Financial Statements Contd.

20. (e) Carrying values of financial investments other than derivative financial instruments

The note provides the movement of financial investments and describes the methodologies and assumptions used to determine fair values for the financial instruments which were not already recorded at fair value in the financial statements (i.e. held to maturity and loans and receivables).

	Note	Held to maturity Rs. '000	Loans and receivables Rs. '000	Available for sale Rs. '000	Fair value through profit or loss Rs. '000	Total Rs. '000
At 1 January 2011		4,800,684	1,255,031	7,335,859	946,286	14,337,860
Purchases		2,695,747	2,128,331	977,536	1,295,122	7,096,736
Maturities		-	(1,514,037)	(1,932,802)	(96,837)	(3,543,676)
Disposals		-	-	(398,097)	(363,165)	(761,262)
Fair value gains recorded in statement of income (excluding net realised gains)						
- Designated at fair value through profit or loss upon initial recognition		-	-	-	-	-
- Classified as held for trading		-	-	-	(299,698)	(299,698)
Fair value gains recorded in other comprehensive income	9. (b)	-	-	(497,218)	-	(497,218)
Amortisation adjustment		(51,965)	-	298,318	-	246,351
At 31 December 2011		7,444,466	1,869,325	5,783,595	1,481,708	16,579,094
Purchases		6,247,741	2,196,183	2,452,192	1,071,762	11,967,874
Maturities		-	(1,747,143)	(3,894,280)	-	(5,641,423)
Disposals		-	(200,000)	(1,138,042)	(783,819)	(2,121,861)
Fair value gains recorded in statement of income (excluding net realised gains)						
- Designated at fair value through profit or loss upon initial recognition		-	-	-	-	-
- Classified as held for trading		-	-	-	17,975	17,975
Fair value gains recorded in other comprehensive income	9. (b)	-	-	(208,858)	-	(208,858)
Amortisation adjustment		168,111	-	(689,819)	-	(521,708)
As at 31 December 2012		13,860,318	2,118,365	2,304,785	1,787,626	20,071,094

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity, demand deposits and savings accounts without a specific maturity, the carrying amounts approximate to their fair value.

Fixed rate financial instruments

The fair value of fixed rate government security financial assets carried at amortised cost are estimated using weekly market rates published by the Central Bank of Sri Lanka. Other fixed rate investments were measured using comparable market interest rates when they were initially 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 and for quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term of maturity and credit spreads.

Fair value of Unquoted equities

Fair value has not been disclosed for unquoted shares (classified as AFS) because their fair value could not be reliably measured. However the company is confident that these investments have a market and can be disposed above its book value.

20. (f) Determination of Fair Value and Fair Value Hierarchy

The following note shows an analysis of financial investments recorded at fair value by level of the fair value hierarchy.

The company uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

Level	Fair value measurement method
Level 1	Quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2	Techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3	Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2012, around 60% of the investments measured at fair value are allocated to level 1 of the fair value hierarchy, 40% to level 2 and 0% to level 3.

As at 31 December 2012	Note	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial assets at fair value through profit or loss:					
Financial assets held for trading:					
Equity securities		644,957	-	-	644,957
Investments for the benefit of life insurance policyholders who bear the investment risk					
- Equity securities		926,935	-	-	926,935
- Debt securities		-	72,124	-	72,124
Designated at fair value through profit or loss:					
Investments for the benefit of life insurance policyholders who bear the investment risk - debt securities		-	143,610	-	143,610
	20. (d)	1,571,892	215,734	-	1,787,626
Available for sale financial assets:					
Debt securities	20. (c) (ii)	-	2,204,160	-	2,204,160
		-	2,204,160	-	2,204,160
Total		1,571,892	2,419,894	-	3,991,786

Notes to the Financial Statements Contd.

20. (f) Hierarchy for the Fair Value Measurement (contd.)

As at 31 December 2011	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial assets at fair value through profit or loss:				
Financial assets held for trading:				
Equity securities	920,993	-	-	920,993
Investments in unit linked fund	10,892	-	-	10,892
Investments for the benefit of life insurance policyholders who bear the investment risk				
- Equity securities	380,055	-	-	380,055
- Debt securities	-	31,983	-	31,983
Designated at fair value through profit or loss:				
Investments for the benefit of life insurance policyholders who bear the investment risk				
- debt securities	-	137,785	-	137,785
	1,311,940	169,768	-	1,481,708
Available for sale financial assets:				
Debt securities	-	5,682,970	-	5,682,970
	-	5,682,970	-	5,682,970
Total financial assets	1,311,940	5,852,738	-	7,164,678
Financial liabilities				
Derivative financial instruments:				
Forward interest rate contract	-	-	29,955	29,955
Total financial liabilities	-	-	29,955	29,955

Level 1

Included in the Level 1 category are the financial investments or liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial investment is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

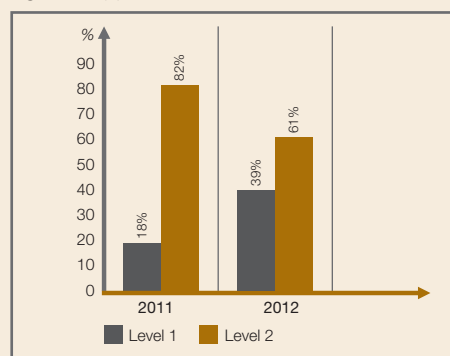
Financial investments and liabilities measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the company's own models whereby the majority of assumptions are market observable.

Level 3

Non market observable inputs refer to that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset class in this category are unlisted equity investments and limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the company. Therefore, unobservable inputs reflect the company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the company's own data.

Figure 20 (a) illustrate fair value hierarchy composition and year on year comparison between 2012 and 2011.

Figure 20 (a)



21. PROPERTY, PLANT AND EQUIPMENT

This note analyses UA's fixed assets, which comprise mainly of investments in land and buildings and computer equipment. Note 36 (page 230) outlines the accounting treatment when purchasing fixed assets and the depreciation rates used for each class of assets.

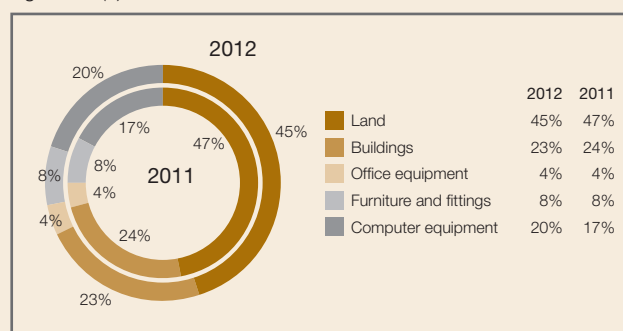
	Land Rs. '000	Buildings Rs. '000	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
Cost							
Balance as at 1 January 2011	512,000	282,408	145,190	200,496	622,278	32,101	1,794,473
Additions	-	-	20,124	57,946	92,555	-	170,625
Surplus on revaluation	97,000	35,592	-	-	-	-	132,592
Disposals	-	-	(168)	(383)	(2)	(6,967)	(7,520)
Balance as at 31 December 2011	609,000	318,000	165,146	258,059	714,831	25,134	2,090,170
Additions	-	-	27,798	28,147	107,344	-	163,289
Disposals	-	-	(57)	(535)	(25)	(207)	(824)
Balance as at 31 December 2012	609,000	318,000	192,887	285,671	822,150	24,927	2,252,635
Depreciation and impairment losses							
Balance as at 1 January 2011	-	7,485	97,254	132,591	416,629	31,791	685,750
Depreciation for the year	-	7,682	18,002	27,265	75,594	151	128,694
Transferred accumulated depreciation	-	(15,167)	-	-	-	-	(15,167)
Accumulated depreciation on disposals	-	-	(168)	(383)	(2)	(6,934)	(7,487)
Balance as at 31 December 2011	-	-	115,088	159,473	492,221	25,008	791,790
Depreciation for the year	-	8,886	19,693	32,818	81,890	60	143,347
Accumulated depreciation on disposals	-	-	(57)	(520)	(9)	(141)	(727)
Balance as at 31 December 2012	-	8,886	134,724	191,771	574,103	24,927	934,410

Notes to the Financial Statements Contd.

	Land Rs. '000	Buildings Rs. '000	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
21. (a) Capital Work in Progress							
Balance as at 31 December 2011	-	-	-	-	-	-	-
Incurred during the year	-	-	2,495	13,803	29,323	-	45,621
Capitalised during the year	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	-	2,495	13,803	29,323	-	45,621
Carrying amount							
As at 1 January 2011	512,000	274,923	47,936	67,905	205,649	310	1,108,723
As at 31 December 2011	609,000	318,000	50,058	98,586	222,610	126	1,298,380
As at 31 December 2012	609,000	309,114	60,658	107,703	277,370	-	1,363,845

The figure 21 (a) depict the breakdown of property, plant and equipment on a written down value basis and the composition of property plant and equipment in 2011 and 2012.

Figure 21 (a)

**21. (b) The Details of Freehold Land and Buildings Which are Stated at Valuation are as Follows;**

Company Property	Method of valuation	Date of valuation	Valuer	Revalued amount Rs.'000
Land & building situated at No. 20, St. Michaels Road, Colombo 3 owned by Union Assurance PLC	Investment method	31 December 2011	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	785,000
Land & building situated at No. 6, Rajapihilla Road, Kurunegala, owned by Union Assurance PLC	Investment method	31 December 2011	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	142,000

21. (c) If Land and Buildings were Stated at Historical Cost, the Amounts would have been as follows;

As at 31 December	2012 Rs.'000	2011 Rs.'000	1 January 2011 Rs.'000
Cost	251,124	251,124	251,124
Accumulated depreciation	(61,533)	(57,519)	(53,505)
Carrying amount	189,591	193,605	197,619

21. (d) The Effect of Revaluation of Freehold Buildings on the Statement of Income in the Subsequent Period is as follows;

As at 31 December	2012 Rs.'000
Depreciation charge per annum prior to revaluation	4,014
Depreciation charge per annum after revaluation	8,886
Decrease in profit in subsequent period	4,872

The effect of revaluation on the profit is reflected in the current year due to the revaluation done on 31 December 2011.

Depreciation expense of Rs. 143 million (2011 - Rs. 128 million) has been shown in the statement of income.

21. (e) Impairment of Property, Plant and Equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2012. 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.

21. (f) 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	2012 Rs.'000
Computer equipment	395,930
Office equipment	39,126
Furniture and Fittings	123,204
Motor Vehicles	24,927
Total	583,187

21. (g) Property, Plant and Equipment Pledged as Security

None of the PPE have been pledged as securities as at the reporting date.

21. (h) Title Restriction on Property, Plant and Equipment

There are no restrictions that existed on the title of the property, plant and equipment of the company as at the reporting date.

Notes to the Financial Statements Contd.

22. LIFE POLICYHOLDER LOANS

This note analyses the movement in loans granted to life insurance policyholders.

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
Balance as at 1 January	246,674	232,618	224,325
Loans granted during the year	137,667	106,084	102,185
Repayments during the year	(99,597)	(92,028)	(93,892)
Less: provision for impairment of policy loans	-	-	-
Balance as at 31 December	284,744	246,674	232,618
Current	42,314	44,540	34,786
Non - current	242,430	202,134	197,832
Balance as at 31 December	284,744	246,674	232,618

22. (a) Collateral Details

As at 31 December 2012 surrender value of policyholder loans is Rs. 696 million (2011 - Rs. 607). For more information please refer Note 5.3.2.4.

22. (b) Fair Value of Loans to Life Policyholders

The fair value of the policyholder loans are equal to its carrying amount as those are given at competitive market rates.

22. (c) 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 receivable.

22. (d) Impairment of Loans to Life Policyholders

As of 31 December 2012 and 2011, there were no impaired loss recorded for policyholder loans. (2011 - nil)

The figure 22 (e) depicts the movement in loans granted to life insurance policyholders and figure 22 (f) illustrates the development of employee loans during the year 2012.

Figure 22 (e)

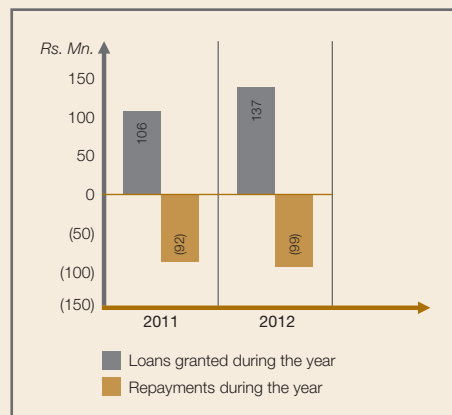
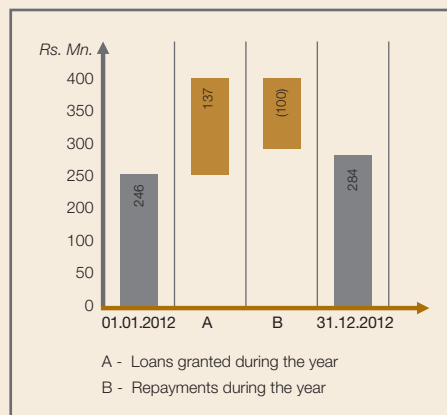


Figure 22 (f)



23. REINSURANCE RECEIVABLE

This note analyses the amounts due from reinsurers between receivables on account of outstanding claims (i.e. claims which have been reserved, but not paid to policyholders) and receivables on account of claims which have already been paid. The relevant accounting policies are detailed on page 231. The risk management initiatives of reinsurance receivables are detailed in note 5.3.2.2.

As at 31 December	Note	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Reinsurance receivable on outstanding claims	23. (d)	358,025	468,740	496,788
Reinsurance receivable on settled claims net of dues		46,996	83,067	124,127
		405,021	551,807	620,915
Impairment		(4,394)	(6,033)	(1,687)
Total assets arising from reinsurance contracts		400,627	545,774	619,228
Current		400,627	545,774	619,228
Non - current		-	-	-
Total		400,627	545,774	619,228

23. (a) Fair Value of Reinsurance Receivables

The carrying values disclosed above approximate the fair value at the reporting date.

23. (b) Impairment of Reinsurance Receivables

The company has recognised Rs. 4 million (2011 - Rs. 6 million) as impairment losses as at the reporting date. The loss has been included in net claims and expenses in the statement of income.

The ageing of these receivables is as follows;

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Less than 60 days	-	-	-
More than 60 days	4,394	6,033	1,687
	4,394	6,033	1,687

Movements in the provision for impairment of reinsurance receivables are as follows:

At 1 January	6,033	1,687	1,687
Provision for reinsurance receivable impairment	-	4,346	-
Reinsurance receivable written off during the year as uncollectible	-	-	-
Unused amounts reversed	(1,639)	-	-
Balance as at 31 December	4,394	6,033	1,687

Notes to the Financial Statements Contd.

23. (c) Reinsurance Receivable Past Due but not Impaired (on paid claims)

As of 31 December 2012, reinsurance receivable of Rs. 47 million (2011 - Rs. 83 million) were past due but not impaired. These relate to parties where there is no recent history of default.

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Current	400,627	545,774	619,228
Non current	-	-	-
	400,627	545,774	619,228

23. (d) The Company does not Hold any Collateral as Security Against Potential Default by Reinsurance Counter Parties

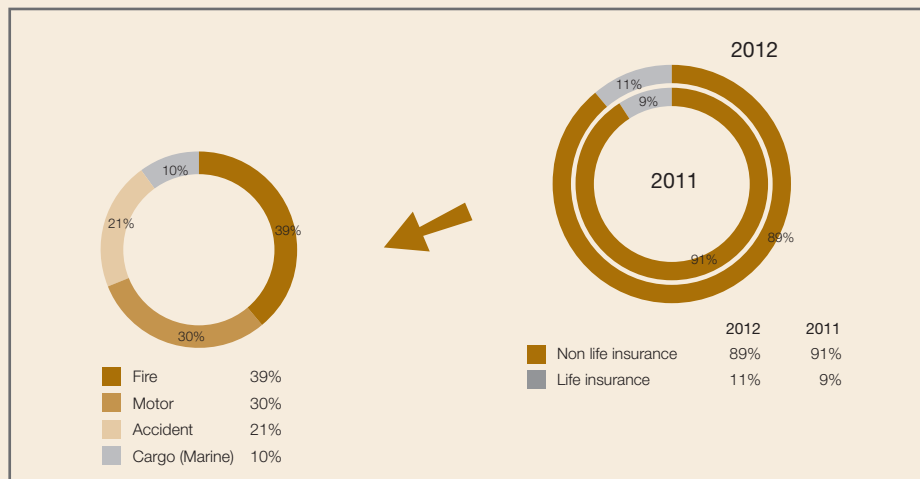
23. (e) Reinsurance Receivable on Outstanding Claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

23. (f) For Risk Management Initiatives Relating to Reinsurance Please Refer Note 4 to Financial Statements

The figure 23 (g) reflects the movement in reinsurance receivable compared to the previous year. In 2012, reinsurance receivable on outstanding and settled claims have decreased.

Figure 23 (g)



24. PREMIUMS RECEIVABLE

This note details the insurance premium receivables from customers and intermediaries.

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Non life insurance			
Premium receivable from policyholders and intermediaries	1,275,956	1,244,330	1,245,625
Life insurance			
Premium receivable from policyholders	76,670	-	-
Premium receivable from Intermediaries	114,420	-	-
	1,467,046	1,244,330	1,245,625
Less: Impairment			
As at the beginning of the year	(8,031)	(8,031)	(8,031)
Reversal made during the year	425	-	-
Bad debts written off during the year	-	-	-
As at end of the year	(7,606)	(8,031)	(8,031)
Premium receivable net of impairment	1,459,440	1,236,299	1,237,594
Premium receivable from related parties	7,748	737	31,563
Premium receivable from others	1,459,298	1,243,593	1,206,031
Total	1,467,046	1,244,330	1,237,594
Current	1,459,440	1,236,299	1,237,594
Non - current	-	-	-
Total	1,459,440	1,236,299	1,237,594

24. (a) Fair Value of Premium Receivable

The carrying amount disclosed above approximate to fair values at the reporting date.

24. (b) Impairment of Premium Receivable

No allowance for bad and doubtful debts have been made in respect of the premium receivable during the year.

24. (c) Premium Receivable Past Due but not Impaired

As of 31 December 2012, premium receivable of Rs. 47 million (2011 - Rs. 83 million) were past due but not impaired. These balances relate to persons whom there is no recent history of default and there have been fully settled subsequent to the reporting date.

24. (d) The Company does not Hold any Collateral as Security Against Potential Default by Policyholders or Intermediaries

24. (f) Risk Management Initiatives Relating to Premium Receivables

There is lower concentration of credit risk with respect to premium receivable, as the company has a large number of dispersed debtors. Refer Note 5 to financial statements for more information.

Notes to the Financial Statements Contd.

25. RECEIVABLES AND OTHER ASSETS

This note provides details of other financial assets and non financial other assets other than those mentioned above. Interest receivable - 62% (2011 - 54%) forms the largest component of other financial receivables. Taxes recoverable accounted for a further 57% (2011 - 54%) of other assets.

As at 31 December	Note	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Financial assets				
Interest receivables		832,159	629,340	547,656
Staff loans		356,122	365,911	333,669
Agent / advisory loans		89,484	122,520	102,324
Refundable deposits		38,076	14,516	10,479
Other receivables		29,918	30,570	32,331
Total of financial assets		1,345,759	1,162,857	1,026,459
Non financial assets				
Taxes recoverable	25. (a)	284,497	344,336	340,938
Prepayments		172,327	172,997	119,997
Inventories		9,056	19,638	9,257
Other assets		29,906	95,899	55,438
Total of non financial assets		495,786	632,870	525,630
Total receivables and other assets		1,841,545	1,795,727	1,552,089

No loans have been granted to the Directors of the company

25. (a) Taxes Recoverable

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
ACT recoverable	92,296	92,296	92,296
WHT recoverable	174,342	207,702	159,029
ESC receivable	17,859	44,338	89,613
	284,497	344,336	340,938

25. (b) Fair values of receivables and other financial receivables are carried at carrying amounts, and are generally settled within one year. The notional and fair value amounts do not vary significantly.

25. (c) Current / non current composition of receivables is as follows;

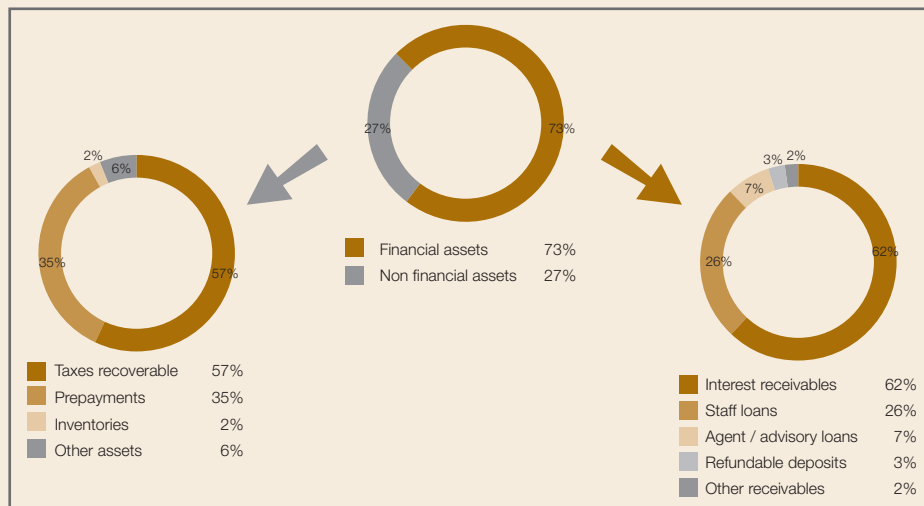
	2012
Current	968,415
Non current	377,344
Total	1,345,759

25. (d) The fair value of staff loans are based on cash flow discounting rate. Discount rate equal to AWPLR plus appropriate risk margin.

25. (e) Refer Note 4 to the Financial Statements for Risk Management Policies / Initiatives Relating to Other Financial Assets

The figure 25 (f) depicts the composition of total financial and non financial assets in 2012. UA's receivables and other assets amounting to Rs.1.8 billion as at December 31 2012 which is similar to the previous year.

Figure 25 (f)



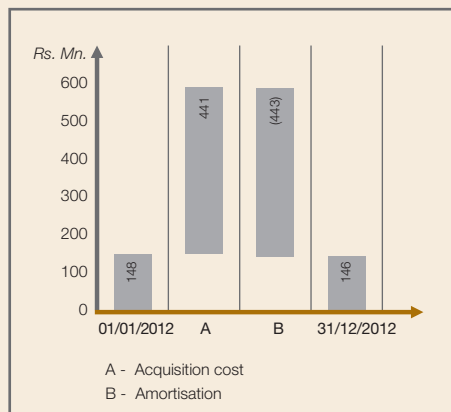
26. DEFERRED EXPENSES

This note provides the movement in deferred expenses in non life insurance;

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
As at 1 January	147,495	139,176	130,857
Acquisition cost	441,848	433,252	344,575
Amortisation	(443,246)	(424,933)	(336,256)
Impairment	-	-	-
As at 31 December	146,097	147,495	139,176

Figure 26 (a) illustrate the development of deferred expenses in 2012.

Figure 26 (a)



Notes to the Financial Statements Contd.

27. CASH AND CASH EQUIVALENTS

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Cash at bank and in hand	315,634	373,413	390,138
Total	315,634	373,413	390,138
Bank overdraft used for cash management purposes	82,925	108,734	71,695
Cash and cash equivalent in the statement of cash flows	232,709	264,679	318,443

27. (a) Fair value of cash and cash equivalents

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

27. (b) Risk management initiatives relating to cash and cash equivalents

Please refer note 5 to the financial statements for more information

28. STATED CAPITAL

This note provides details of UA's stated capital

	Number of shares outstanding	Equity Rs. '000
Issued and fully paid as at 1 January 2011	37,500,000	388,433
Sub division of shares	37,500,000	-
As at 31 December 2011	75,000,000	388,433
Proceeds from share issue	10,714,286	750,000
Share issue expenses	-	(5,128)
As at 31 December 2012	85,714,286	1,133,305

28. (a) Ordinary Shares

All issued shares are fully paid. There is 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.

28. (b) Issue of Ordinary Shares

On 12 November 2012, at an Extraordinary General Meeting (EGM), shareholders approved the rights issue of 10,714,286 ordinary shares at an exercise price of Rs.70 per share.

29. OTHER RESERVES

This reserve consists of gains arising from revaluation of freehold land and buildings and unrealised fair value changes in investments classified as available for sale.

As at 31 December		2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
Capital reserves	29. (a)	708,988	714,056	584,178
Reserve for revaluation of available for sale investments	29. (b)	11,842	241,138	756,792
		720,830	955,194	1,340,970

29. (a) Capital Reserves

As at 31 December	Note	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
Unrealised gain reserve	29. (a) (i)	475,860	475,860	475,860
Life policy holders revaluation reserve	29. (a) (ii)	216,376	221,444	91,566
Reserve on merger Cornhill (Private) Limited	29. (a) (iii)	16,752	16,752	16,752
		708,988	714,056	584,178

29. (a) (i) Unrealised gain reserve

Reserve comprises of the gain from transferring the investment of Cornhill (Private) Limited, to life policy holders in 2007, and the gain on transferring the land and building in Kurunegala in 2011. These gains will be realised to shareholders when the properties are disposed.

29. (a) (ii) Life policy holders revaluation reserve

This note provides details of the movement in the revaluation reserve during the year.

	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
Balance as at 1 January	221,444	91,566	88,079
Revaluation surplus during the year - gross	-	147,759	-
Adjustment for deferred tax	-	(14,213)	3,487
Depreciation transfer	(5,068)	(3,668)	-
As at 31 December	216,376	221,444	91,566

The revaluation relates to land and building as indicated in note 21.

The revaluation was performed on freehold land and buildings as at 31 December 2011 by Mr. P. B. Kalugalagedera chartered valuation surveyor using the investment method.

The revaluation reserve is transferred annually to the revenue reserve based on the remaining useful life of the asset which is estimated to be 40 years.

Notes to the Financial Statements Contd.

29. (a) (iii) Reserve on merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of UA and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders statement of financial position.

29. (b) Reserve for revaluation of available for sale investments

This reserve represents the unrealised gain in available for sale financial assets

As at 31 December	Note	2012 Rs.'000	2011 Rs.'000
Reserve for insurance liabilities - policyholder	29. (b) (i)	11,253	157,887
Reserve for available for sale	29. (b) (ii)	589	83,252
Total reserve for revaluation of available for sale investments		11,842	241,139

Movements in the revaluation reserve for available for sale investments were as follows;

29. (b) (i) Reserve for insurance liabilities - policyholders

As at 31 December	2012 Rs.'000	2011 Rs.'000
Balance as at 1 January	157,887	517,233
Adjustment from unrealised losses on AFS assets gross (note 9. b)	(126,196)	(340,910)
Adjustment from unrealised gains on AFS assets – tax	-	-
Adjustment from net realised gains on AFS assets – net (note 9. b)	(20,438)	(18,436)
As at 31 December	11,253	157,887

29. (b) (ii) Reserve for available for sale

Balance as at 1 January	83,252	239,559
Adjustment from unrealised losses on AFS assets gross (note 9. b)	(82,662)	(156,308)
Adjustment from unrealised gains on AFS assets – tax	-	-
As at 31 December	589	83,252

30. INSURANCE CONTRACT LIABILITIES - LIFE

	Note	2012			2011			1 January 2011		
		Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net
Life insurance										
Insurance contract liabilities	30 a,b,c	15,466,127	(448,480)	15,017,647	13,460,872	(249,513)	13,211,359	11,669,933	(90,825)	11,579,108
Unclaimed benefits		338,693	-	338,693	229,100	-	229,100	190,200	-	190,200
Total		15,804,821	(448,480)	15,356,340	13,689,972	(249,513)	13,440,459	11,860,133	(90,825)	11,769,308

30. (a) Life insurance contract liabilities

	2012			2011			1 January 2011			
	Note	Insurance	Reinsurance	Net	Insurance	Reinsurance	Net	Insurance	Reinsurance	Net
		contract liabilities	liabilities		contract liabilities	liabilities		contract liabilities	liabilities	
As at 1 January		13,469,872	(249,513)	13,211,359	11,669,933	(90,825)	11,579,108	9,622,498	-	9,622,498
Premiums received	7 & 8	5,106,323	(249,595)	4,856,728	4,471,628	(202,907)	4,268,720	3,465,505	(98,152)	3,367,352
Liabilities paid for death, maturities, surrenders, benefits and claims	13 (a) & 13 (b)	(1,079,537)	50,628	(1,028,909)	(749,931)	44,220	(705,712)	(704,876)	7,327	(697,549)
Benefits and claims experience variation		(1,240,254)	-	(1,240,254)	(931,469)	-	(931,469)	(487,073)	-	(487,073)
Investment return		1,662,869	-	1,662,869	1,267,285	-	1,267,285	1,803,871	-	1,803,871
Expenses		(2,444,146)	-	(2,444,147)	(2,268,196)	-	(2,268,196)	(2,009,992)	-	(2,009,992)
Foreign exchange adjustment		-	-	-	1,623	-	1,623	-	-	-
As at 31 December		15,466,127	(448,480)	15,017,647	13,460,872	(249,513)	13,211,359	11,689,933	(90,825)	11,579,108

Changes in some of the previously mentioned assumptions will largely be offset by corresponding changes in the assets backing the liabilities.

For reinsurance assets, refer note 23 to the financial statement.

30. (b) Insurance Contract Liabilities

Long duration contract liabilities included in the life insurance fund, result primarily from traditional participating and non participating life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following:

- Interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka (IBSL)
- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IBSL
- Surrender rates based upon actual experience.

The amount of policyholder dividend to be paid is determined annually by the company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract or by insurance regulations.

The valuation of conventional life insurance fund as at 31 December 2012 was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 425 million to be transferred from the conventional life insurance fund to the shareholders fund for the year 2012. Subsequent to the transfer the conventional life fund stands as Rs.14,914 million, including the liability in respect of bonuses and dividends declared up to and including the year 2012.

Similarly the non unit fund of linked long term business valuation was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 100 million to be transferred from the non unit fund of the linked long term fund to shareholders fund for the year 2012. Subsequent to the transfer the fund stands at Rs.104 million as at 31 December 2012.

In establishing the valuation, a reserve of Rs. 597 million for conventional life insurance fund and Rs. 95 million for non unit fund of linked long term business have been created by the actuary to counter any further fluctuations in interest rates and distributions.

In the opinion of the consultant actuary, the admissible assets of the conventional life insurance fund and the non unit fund of linked long term business as at 31 December 2012 is adequate to cover the liabilities of the funds and the solvency margin requirement prescribed under section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

Notes to the Financial Statements Contd.

30. (c) Movement in Insurance Contract Liabilities

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Conventional life insurance			
Insurance contract liabilities	15,339,009	13,559,952	11,900,014
Transfer to shareholder	(425,000)	(419,000)	(325,000)
Total insurance contract liabilities - conventional life insurance	14,914,009	13,140,952	11,575,014
Non unit fund of linked life insurance contracts			
Insurance contract liabilities	203,638	80,407	4,094
Transfer to shareholder	(100,000)	(10,000)	-
Total insurance contract liabilities - Non unit fund of linked life insurance	103,638	70,407	4,094
Total	15,017,647	13,211,359	11,579,108

30. (d) Current and Non Current Classification

As at 31 December	2012 Rs. '000	2011 Rs. '000
Current	1,906,890	1,363,000
Non current	13,110,757	11,848,359
Total	15,017,647	13,211,359

30. (e) Liability Adequacy Test (LAT) - Life Insurance Contract Liabilities

As at the reporting date, liability adequacy test performed by the internal actuary concluded that, the liability value is sufficient to meet future benefits and expenses. Hence no provision was made for premium deficiency.

31. INSURANCE CONTRACT LIABILITIES - NON LIFE

This note analyses the non life insurance related contract liabilities. Refer note 3.12.2 for further details.

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Outstanding claims provision	1,026,563	1,062,444	1,086,290
Provision for unearned premiums (net)	2,174,275	1,988,532	1,726,960
Provision for premium deficiency	-	-	-
Total	3,200,838	3,050,976	2,813,250

Movement in insurance contract liabilities - non life

The company enters into reinsurance agreements in order to mitigate insurance risks as outlined in note 5 in the risk management report. Although positions are managed on a net basis by management, insurance disclosures have been made on both gross and net basis in order to provide a comprehensive set of disclosures.

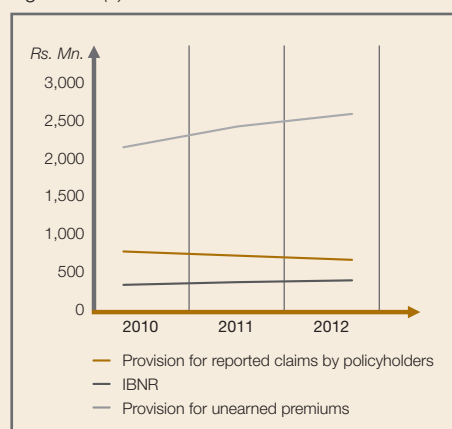
	2012			2011			1 January 2011			
	Note	Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net
Provision for reported claims by policyholders		615,877	(256,393)	359,484	701,411	(390,233)	261,180	795,870	(456,569)	339,301
IBNR		410,686	(71,938)	338,749	361,033	(49,998)	311,035	290,420	(40,219)	250,201
Outstanding claims provision	31 a	1,026,563	(328,331)	698,232	1,062,444	(440,231)	572,215	1,086,290	(496,788)	589,502
Provision for unearned premiums	31 b	2,613,711	(439,436)	2,174,275	2,431,148	(442,617)	1,988,532	2,111,116	(384,156)	1,726,960
Total non life insurance contract liabilities		3,640,274	(767,767)	2,872,507	3,493,593	(882,848)	2,560,747	3,197,406	(880,944)	2,316,462

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Current	2,872,507	2,560,747	2,316,462
Non current	-	-	-
	2,872,507	2,560,747	2,316,462

For reinsurance receivables, refer note 23 to the financial statement.

Figure 31 (a) reflects the movement in non life insurance provisions for the last three years.

Figure 31 (a)



Notes to the Financial Statements Contd.

31. (a) Development Claim Tables (Gross)

In addition to scenario testing, the development of insurance liabilities provides a measure of the company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the company's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position. The company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed.

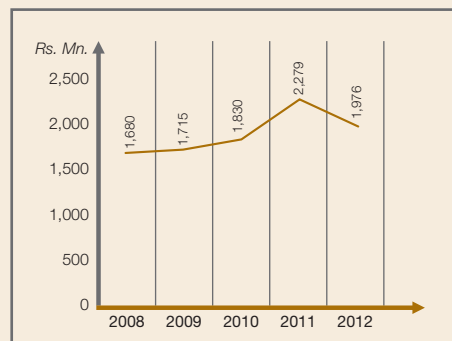
Current estimate of cumulative claims incurred												Total
	1	2	3	4	5	6	7	8	9	10	11	
AY/DY												
1999	226,937	255,945	268,343	271,727	270,006	282,047	333,121	335,269	306,790	315,067	757,816	
2000	297,105	364,263	382,239	383,860	379,867	387,530	420,587	429,081	411,565	418,078	410,379	
2001	339,749	419,723	425,717	422,883	417,499	427,029	464,053	465,319	449,357	453,966	429,500	
2002	425,846	412,418	415,010	411,741	407,632	419,672	471,000	470,565	452,675	453,317	452,250	
2003	387,353	383,439	381,183	380,543	380,715	392,607	428,639	429,536	412,116	412,460		
2004	342,846	294,274	290,458	290,166	293,810	300,951	330,170	308,782	307,026			
2005	584,800	582,792	601,607	640,522	645,285	665,410	780,390	778,718				
2006	1,020,498	1,042,819	1,078,292	1,087,151	1,090,217	1,146,907	1,139,970					
2007	1,292,844	1,310,989	1,357,993	1,364,511	1,363,825	1,366,693						
2008	1,585,087	1,654,763	1,699,416	1,702,542	1,701,916							
2009	1,784,714	1,703,494	1,854,397	1,759,458								
2010	2,002,954	1,928,684	1,898,570									
2011	2,494,065	2,423,052										
2012	2,690,287											
	2,690,287	2,423,052	1,898,570	1,759,458	1,701,916	1,366,693	1,139,970	778,718	307,026	412,460	2,049,945	16,528,094

Cumulative payments to date												Total
	1	2	3	4	5	6	7	8	9	10	11	
AY/DY												
1999	286,378	403,226	415,085	418,714	419,438	420,134	422,958	440,977	442,072	444,037	752,332	
2000	248,122	380,175	387,340	388,557	385,586	387,284	390,934	403,181	405,326	406,266	407,874	
2001	284,046	396,998	412,332	414,358	417,012	417,706	419,186	422,248	423,830	424,030	427,088	
2002	288,487	406,206	414,920	419,263	421,043	424,091	446,726	448,452	451,543	451,560	451,565	
2003	263,745	374,551	389,757	398,195	402,733	408,754	409,295	409,305	410,784	410,784		
2004	205,253	290,291	297,651	300,365	304,679	304,937	305,760	305,821	305,920			
2005	428,779	629,582	663,062	755,010	763,955	766,888	768,857	771,716				
2006	785,151	1,095,370	1,115,635	1,120,030	1,127,022	1,133,815	1,135,791					
2007	1,007,244	1,296,823	1,311,930	1,323,674	1,344,641	1,357,178						
2008	1,279,124	1,642,404	1,657,956	1,670,415	1,680,325							
2009	1,380,281	1,649,466	1,665,754	1,715,347								
2010	1,507,553	1,802,016	1,829,794									
2011	1,888,234	2,279,386										
2012	1,976,430											
Cumulative payments to date	1,976,430	2,279,386	1,829,794	1,715,347	1,680,325	1,357,178	1,135,791	771,716	305,920	410,784	2,038,859	15,501,531
**	713,856	143,666	68,776	44,111	21,590	9,514	4,179	7,002	1,106	1,676	11,086	1,026,563

** Total gross claims provision

Figure 31(b) reflects the cumulative gross claims paid over last five years.

Figure 31 (b)



31. (b) Provision for Unearned Premiums

The reserve for net unearned premium indicates the amount of premium which is attributable to policies written as at 31 December 2012, but covering periods after 31 December 2012.

	2012			2011			1 January 2011			
	Note	Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net
As at 1 January		2,431,148	(442,617)	1,988,532	2,111,116	(384,156)	1,726,960	1,568,352	(267,471)	1,300,881
Premiums written in the year	7a & 7b	4,626,433	(912,278)	3,714,155	4,228,272	(884,318)	3,343,954	3,667,870	(927,598)	2,740,272
Premiums earned during the year		(4,443,870)	915,459	(3,528,412)	(3,908,239)	825,857	(3,082,382)	(3,125,106)	810,913	(2,314,193)
As at 31 December		2,613,711	(439,436)	2,174,275	2,431,148	(442,617)	1,988,532	2,111,116	(384,156)	1,726,960

31. (c) Liability Adequacy Test (LAT) - Non Life Insurance Contract Liabilities

As per the liability adequacy test performed by the NMG, it was concluded that the liability value is sufficient to meet future benefits and expenses. Hence no provision was made for premium deficiency.

31. (d) Valuation of IBNR

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting. There were no estimation changes from the last valuation.

31. (e) Non Life Insurance Technical Reserves

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Total non life insurance contract liabilities	3,200,838	3,050,976	2,813,250
Differed acquisition cost (net)	(49,193)	(58,028)	(56,144)
Reinsurance receivable on outstanding claims	(328,331)	(440,231)	(496,788)
Total	2,816,364	2,552,717	2,260,318

Notes to the Financial Statements Contd.

32. REINSURANCE PAYABLE

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
At 1 January	441,567	405,764	327,196
Arising during the year	1,161,030	1,119,503	981,595
Utilised during the year	(1,187,203)	(1,083,700)	(903,027)
As at 31 December	415,394	441,567	405,764
Current	415,394	441,567	405,764
Non - current	-	-	-
Total	415,394	441,567	405,764

33. DEFERRED REVENUE

This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires. The relevant accounting policy is outlined in note 3.5.2 to the financial statements.

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
At 1 January	89,467	83,032	83,187
Commission income	228,263	202,688	147,280
Amortisation	(220,826)	(196,253)	(147,435)
As at 31 December	96,904	89,467	83,032

34. EMPLOYEE BENEFITS

The company had 1,088 and 1,009 employees (full-time equivalents) as of 31 December 2012 and 2011 respectively. Personnel and other related costs incurred for the year ended 31 December 2012 and 2011 were Rs. 1,090 millions and Rs. 875 million, including wages and salaries of Rs. 878 million and Rs. 683 million respectively.

34. (a) Defined Contribution Plans

Following contributions have been made by the company for employee provident fund and trust fund.

As at 31 December	2012 Rs. '000	2011 Rs. '000
Employees' provident fund (EPF)	71,621	62,620
Employees' Trust Fund (ETF)	17,905	15,655

34. (b) Defined Benefit Plans

This note indicates the assumptions used and the movement in the employee benefits and is not externally funded. Refer note 3.13 for accounting policy on employee benefits. As at 31 December 2012 the gratuity liability was actuarially valued under the projected unit credit (PUC) method by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Limited. The liability is not externally funded. The valuation is performed annually.

34. (c) Movement in Present Value of Gratuity

As at 31 December	Note	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
As at 1 January		154,702	132,422	95,955
Expenses recognised in the statement of income	32. (c) (i)	23,457	31,542	50,972
Gratuity transferred		1,527	-	-
		179,686	163,964	146,927
Payments during the year		(16,114)	(9,263)	(14,505)
As at 31 December		163,572	154,702	132,422

As at 31 December	2012 Rs. '000	2011 Rs.'000
Current	11,210	16,113
Non current	152,562	138,588
	163,572	154,701

34. (c) (i) The amounts recognised in the consolidated income statement are as follows;

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs.'000
Current service cost	18,886	18,445	15,742
Interest cost on benefit obligation	15,470	13,243	11,515
Net actuarial gain/(loss) recognised in the year	(10,899)	(146)	23,715
Total	23,457	31,542	50,972

34. (d) Principal Actuarial Assumptions Used

Assumption	2012	2011	1.1.2011
	%	%	%
Discount rate	11	10	10
Incidence of withdrawal	3	3	3
Salary increase	10	10	10

Assumptions regarding future mortality are based on published statistics and mortality tables.

Notes to the Financial Statements Contd.

35. OTHER LIABILITIES

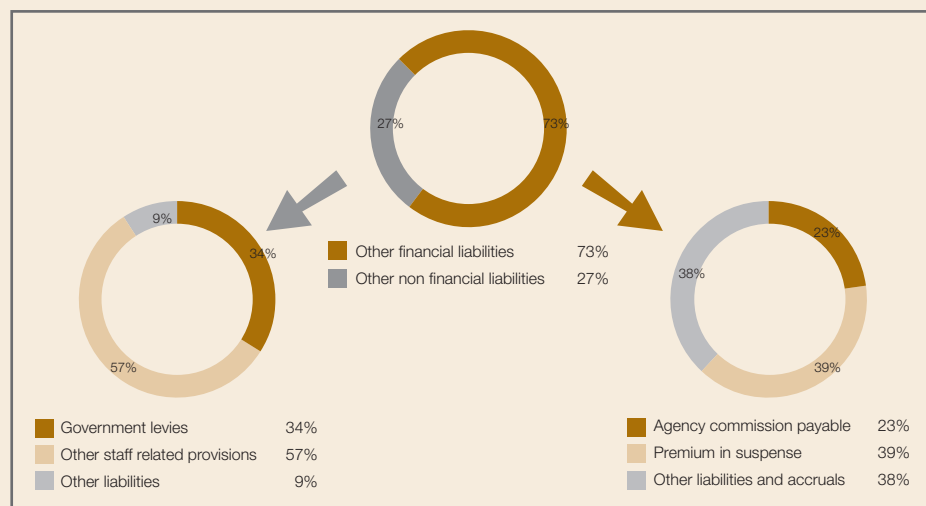
This note analyses the other liabilities as at the end of the year.

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Other financial liabilities			
Agency commission payable	166,567	166,855	157,976
Premiums in suspense	285,183	321,116	222,814
Derivative liabilities	-	29,955	-
Other liabilities and accruals	277,954	272,331	264,872
	729,704	790,257	645,662
Other non financial liabilities			
Government levies	91,197	116,865	124,399
Other staff related provisions	154,241	105,350	130,964
Other liabilities	23,239	26,014	11,077
	268,677	248,229	266,440
Total other liabilities	998,381	1,038,486	912,102
Current	998,381	1,038,486	912,102
Non current	-	-	-
Total	998,381	1,038,486	912,102

Maturity schedule of other financial liabilities as of 31 December 2012 and 2011 are shown in note 4 to the financial statements

UA's other liabilities amounted to Rs. 998 million as at 31 December 2012 and is broadly categorised into financial and non financial liabilities. Figure 35 (a) depicts the composition in other liabilities in 2012. There were no significant movements in each category of other liabilities except for premiums in suspense, and other staff related provisions.

Figure 35 (a)



36. DEFERRED TAX LIABILITY

The amount reflects the liability that may arise on the revaluation impact if the property situated at No. 6, Rajapihilla Road, Kurunegala is disposed.

36. (a) Deferred Tax Liability on Net Gain on Revaluation of Assets

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Deferred income tax related to items charged or credited directly to equity			
Net gain on revaluation of building	100,574	100,574	49,815
Tax rate	28%	28%	28%
Total	28,161	28,161	13,948

36. (b) Movement in Unrecognised Deferred Tax Liabilities / (Assets)

As at 31 December	2012 Rs. '000	2011 Rs. '000	1 January 2011 Rs. '000
Unrecognised deferred tax assets brought forward	(534,117)	(212,522)	(424,424)
Movement during the year	(168,717)	(321,595)	211,902
Unrecognised deferred tax assets carried forward	(702,834)	(534,117)	(212,522)

36. (b) (1) Analysis of deferred tax liabilities / (assets)

As at 31 December	2012		2011		1 January 2011	
	Temporary difference Rs. '000	Tax Rs. '000	Temporary difference Rs. '000	Tax Rs. '000	Temporary difference Rs. '000	Tax Rs. '000
Deferred tax - liability						
Property, plant and equipment	386,423	108,199	357,430	100,080	548,300	153,524
Available for sale financial assets	11,842	3,316	241,139	67,519	756,792	211,902
Deferred tax - assets						
Retirement benefit obligation	(163,572)	(45,800)	(154,702)	(43,317)	(132,422)	(37,078)
Staff bonus	(154,251)	(43,190)	(105,349)	(29,498)	(130,963)	(36,670)
Unutilised tax losses	(2,590,568)	(725,359)	(2,246,074)	(628,901)	(1,800,714)	(504,200)
Net deferred tax assets - (note 36.b.2)	(2,510,126)	(702,834)	(1,907,556)	(534,117)	(759,007)	(212,522)

Notes to the Financial Statements Contd.

36. (b) (2) Movement in temporary differences

As at 31 December	2012			2011		
	Balance as at 1 January Rs.'000	Movement Rs.'000	Balance as at 31 December Rs.'000	Balance as at 1 January Rs.'000	Movement Rs.'000	Balance as at 31 December Rs.'000
Deferred tax - liability						
Property, plant and equipment	357,430	28,993	386,423	548,300	(190,870)	357,430
Available for sale financial assets	241,139	(229,297)	11,842	756,792	(515,653)	241,139
Deferred tax - assets						
Retirement benefit obligation	(154,702)	(8,870)	(163,572)	(132,422)	(22,280)	(154,702)
Staff bonus	(105,349)	(48,902)	(154,251)	(130,963)	25,614	(105,349)
Unutilised tax losses	(2,246,074)	(344,494)	(2,590,568)	(1,800,714)	(445,360)	(2,246,074)
	(1,907,556)	(602,570)	(2,510,126)	(759,007)	(1,148,550)	(1,907,556)

As at 31 December 2012, total carried forward tax loss is Rs. 2,590 million (2011 - Rs. 2,246 million). The company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. Thus, no deferred tax asset is recognised in the financial statements as it is not probable that future taxable profits will be available against which the company can utilise the benefits there from.

37. CASH GENERATED FROM OPERATING ACTIVITIES

	2012 Rs. '000	2011 Rs. '000
Net change in operational assets		
Net change in reinsurance assets	146,786	28,889
Net change in premium receivables	(223,142)	9,326
Net change in receivables and other assets	59,093	(118,759)
Total	(17,263)	(80,544)
Net change in operational liabilities		
Net change in life insurance contract liabilities	2,398,643	2,083,018
Net change in non - life insurance contract liabilities	149,862	237,725
Net change in other liabilities	277,607	140,028
Total	2,826,112	2,460,771

38. RELATED PARTY TRANSACTIONS

This note provides details of UA's related parties and the transactions which have taken place between the company and its related parties.

38. (a) Identity of Related Parties

Union Assurance has a related party relationship with John Keells Holdings PLC which has a majority shareholding in the equity of the company and with its Directors and their immediate family members.

38. (b) Transactions with key management personnel

Union Assurance PLC, considers its Board of Directors as the key management personnel of the company.

The Directors of the company and their immediate relatives do not have substantial shareholdings in the company as at 31 December 2012.

The Directors fees and emoluments for the year ended 31 December 2012 amounted to Rs. 5.4 million. Directors fees where applicable are paid directly to the companies that they represent. There are no short-term, long-term, post-employment, terminal and share-based payments linked to the remuneration of the Directors and no ex-gratia payments were made to Directors during the year.

38. (c) Transactions with Related Parties and Companies Significantly Influenced by Key Management Personnel

Company	Name of Director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	A. D. Gunewardene	Deputy Chairman	John Keells Holdings PLC and its subsidiaries own 95.65% of the company's issued share capital.	Union Assurance has transactions in the normal course of business with John Keells Holdings PLC, and its subsidiaries and associate companies.
Keells Consultants (Pvt) Ltd.	A. D. Gunewardene D. C. Alagaratnam	Director Director	Keells Consultants (Private) Ltd - the Secretary of Union Assurance PLC	Union Assurance has transactions in the normal course of business with Keells Consultants (Private) Ltd as secretaries to the company.
Kalutara Bodhi Trust	A. S. De Zoysa	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Kalutara Bodhi Trust.
Akzo Nobel Paints Lanka (Pvt) Ltd	G. F. C. De Saram	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Akzo Nobel Paints Lanka (Pvt) Ltd.

These insurance contracts have been entered into on normal terms, in the ordinary course of business. Also refer note 24 (page 291) for details of premium receivable

Company	2012 Rs.'000	2011 Rs.'000
Investments placed - equity		
Central Hospital (Pvt) Limited an associate of John Keells Holdings PLC	100,000	100,000
Investments placed - corporate debt		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	450,000	175,000
Advanced paid for investment property		
John Keells Residential Properties (Pvt) Limited a subsidiary of John Keells Holdings PLC	24,420	24,420
Reverse repurchase agreement - overnight		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	4,400	214,084
Reverse repurchase agreement - term		
Nations Trust Bank PLC an associate of John Keells Holdings PLC	200,000	350,000
Serviced received and goods purchased		
John Keells Holdings PLC and its subsidiaries and associates	97,153	64,595

Notes to the Financial Statements Contd.

39. NUMBER OF EMPLOYEES

The total number of employees as at 31 December 2012 amounted to 1,088 (2011 - 1,009).

40. CAPITAL COMMITMENTS

The company has no capital commitments as at the reporting date.

41. 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 the following;

The Board of Directors of the company has declared a first and final dividend of Rs. 5 per share for the financial year ended 31 December 2012.

As required by section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors has confirmed that the company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the Auditors prior to declaring the dividend. In accordance with the LKAS 10, Events after the reporting period, the final dividend has not been recognised as a liability in the financial statements as at 31 December 2012.

42. CONTINGENCIES

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.

43. COMPARATIVE INFORMATION

Comparative information has been restated in line with the changes to the Sri Lanka accounting standards (SLFRS / LKASs) which are effective from 1 January 2012.

44. DIRECTORS' RESPONSIBILITY

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

SUPPLEMENTARY INFORMATION

18%

Growth in Life Fund

16+ BILLION Life Fund

Financial Calendar

Audited Financial Statements signed on - 26th February 2013

26th Annual General Meeting to be held on - 28th March 2013

The first and final dividend for the year will be paid on - 18th March 2013

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

Interim results for the three months ended 31.03.2012 - 11th May 2012

Interim results for the six months ended 30.06.2012 - 14th August 2012

Interim results for the nine months ended 30.09.2012 - 14th November 2012

Interim results for the twelve ended 31.12.2012 - 27th February 2013

STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND

As at 31st December	Note	Page	2012 Rs. '000	2011 Rs. '000
Assets				
Financial investments	1	311	14,970,307	12,892,074
Property, plant and equipment	2	314	1,098,257	1,069,577
Life policyholders loans			284,744	246,674
Reinsurance receivable	3	315	44,186	46,879
Premiums receivable			191,090	-
Receivables and other assets	4	315	1,209,088	1,012,300
Cash and cash equivalents	5	315	148,294	211,283
Total assets			17,945,966	15,478,787
Reserves and liabilities				
Reserves				
Other reserves	6	316	244,381	396,083
Total reserves			244,381	396,083
Liabilities				
Insurance contract liabilities	7	316	15,356,340	13,440,459
Insurance contract liabilities - Unit linked			1,143,546	555,541
Reinsurance payable			64,570	68,489
Employee benefits	8	317	106,820	99,124
Other liabilities	9	317	990,758	873,642
Deferred tax liabilities			15,076	15,076
Bank overdraft			24,475	30,373
Total liabilities			17,701,585	15,082,704
Total reserves and liabilities			17,945,966	15,478,787

NOTES TO THE SUPPLEMENTAL INFORMATION

	2012 Rs. '000	2011 Rs. '000
1. FINANCIAL INVESTMENTS		
Held to maturity financial assets	1a. 11,053,015	6,408,287
Loans and receivables (excluding insurance receivables)	1b. 854,261	1,263,523
Available for sale financial assets	1c. 1,324,089	3,813,726
Financial assets at fair value through profit or loss	1d. 1,738,942	1,406,538
Total financial investments	14,970,307	12,892,074

1. (a) Held to maturity financial assets (HTM) at amortised cost

Debt securities – fixed interest rate		
– Listed	1a.i. 1,835,472	1,287,448
– Unlisted	9,217,543	5,120,839
Provision for impairment	-	-
Total held to maturity financial assets	11,053,015	6,408,287

1. (a) (i) Listed debentures

As at 31 December	2012					2011				
	Maturity Date	No. of Debentures	Cost Rs. '000	Market Value Rs. '000	Coupon Rate %	Maturity Date	No. of Debentures	Cost Rs. '000	Market Value Rs. '000	Coupon Rate %
Bank of Ceylon	11/29/2017	5,000,000	500,000	500,000	16.00	-	-	-	-	-
DFCC Bank PLC	09/26/2016	200,000	200,000	200,000	14.00	9/26/2016	200,000	200,000	200,000	14.00
DFCC Vardhana Bank PLC	08/30/2016	1,481,481	148,148	148,148	11.50	8/30/2016	1,481,481	148,148	148,148	11.50
Hatton National Bank PLC	07/31/2022	2,000,000	200,000	200,000	16.75	7/31/2022	2,000,000	200,000	200,000	16.75
LB Finance PLC	09/22/2013	10,000	10,000	9,971	24.00	9/22/2013	10,000	10,000	10,000	24.00
Merchant Bank of Sri Lanka	11/15/2015	1,050,000	105,000	105,000	11.80	11/15/2015	1,050,000	105,000	105,000	11.80
Nations Trust Bank PLC	08/19/2013	1,500,000	150,000	150,000	21.00	8/19/2013	1,500,000	150,000	150,000	21.00
Nations Trust Bank PLC	08/03/2016	200,000	200,000	200,000	11.50	8/4/2016	200,000	200,000	200,000	11.50
Sampath Bank PLC	11/10/2017	480,234	48,024	47,690	16.50	-	-	-	-	-
Singer Sri Lanka PLC	09/30/2013	1,000,000	100,000	100,000	19.75	9/30/2013	1,000,000	100,000	118,000	19.75
Urban Development Authority	05/10/2015	1,743,000	174,300	174,143	11.00	10/5/2015	1,743,000	174,300	176,461	11.00
Total			1,835,472	1,834,952				1,287,448	1,307,609	

Financial assets held to maturity are not presented on the company's statement of financial position at their fair value. The fair value of the held to maturity assets is Rs. 10,797 million (2011 - Rs. 6,631 million).

Fair values for 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 but not impaired.

Notes to the Supplemental Information Contd.

1. (b) Loans and receivables at amortised cost

	2012 Rs. '000	2011 Rs. '000
Debt securities – fixed interest rate	854,261	1,263,523
Provision for impairment	-	-
Total	854,261	1,263,523

Loans and receivables are not presented in the company's statement of financial position at their fair values. The fair value of the loans and receivable assets is Rs. 850 million (2011 - Rs.1,276 million).

1. (c) Available for sale financial assets

	2012 Rs. '000	2011 Rs. '000
Fair value		
Equity securities - unlisted	100,000	100,000
Debt securities		
– Unlisted	1,224,089	3,713,726
Total available-for-sale financial assets	1,324,089	3,813,726

Listed debt securities in this category include floating-rate instruments of none.

All other debt securities, both listed and unlisted, pay a fixed interest rate.

Unlisted equity security classified at available for sale is designated in this category upon initial recognition.

At the reporting date there were no available for sale assets that were overdue but not impaired.

Interest-bearing available for sale financial assets with a carrying amount of Rs.1,324 million as at 31 December 2012 (2011 - Rs. 3,814 million) have stated interest rates of 11% to 24% (2011 - 11% to 24%) and mature in 1 to 2 years.

1. (d) Financial assets at fair value through profit or loss

	2012 Rs. '000	2011 Rs. '000
Fair value		
Equity securities	1d.i. 596,274	856,715
Investments in unit linked fund	1d.ii. 1,142,668	549,823
Total financial assets at fair value through profit or loss	1,738,942	1,406,538

1. (d) (i) Quoted equities at market value

As at 31 December	2012			2011		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
Banks Finance and Insurance						
Aviva NDB Insurance PLC	53,499	15,253	17,644	62,000	17,677	15,339
Commercial Bank Ceylon PLC (Non-Voting)	336,000	36,106	34,608	824,846	50,179	61,451
Commercial Bank Ceylon PLC	421,313	25,099	38,382	-	-	-
Hatton National Bank PLC (Non-Voting)	521,346	37,140	58,652	506,850	37,140	42,170
Sampath Bank PLC	267,222	36,027	53,578	261,158	36,027	50,926
HNB Assurance PLC	336,266	23,645	16,477	336,266	23,645	19,134
Sector total		173,270	219,340		164,668	189,019
Diversified Holding						
Hemas Holdings PLC	405,750	6,708	10,955	405,750	6,708	13,390
Expolanka Holdings PLC	6,376,700	89,589	44,637	6,376,700	89,589	57,390
Softlogic Holdings PLC	1,117,806	32,416	12,184	3,693,200	107,103	66,478
Sector total		128,713	67,776		203,400	137,258
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	325,000	48,727	53,950	325,000	48,727	47,808
Ceylon Tobacco Company PLC				50,000	19,454	24,505
Sector total		48,727	53,950		68,181	72,313
Construction & Engineering						
Colombo Dockyard PLC	238,350	50,507	53,390	227,000	50,507	54,208
Sector total		50,507	53,390		50,507	54,208
Manufacturing						
Chevron Lubricants Lanka PLC	272,200	35,927	54,984	272,200	35,927	46,274
Royal Ceramics Lanka PLC				500,000	27,287	70,750
Tokyo Cement Company (Lanka) PLC (Voting)	582,525	7,817	16,660	582,525	7,817	25,631
Tokyo Cement Company (Lanka) PLC (Non Voting)	2,416,500	68,109	46,638	2,416,500	68,109	73,703
Lanka Floortiles PLC	455,200	61,211	29,588	455,200	61,211	36,553
Piramal Glass PLC	1,874,100	16,585	11,245	1,874,100	16,585	14,805
Sector total		189,648	159,116		216,935	267,716
Motors						
Diesel and Motor Engineering PLC	22,062	33,340	13,277	43,962	66,436	57,243
United Motors Lanka PLC				312,500	53,978	45,625
Sector total		33,340	13,277		120,413	102,868
Telecommunication						
Dialog Axiata PLC	2,000,000	14,241	16,600	2,500,000	17,801	19,500
Sri Lanka Telecom PLC	288,200	13,844	12,825	288,200	13,844	13,834
Sector total		28,086	29,425		31,646	33,334
		652,292	596,274		855,751	856,715

Notes to the Supplemental Information Contd.

1. (d) (ii) Investments - unit linked

	2012 Rs. '000	2011 Rs. '000
Government securities	215,733	169,768
Quoted equities	926,935	380,055
Total	1,142,668	549,823

The table below indicates the fair value of financial assets at fair value through profit or loss, split between those classified as held-for-trading and those designated as such upon initial recognition.

	2012 Rs. '000	2011 Rs. '000
Held for trading purposes	926,935	380,055
Designated upon initial recognition	1. (d) (ii) (a) 215,733	169,768
Total financial assets at fair value through profit or loss	1,142,668	549,823

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available for sale.

1. (d) (ii) (a) Government securities

	2012 Rs. '000	2011 Rs. '000
Treasury bills	72,124	31,982
Reverse repurchase agreements	143,609	137,786
Total	215,733	169,768

2. PROPERTY, PLANT AND EQUIPMENT

	Land Rs. '000	Building Rs. '000	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
Cost							
Balance as at 1 January 2012	609,000	318,004	32,542	67,427	165,860	2,192	1,195,025
Additions during the year	-	-	9,082	17,440	60,236	-	86,758
Disposals during the year	-	-	-	-	-	(115)	(115)
Balance as at 31 December 2012	609,000	318,004	41,624	84,867	226,096	2,077	1,281,668
Depreciation							
Balance as at 1 January 2012	-	-	23,082	24,481	75,816	2,068	125,447
Depreciation charge for the year	-	8,886	4,139	13,367	31,563	60	58,015
Accumulated depreciation on disposals	-	-	-	-	-	(51)	(51)
Balance as at 31 December 2012	-	8,886	27,221	37,848	107,379	2,077	183,411
Carrying amount							
Balance as at 31 December 2012	609,000	309,118	14,403	47,019	118,717	-	1,098,257
Balance as at 31 December 2011	609,000	318,004	9,460	42,946	90,044	124	1,069,578

3. REINSURANCE RECEIVABLE

As at 31 December	2012 Rs. '000	2011 Rs. '000
Reinsurance receivable on outstanding claims	29,694	28,509
Reinsurance receivable on settled claims net of dues	14,492	18,370
Provision for doubtful receivables	-	-
Total	44,186	46,879

4. RECEIVABLES AND OTHER ASSETS

As at 31 December	2012 Rs. '000	2011 Rs. '000
Financial assets		
Interest receivables	683,418	495,309
Staff loan	108,842	140,474
Refundable deposits	10,575	2,861
Other receivables	229,973	163,698
Total	1,032,808	802,342
Non financial assets		
Taxes recoverable	4. (a) 142,122	165,946
Prepayments	28,801	33,527
Inventories	5,357	10,485
Total	176,280	209,958
Total receivable and other assets	1,209,088	1,012,300

4. (a) Taxes Recoverable

As at 31 December	2012 Rs. '000	2011 Rs. '000
WHT recoverable	136,216	143,990
ESC receivable	5,906	21,956
Total	142,122	165,946

5. CASH AND CASH EQUIVALENTS

As at 31 December	2012 Rs. '000	2011 Rs. '000
Cash in hand and at bank - life	148,015	210,925
Cash and cash equivalents - unit linked	279	358
Total	148,294	211,283

Notes to the Supplemental Information Contd.

6. OTHER RESERVES

As at 31 December		2012 Rs. '000	2011 Rs. '000
Capital reserves	6a.	233,128	238,196
Reserve for revaluation of available for sale investments		11,253	157,887
		244,381	396,083

6. (a) Capital Reserves

		2012 Rs. '000	2011 Rs. '000
Life policy holders revaluation reserve	6.a.ii	216,376	221,444
Reserves on Cornhill merger	6.a.iii	16,752	16,752
		233,128	238,196

6. (a) (ii) Life policy holders revaluation reserve

	2012 Rs. '000	2011 Rs. '000
Balance as at 1 January	221,444	91,566
Revaluation surplus during the year - gross	-	147,759
Adjustment for deferred tax	-	(14,213)
Depreciation transfer	(5,068)	(3,668)
	216,376	221,444

6. (a) (iii) Reserve on merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of UA and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders.

7. INSURANCE CONTRACT LIABILITIES

As at 31 December	2012 Rs. '000	2011 Rs. '000
Insurance provision - life	15,017,647	13,211,359
Unclaimed benefits	338,693	229,100
	15,356,340	13,440,459

8. EMPLOYEE BENEFITS

As at 31 December	2012 Rs. '000	2011 Rs. '000
Balance as at 1 January	99,124	81,949
Payments during the year	(4,839)	(2,693)
Provision for the year	12,535	19,868
As at 31 December	106,820	99,124

9. OTHER LIABILITIES

As at 31 December	2012 Rs. '000	2011 Rs. '000
Financial liabilities		
Derivative financial instrument	-	29,956
Agency commission payable	70,162	68,683
Other payables	917,291	770,125
Total	987,453	868,764
Non financial liabilities		
Government levies	3,305	4,878
Total	990,758	873,642

SHAREHOLDER INFORMATION

Stock Exchange Listing

Union Assurance PLC is a public quoted company, the ordinary shares of which are listed with the Colombo Stock Exchange (CSE). The audited statement of income for the year ended 31st December 2012 and the audited statement of financial position of the company as at that date will be submitted to the Colombo Stock Exchange within three months of the balance sheet date.

The CSE ticker symbol for Union Assurance shares is 'UAL.N0000'

Share Market Performance

The Indices continued to perform poorly, for the second consecutive year, amidst regulatory upheavals, tighter credit and lack of confidence in the market. The All Share Price Index (ASPI) shed 7.1% and the Milanka Price Index (MPI) lost 2.1%. Average daily turnover for the year was Rs. 884 million, well below the Rs. 2.3 billion achieved in 2010 and 2011. Rising interest rates dampened market sentiment further as more investments were directed towards fixed income securities. Foreign interest in the bourse picked up with net foreign inflows of Rs. 38 billion compared to an outflow of Rs. 19 billion in 2011. During the year a new index was introduced in collaboration with S&P Dow Jones, titled S&P Sri Lanka 20, which will replace the MPI in 2013.

UA Share

Adequate corporate disclosures are provided to the financial community by Union Assurance in order to allow optimum pricing of UA securities. UA share price shows a decrease from Rs. 108.10 in 2011 to Rs. 83.00 in 2012.

Rights Issue

Union Assurance announced a rights issue and the shareholders on 12th November 2012 approved at an Extraordinary General Meeting, whereby One (1) new Ordinary share was issued for every Seven (07) Ordinary shares held at a price of Rupees Seventy (Rs. 70/-) per share.

The total number of shares issued as rights were 10,714,286. Thereby, the total number of shares of the company increased to 85,714,286.

Purpose of Raising Capital

The proceeds of the rights issue are mainly utilized to strengthen the capital position of the company in line with the capital requirements stipulated by the Insurance Board of Sri Lanka. It will be required to increase the stated capital in each line of business (life and non life) to Rs. 500 million as per the regulation of Insurance Industry (Amendment) Act, No. 3 of 2011.

UA has already complied with this share capital requirement through the rights issue by increasing its stated capital to Rs. 1.1 billion over and above the IBSL guidelines.

Earnings Per Share (EPS)

The earnings per share for the year ended 31st December 2012 was Rs. 12.28, an increase from Rs. 9.27 recorded in 2011. This was due to Rs. 226 million (33%) increase in the profit in 2012, compared with 2011. Table 1 provide the ten year history of earnings and retention per share.

EPS Vs Retention Ratio

Table 1

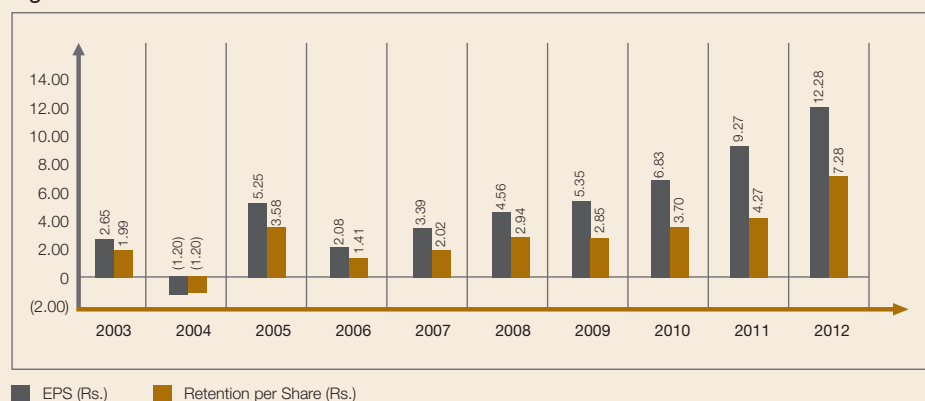
Year	EPS (Rs.)*	Retention Per Share (Rs.)	Retention Ratio
2003	2.65	1.99	75%
2004	(1.20)	(1.20)	100%
2005	5.25	3.58	68%
2006	2.08	1.41	68%
2007	3.39	2.02	59%
2008	4.56	2.94	64%
2009	5.35	2.85	53%
2010	6.83	3.70	54%
2011	9.27	4.27	46%
2012	12.28	7.28	59%

* Diluted for subsequent bonus issues

* Previous years have been restated due to subdivision of shares

Earnings per share (EPS) Vs. Retention per share

Figure 1



Price Earnings Ratio

The price earnings ratio (PER) as at 31st December 2012 decreased to 6.76 times from 11.66 times as at 31st December 2011. The UA shares were trading at a 57.6% discount to the market PER which on 31st December 2012 was estimated at 15.93 times.

Price to Book Ratio

The price to book ratio as at 31st December 2012 was 1.66 times, a decrease of 34% from 2.51 times recorded in 2011.

Total Shareholder Returns

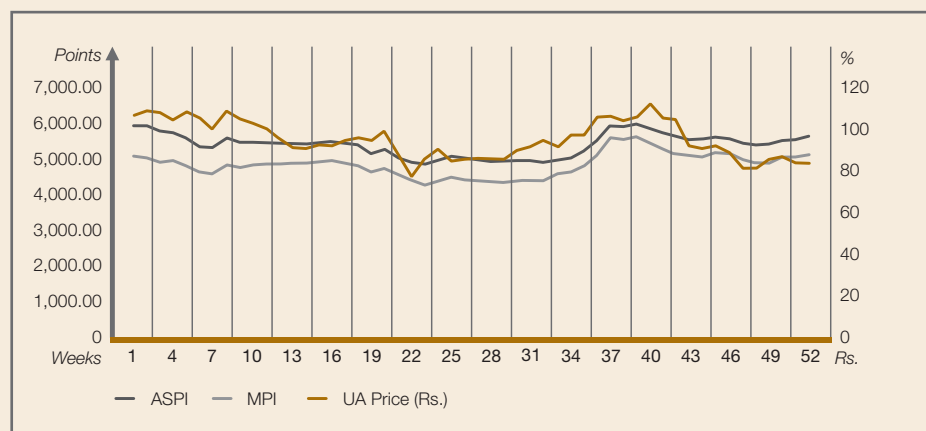
Total shareholder returns (TSR) of UA share were (18.6%) in 2012 compared with 85.3% recorded in the previous year. Dividend yield of 4.6% and capital loss of (23.2%) contributed to this negative TSR in 2012.

Valuation

31st December	2012	2011*
Earnings per share (Rs.)	12.28	9.27
Net assets per share (Rs.)	50.08	42.81
Price earnings ratio (Times)	6.76	11.66
Price / book value (Times)	1.66	2.51
Dividend yield (%)	4.6	4.6
Total Shareholder Returns (%)	(18.6)	85.3

* Previous years have been restated due to subdivision of shares

UA Share Price Movement Vs. Market Performance



Market Capitalisation and Market Price

The market capitalisation of Union Assurance shares as at 31st December 2012 was Rs. 7.1 billion, valued at the year end price of Rs. 83.00 per share. UA's main benchmark indices - the All Share Price Index (ASPI) and the Milanka Price Index (MPI) - decreased by 7.1% and 2.1% respectively. In the same period, the UA share price ranged between a low of Rs. 76.00 and a high of Rs. 120.00, closing the year at Rs. 83.00.

Shareholder Information Contd.

Market Information On Ordinary Shares of the Company

Market value	2012		2011	
Highest price (Rs.)	120.00	(03 Sep 2012)	299.00	(10 May 2011)
Lowest price (Rs.)	76.00	(23 Nov 2012)	87.00	(27 July 2011)
Year end price (Rs.)	83.00		108.10	

Trading statistics	2012	2011
Number of transactions	906	1,307
Number of shares traded	488,464	6,499,600
Value of shares traded (Rs.)	49,249,237	985,051,500
Percentage of total shares in issue (%)	0.6	8.7
Market capitalisation (Rs.)	7,114,285,738	8,107,500,000
Percentage of total market capitalisation (%)	0.3	0.4

Dividends

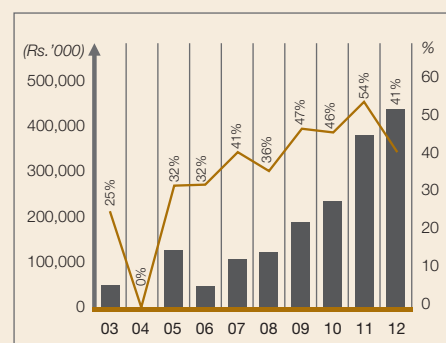
The dividend policy of Union Assurance seeks to ensure a dividend payout which correlates with the growth in profits, whilst ensuring that the company retains adequate funds to meet the solvency requirements as stipulated by the Insurance Board of Sri Lanka (IBSL) in the short, medium and long term.

The Board of Directors declared a first and final dividend of of Rs. 5.00 per share, based on the profits of 2012. Accordingly, the gross dividend payable out of the profits for the year ended 31st December 2012 will be Rs. 429 million, an increase of Rs. 54 million, compared to the dividend of Rs .375 million in the previous year. UA pays its dividend annually.

Gross Dividend Vs. Dividend Payout

Year	Dividend Per Share (Rs.)*	Dividends (Rs. '000)	Dividend Payout Ratio
2003	0.67	50,000	25%
2004	-	-	0%
2005	1.67	125,000	32%
2006	0.67	50,000	32%
2007	1.38	103,125	41%
2008	1.63	121,875	36%
2009	2.50	187,500	47%
2010	3.13	234,375	46%
2011	5.00	375,000	54%
2012	5.00	428,571	41%

Gross Dividend Vs. Dividend Payout



— Dividend Payout Ratio
■ Dividends (Rs. '000)

Free Float

The Colombo Stock Exchange (CSE) defines the free float of a company as the percentage of shareholders, excluding Directors' shareholdings, who hold less than 3% stake in the company. According to this definition, the UA free float is 4%.

Shareholder Base

UA has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders increased from 1,358 as at 31st December 2011 to 1,422 as at 31st December 2012. On 31st December 2012, UA had 1,337 registered individual shareholders, representing 94% of the shareholders; 68% of the shareholders hold less than 1,000 shares. The vast majority of UA's individual shareholders are residents of Sri Lanka. Institutional shareholders represent 97% of UA's ordinary share capital.

The top twenty shareholders hold 97.6% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.

Distribution of Shareholders

Range of shareholders		31st December 2012				31st December 2011			
		No. of shareholders	%	No. of shares*	%	No. of shareholders	%	No. of shares	%
Less than	1,000	963	67.72	276,802	0.32	928	68.34	285,936	0.38
	1,001 - 10,000	407	28.62	1,275,599	1.49	383	28.20	1,212,332	1.62
	10,001 - 100,000	45	3.16	1,081,830	1.26	41	3.02	1,001,146	1.33
	100,001 - 1,000,000	4	0.28	1,090,931	1.27	3	0.22	760,102	1.01
	Over 1,000,001	3	0.21	81,989,124	95.65	3	0.22	71,740,484	95.65
Total		1,422	100.00	85,714,286	100.00	1,358	100.00	75,000,000	100.00

* increase is mainly due to the rights issue

Composition of shareholders

	31st December 2012				31st December 2011			
	No. of shareholders	(%)	No. of Shares*	(%)	No. of shareholders	(%)	No. of Shares	(%)
Directors & spouses	1	0.07	8,562	0.01	1	0.07	7,492	0.01
Resident								
Individuals	1,327	93.32	2,498,129	2.91	1,270	93.52	2,315,872	3.09
Institutions	82	5.77	10,377,228	12.11	76	5.60	8,961,824	11.95
Non Resident								
Individuals	9	0.63	29,452	0.03	9	0.66	17,282	0.02
Institutions	2	0.14	6,024	0.01	1	0.07	2,000	0.00
Shareholders holding more than 10%	1	0.07	72,794,891	84.93	1	0.07	63,695,530	84.93
Total	1,422	100.00	85,714,286	100.00	1,358	100.00	75,000,000	100.00

* increase is mainly due to the rights issue

Public Shareholding

As at 31st December	2012		2011	
	No. of Shares	(%) of Shares	No. of Shares	(%) of Shares
Public shareholding	3,716,600	4.34	3,252,024	4.34

Shareholder Information Contd.

Twenty Largest Shareholders

	Name of Shareholder	31st December 2012		31st December 2011	
		No. of shares*	%	No. of shares	%
1.	John Keells Holdings PLC	72,794,891	84.93	63,695,530	84.93
2.	Whittall Boustead Limited	6,345,849	7.40	5,552,618	7.40
3.	Mackinnons Keells Limited	2,848,384	3.32	2,492,336	3.32
4.	Waldock Mackenzie Ltd/ Mr. And Mrs. S. N. P. Paliyehena	660,000	0.77	300,000	0.40
5.	Waldock Mackenzie Ltd/Hi-Line Trading (Pvt) Ltd	161,520	0.19	329,400	0.44
6.	Corporate Holdings (Private)Limited	149,373	0.17	130,702	0.17
7.	V. Bandaranayake	120,038	0.14	0	0.00
8.	A. C. Visvalingam	85,600	0.10	74,900	0.10
9.	H. A. D. Ratnapala	56,250	0.07	56,250	0.08
10.	J. W. Nanayakkara	56,250	0.07	56,250	0.08
11.	R. Z. Wikramanayake	53,585	0.06	48,364	0.06
12.	N. I. Wikramanayake	53,059	0.06	47,978	0.06
13.	A.A. Mashoor	45,600	0.05	45,600	0.06
14.	G.M. Abdulhussein	39,808	0.05	41,810	0.06
15.	N.D. Kurukulasuriya	39,000	0.05	0	0.00
16.	H.A. Rehmanjee	36,596	0.04	32,022	0.04
17.	L. Amaradasa	33,750	0.04	33,750	0.05
18.	A.N. Esufally	32,142	0.04	0	0.00
19.	S. Nishyanthan	30,300	0.04	30,300	0.04
20.	S. Vasudevan	28,800	0.03	25,200	0.03
		83,670,795	97.62	72,993,010	97.32
	Other shareholders	2,043,491	2.38	2,006,990	2.68
	Total shareholders	85,714,286	100.00	75,000,000	100.00

* increase is mainly due to the rights issue

Directors' Shareholdings

31 December	2012	2011
Mr. A. D. Gunewardene	8,562	7,492
Mr. A. S. De Zoysa	Nil	Nil
Mr. G. F. C. De Saram	Nil	Nil
Mrs. D. C. Alagaratnam	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. H. A. J. De Silva Wijeyeratne	Nil	Nil

CEO's Shareholding

Mr. D. Pereira	Nil	Nil
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Record of Share Issue

Year	Issue	Basis	No. of shares	Share capital (Rs.)
1987	Prior to public issue	-	8,000,000	80,000,000
1988	Public issue	-	2,000,000	20,000,000
1995	Rights @ Rs. 50	3 : 1	3,333,333	33,333,333
1999	Bonus	2 : 1	6,666,667	66,666,667
2002	Bonus	4 : 1	5,000,000	50,000,000
2007	Bonus	2 : 1	12,500,000	125,000,000
2011	Share Split	1 : 2	37,500,000	-
2012	Rights @ Rs. 70	7 : 1	10,714,286	750,000,020
			85,714,286	1,125,000,020

Compliance with Contents of Annual report as per Section 7.6 of the Listing Rules of the Colombo Stock Exchange

Section 7.6 to the listing rules 2012 of the Colombo Stock Exchange includes the following information as compulsory for listed entities to disclose in the annual report.

Listing rule number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.i	Names of persons who during the financial year were Directors of the entity	The names of persons who held the position of Directors during the financial year is provided on page 18 and 19	Complied
7.6.ii	Principal activities of the entity during the year and any changes therein	The principal activities of the company during the year is the provision of life and non life insurance services. No significant changes took place during the year	Complied
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	The 20 largest shareholders together with their shareholding as at 31 st December 2012 is provided on page 322	Complied
7.6.iv	The public holding percentage	The details of the public shareholding is available on page 321	Complied
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	The statement of each Director's holding and Chief Executive Officer's holding in shares is available on page 322	Complied
7.6.vi	Information pertaining to material foreseeable risk factors of the entity	Information relating to material foreseeable risk factors is provided in the risk management section from pages 125 to 134 and note 5 to the financial statements	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	UA did not encounter any relating to employees and industrial relations during the year 2012	Complied

Shareholder Information Contd.

Listing rule number	Compliance Requirement	Detail / Reference	Compliance Status
7.6.viii	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Refer Property, plant and equipment note on page 285	Complied
7.6.ix	Number of shares representing the entity's stated capital	Total number of shares is 85,714,286 which are ordinary shares with voting rights	Complied
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	The distribution schedule of the number of shareholders and the percentages of their total holdings in the given categories is provided on page 322	Complied
7.6.xi	List of ratios and market price information	The list of applicable ratios and the market price information is provided in the shareholder information section	Complied
7.6.xii	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value	There were no significant changes in the entity's fixed assets and market value of lands	Complied
7.6.xiii	If during the year the entity has raised funds either through a public issue, rights issue, and private placement	The information relating to the rights issue is on page 318	Complied
7.6.xiv	Employee Share Option Schemes and Employee Share Purchase Schemes	There were no Employee Share Option Schemes or Employee Share Purchase Schemes introduced to UA employees	Complied
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 Rules	The disclosures relating to Corporate Governance practices are available in the Corporate Governance Report from pages 82 to 135	Complied
7.6.xvi	Details of investments in related party transactions.	There were no material transactions during the year with any related party of the company other than disclose in note 38	Complied

QUARTERLY ANALYSIS - 2012

	1st Quarter Jan - March Rs'000	2nd Quarter April - June Rs'000	3rd Quarter July - Sep Rs'000	4th Quarter Oct - Dec Rs'000	Total Rs'000
Gross written premium	2,342,948	2,264,457	2,281,639	2,843,712	9,732,756
Net change in reserve for unearned premium	(34,348)	(56,368)	64,994	(192,509)	(218,231)
Gross earned premium	2,308,600	2,208,089	2,346,633	2,651,203	9,514,525
Premium ceded to reinsurers	(263,102)	(232,786)	(238,833)	(427,152)	(1,161,873)
Net change in reserve for unearned reinsurance premium	5,113	8,391	(9,675)	28,658	32,488
Net earned premium	2,050,611	1,983,695	2,098,125	2,252,709	8,385,140
Other revenue					
Finance income	343,155	512,547	885,963	488,733	2,230,398
Other operating income	40,780	11,512	4,135	46,400	102,827
	383,935	524,059	890,098	535,133	2,333,225
Total net revenue	2,434,546	2,507,754	2,988,223	2,787,842	10,718,365
Benefits, losses and expenses					
Net benefits and claims	(1,500,520)	(1,490,258)	(1,992,661)	(909,436)	(5,892,875)
Underwriting and net acquisition costs (including reinsurance)	(310,026)	(295,484)	(246,777)	(316,946)	(1,169,233)
Other operating and administrative expenses	(487,579)	(599,074)	(632,936)	(785,070)	(2,504,658)
Depreciation on property and equipment	(34,105)	(35,529)	(36,089)	(37,624)	(143,347)
Total benefits, losses and expenses	(2,332,231)	(2,420,345)	(2,908,462)	(2,049,075)	(9,710,113)
Profit before income tax	102,315	87,409	79,761	738,767	1,008,252
Income tax expense	(17,127)	(15,797)	(13,854)	(40,206)	(86,984)
Profit for the year	85,188	71,612	65,907	698,561	921,268

QUARTERLY ANALYSIS - 2011

	1st Quarter Jan - March Rs'000	2nd Quarter April - June Rs'000	3rd Quarter July - Sep Rs'000	4th Quarter Oct - Dec Rs'000	Total Rs'000
Gross written premium	1,979,503	1,848,857	2,144,413	2,727,127	8,699,900
Net change in reserve for unearned premium	(77,900)	66,850	(10,722)	(298,109)	(319,881)
Gross earned premium	1,901,603	1,915,707	2,133,691	2,429,018	8,380,019
Premium ceded to reinsurers	(222,669)	(183,395)	(233,543)	(447,619)	(1,087,226)
Net change in reserve for unearned reinsurance premium	14,237	(12,217)	1,959	54,482	58,461
Net earned premium	1,693,171	1,720,094	1,902,108	2,035,881	7,351,254
Other revenue					
Finance income	503,044	367,566	396,977	341,888	1,609,475
Other operating income	7,578	12,481	4,006	25,171	49,236
	510,622	380,047	400,983	367,059	1,658,711
Total net revenue	2,203,793	2,100,141	2,303,091	2,402,940	9,009,965
Benefits, losses and expenses					
Net benefits and claims	(1,412,351)	(1,235,926)	(1,340,341)	(967,578)	(4,956,196)
Underwriting and net acquisition costs (including reinsurance)	(259,125)	(267,808)	(287,663)	(273,323)	(1,087,919)
Other operating and administrative expenses	(439,219)	(483,066)	(555,279)	(597,652)	(2,075,216)
Depreciation on property and equipment	(29,442)	(32,752)	(32,681)	(33,819)	(128,694)
Total benefits, losses and expenses	(2,140,138)	(2,019,551)	(2,215,964)	(1,872,372)	(8,248,025)
Profit before income tax	63,655	80,590	87,127	530,568	761,940
Income tax expense	(13,128)	(11,515)	(12,766)	(29,346)	(66,755)
Profit for the year	50,527	69,075	74,361	501,222	695,185

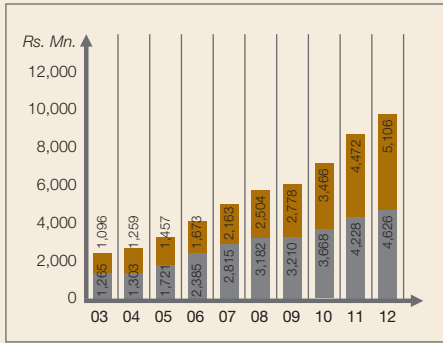
TEN YEAR AT A GLANCE

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Statement of income										
Gross written premium	9,732,756	8,699,900	7,133,375	5,988,401	5,686,123	4,978,134	4,057,654	3,177,359	2,562,203	2,361,110
Net earned premium	8,385,140	7,351,254	5,690,507	4,881,880	4,338,794	3,675,264	2,835,228	2,223,567	1,803,944	1,686,680
Finance and other operating income	2,333,225	1,658,711	2,229,021	1,795,414	1,249,036	928,837	754,816	523,116	471,982	468,335
Net claims incurred	(5,892,875)	(4,956,196)	(4,516,596)	(3,822,631)	(3,172,484)	(2,652,287)	(2,099,885)	(1,495,517)	(1,476,966)	(1,264,716)
Underwriting and net acquisition costs (including reinsurance)	(1,169,233)	(1,087,919)	(848,296)	(615,535)	(546,405)	(426,885)	(320,819)	(219,871)	(229,445)	(167,212)
Other operating and administrative expenses	(2,504,658)	(2,075,216)	(1,853,829)	(1,690,024)	(1,440,918)	(1,216,593)	(946,372)	(729,474)	(575,350)	(528,682)
Depreciation on property and equipment	(143,347)	(128,694)	(107,766)	(81,722)	(70,653)	(56,177)	(42,184)	(26,634)	(46,119)	(64,007)
Profit before income tax	1,008,252	761,940	593,041	467,382	357,370	252,159	180,784	275,187	(51,954)	130,398
Income tax expense	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)	-
Profit for the year	921,268	695,185	511,971	400,871	342,084	251,932	158,918	260,492	(60,600)	130,398
INSURANCE REVENUE ACCOUNTS										
NON LIFE INSURANCE										
Gross written premium	4,626,433	4,228,272	3,667,870	3,210,217	3,182,236	2,814,654	2,384,910	1,720,783	1,302,894	1,264,961
Net earned premium	3,528,412	3,082,534	2,323,328	2,203,397	1,966,419	1,608,756	1,231,145	807,005	594,410	625,299
Other operating income	27,799	16,610	15,365	10,303	6,787	5,438	3,213	1,004	2,076	204
Net claims incurred	(2,320,107)	(2,164,561)	(1,677,537)	(1,643,287)	(1,425,748)	(1,147,955)	(820,783)	(441,141)	(446,560)	(315,916)
Underwriting and net acquisition costs (including reinsurance)	(278,697)	(268,843)	(172,623)	(112,386)	(88,974)	(47,238)	(57,505)	6,187	9,466	11,247
Other operating and administrative expenses	(1,061,834)	(786,060)	(664,392)	(648,904)	(593,450)	(526,582)	(411,912)	(333,956)	(320,877)	(307,616)
Underwriting profit / (loss)	(104,427)	(120,320)	(175,859)	(190,877)	(134,966)	(107,671)	(55,842)	39,099	(161,485)	13,218
Finance and other operating income	579,857	466,086	443,900	423,259	307,336	215,830	161,126	92,088	109,531	84,180
Income tax expense	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)	-
Profit for the year	388,446	279,011	186,971	165,871	157,084	107,932	83,418	116,492	(60,600)	97,398
LIFE INSURANCE										
Gross written premium	5,106,323	4,471,628	3,465,505	2,778,184	2,503,887	2,163,480	1,672,744	1,456,576	1,259,309	1,096,149
Net written premium	4,856,728	4,268,720	3,367,179	2,678,482	2,372,375	2,066,508	1,604,083	1,416,562	1,209,534	1,061,381
Finance and other operating income	1,722,070	1,215,043	1,806,873	1,361,853	934,914	707,659	590,477	430,024	360,375	383,951
Net benefits and claims	(3,572,769)	(2,791,635)	(2,839,059)	(2,179,344)	(1,746,736)	(1,504,332)	(1,279,102)	(1,054,376)	(1,030,406)	(948,800)
Underwriting and net acquisition costs (including reinsurance)	(890,536)	(819,076)	(675,673)	(503,150)	(457,431)	(379,647)	(263,314)	(226,058)	(238,911)	(178,459)
Other operating and administrative expenses	(1,590,493)	(1,444,052)	(1,334,320)	(1,122,841)	(918,122)	(746,188)	(576,644)	(422,152)	(300,592)	(285,073)
Surplus from life insurance fund	525,000	429,000	325,000	235,000	185,000	144,000	75,500	144,000	-	33,000
Finance and other income not attributable to policyholders	23,164	(12,826)	-	-	-	-	-	-	-	-
Expenses not attributable to policyholder	(15,342)	-	-	-	-	-	-	-	-	-
Profit for the year	532,822	416,174	325,000	235,000	185,000	144,000	75,500	144,000	-	33,000

Ten Year at a Glance Contd.

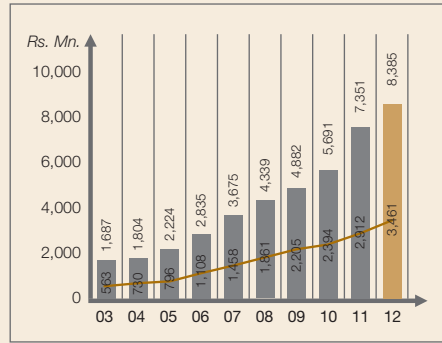
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
STATEMENT OF FINANCIAL POSITION										
Assets										
Financial Investments	20,071,094	16,579,094	14,337,860	11,911,086	9,389,319	7,952,135	6,513,709	5,369,372	4,339,425	3,956,483
Investment in Subsidiary	-	-	-	-	183,200	183,200	183,200	183,200	183,200	183,200
Property plant and equipment	1,363,845	1,298,380	1,108,723	1,070,060	353,725	328,622	250,078	180,976	118,718	142,052
Intangible assets	-	-	-	49,500	49,500	49,500	49,500	49,500	55,000	60,500
Life policyholders loans	284,744	246,674	232,618	224,325	189,274	159,757	140,732	127,256	110,405	100,599
Reinsurance receivable	400,627	545,774	619,228	900,800	836,708	920,244	1,110,604	1,513,507	2,207,985	716,735
Premiums receivable	1,459,440	1,236,299	1,237,594	845,756	724,748	628,600	549,013	400,047	343,266	267,334
Receivables and other assets	1,841,545	1,795,727	1,552,089	1,329,848	1,164,821	1,017,394	642,374	535,848	430,188	378,424
Deferred expenses	146,097	147,495	139,176	130,445	115,019	108,854	104,823	113,220	141,413	56,262
Cash and cash equivalents	315,634	373,413	390,138	313,855	272,080	244,301	152,515	167,741	330,148	286,505
Total Assets	25,883,026	22,222,856	19,617,426	16,775,675	13,278,394	11,592,607	9,696,548	8,640,667	8,259,748	6,148,094
Equity and Liabilities										
Equity										
Stated Capital	1,133,305	388,433	388,433	388,433	388,433	388,433	266,667	266,667	266,667	266,667
Other reserves	720,830	955,194	1,340,970	584,359	47,958	48,633	45,048	45,708	-	-
Retained reserves	2,454,923	1,903,587	1,439,109	1,332,359	1,051,077	716,120	666,212	699,483	438,991	549,591
Total Equity	4,309,058	3,247,214	3,168,512	2,305,151	1,487,468	1,153,186	977,927	1,011,858	705,658	816,258
Liabilities										
Insurance contract liabilities - life	15,356,340	13,440,459	11,769,308	9,783,676	8,134,040	6,806,385	5,612,984	4,602,493	3,902,832	3,059,606
Insurance contract liabilities - non life	3,200,838	3,050,976	2,813,250	2,689,394	2,371,342	2,244,240	2,161,134	2,334,250	2,915,505	1,159,962
Insurance contract liabilities - unit linked	1,143,546	555,541	165,835	-	-	-	-	-	-	-
Provision for life fund solvency	-	-	-	-	-	95,323	67,849	-	-	-
Reinsurance payable	415,394	441,567	405,764	327,196	344,991	285,403	259,034	181,650	287,210	200,546
Employee benefits	163,572	154,702	132,422	95,955	83,811	75,759	63,501	51,107	48,754	41,387
Deferred revenue	96,904	89,467	83,032	77,823	68,620	64,942	62,537	67,547	84,367	33,566
Other liabilities	1,197,374	1,242,931	1,079,302	1,496,480	788,122	867,369	491,582	391,762	315,422	836,769
Total liabilities	21,573,968	18,975,642	16,448,914	14,470,524	11,790,926	10,439,421	8,718,621	7,628,809	7,554,090	5,331,836
Total Equity and Liabilities	25,883,026	22,222,856	19,617,426	16,775,675	13,278,394	11,592,607	9,696,548	8,640,667	8,259,748	6,148,094
Investor Information										
Return on Net Assets (%)	21.38	21.41	16.16	17.39	23.00	21.85	16.25	25.74	-8.59	15.98
Earnings Per Share (Rs.)	12.28	9.27	13.65	10.69	9.12	6.72	6.36	10.42	-2.42	5.22
Dividend Per Share (Rs.)	5.00	5.00	3.13	2.50	1.63	1.38	0.67	1.67	0.00	0.67
Net Assets Per Share (Rs.)	50.27	43.30	84.49	61.47	39.67	30.75	39.12	40.47	28.23	32.65
Market Price Per Share (Rs.)	83.00	108.10	122.10	90.75	49.75	46.25	102.50	96.00	45.00	45.00
Market Capitalization (Rs. Mn.)	7,114.29	8,107.50	4,578.75	3,403.13	1,865.63	1,734.38	2,562.50	2,400.00	1,125.00	1,125.00
Price Earnings Ratio (Times)	6.76	11.66	8.94	8.49	5.45	6.88	16.12	9.21	-18.56	8.63
Other Information										
Number of employees	1,088	1009	989	949	902	897	792	597	547	551
No of Shares ('000)	85,714	75,000	37,500	37,500	37,500	37,500	25,000	25,000	25,000	25,000

TEN YEAR GRAPHICAL REVIEW



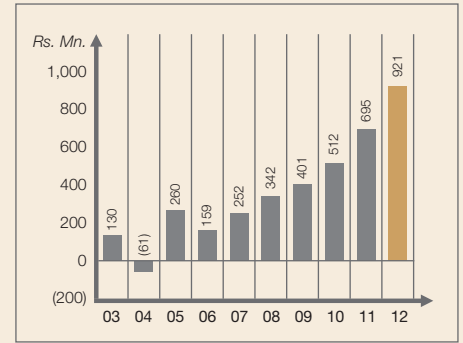
Gross Written Premium - Non Life and life

■ GWP - Non life
■ GWP - Life

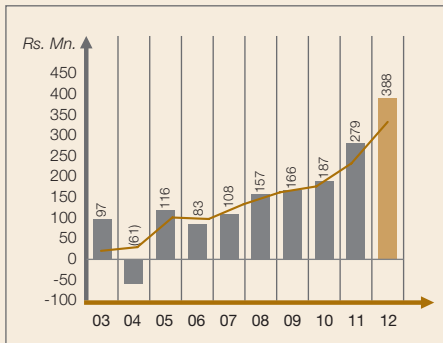


Net Earned Premium Vs Life and Non life Net Claims

— Life and Non Life NEP
■ Life and Non Life Net Claims

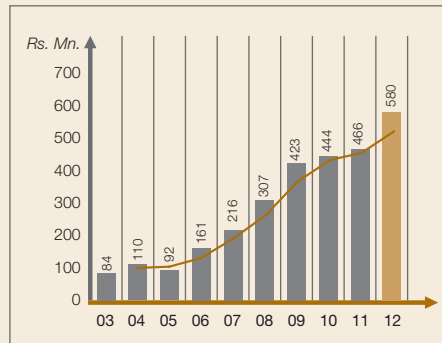


Profit/(loss) after taxation



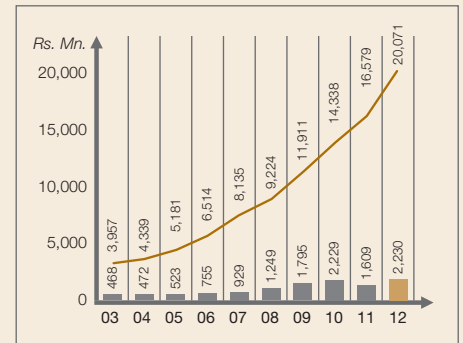
Profit after Taxation - Non life

■ Profit - Non life



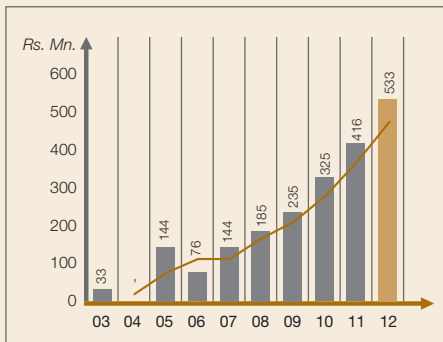
Finance income - Non life

■ Finance income - Non life



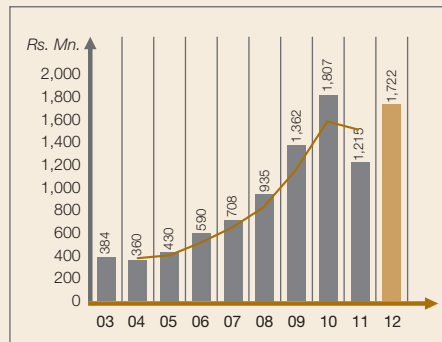
Investments and investment & other income

— Investment and other income
■ Investments (including unit linked)



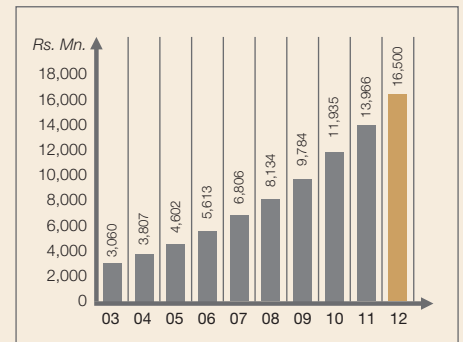
Life Surplus - Life

■ Profit - life



Finance income - Life

■ Finance income - life



Life Fund (including unit linked)

■ Life fund

UNDERSTANDING OUR FINANCIALS

An insurance company's statement of income includes the income and expenses derived from both non life and life insurance. Since non life and life insurance are two distinct lines of business, the accounting practices adopted differs. In order to fully understand UA's statement of income, we have provided the following overview based on the life and non life insurance statements as presented in the segmental analysis.

Non Life Insurance Statement of Income

For the year ended 31 December 2012	Comment	Rs. '000
Gross written premium	1	4,626,433
Net change in reserve for unearned premium	2	(218,231)
Gross earned premium	3	4,408,201
Less: Premium ceded to reinsurers	4	(912,278)
Net change in reserve for unearned reinsurance premium	5	32,488
Net Earned Premium	6	3,528,411
Other Revenue		
Net finance income	7	552,088
Fair value gains and losses	8	(1,853)
Other operating revenue		57,422
		607,657
Total Net Revenue		4,136,068
Benefits, Losses and Expenses		
Net benefits and claims	9	(2,320,107)
Underwriting and policy acquisition costs (including reinsurance)	10	(278,697)
Other operating and administrative expenses	11	(976,502)
Depreciation on property and equipment		(85,331)
Total Benefits, Losses and Expenses		(3,660,637)
Profit Before Income Tax		475,431
Income tax expense		(86,984)
Profit for the year		388,447

Comments

- Gross written premium (GWP) represents the price charged by insurance companies in order to pay customer claims if the event that is insured against occurs. GWP is comparable with the "turnover" of a trading or manufacturing organization.
- Please refer definition of net earned premium. The difference between net earned premium and net written premium is charged or credited to the statement of income with the corresponding adjustment recorded in the balance sheet as reserve for net unearned premiums under Insurance provision
- Gross earned premium illustrates the change of value on the business after deducting the reserves for the unearned premium from the gross written premium.
- Insurance companies often transfer some component of the risk they accept from customers to reinsurance companies. In return for accepting this risk, reinsurers are paid a part of the premium received from customers.
- The change in unearned reinsurance premium.
- Net earned premium represents the amount of GWP less reinsurance outgo that is relevant to the accounting period. For example, consider an insurance policy that commences from 1st April 2012 and expires on 31st March 2013. In such instance the premium may be received on 1st April, but the insurer carries the risk associated with the policy until March the following year. In order to recognise this fact and match income with expenses, only that component of premium applicable for the year is considered. The terminology "net" refers to the fact that it is net of reinsurance and "earned" reflects that it is the premium applicable for the particular period under review.
- Net finance income refers to interest income and dividend income received from investments maintained by the non life segment after deducting the costs of the related investments such as bank charges, custodian fees, brokerage fee etc.
- The net gain / loss derived by converting the fair value through profit and loss instruments to the fair value.
- Total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are provided for based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the date of the balance sheet. Such claims are commonly referred to as incurred but not reported (IBNR) claims.
- Non life insurance business is procured either directly by the insurance company or via intermediaries e.g. agents, brokers etc. Underwriting and policy acquisition costs (including reinsurance) represents the amount

of commission payable by insurance companies to such intermediaries less any commission income due from reinsurers for placing business with them. Similar to net earned premium, the net amount of commissions is adjusted to reflect the commission “earned” for a particular period. The balance is transferred as reserve for net deferred acquisition cost included in the Insurance provision

11. Overhead expenses e.g. staff, administration, sales and marketing costs related to the non life insurance operation are reflected.

Life Insurance Statement of Income

For the year ended 31 December 2012	Comment	Rs. '000
Gross written premium	1	5,106,323
Net change in reserve for unearned premium	-	-
Gross earned premium		5,106,323
Less: Premium ceded to reinsurers	2	(249,595)
Net change in reserve for unearned reinsurance premium	-	-
Net earned premium		4,856,728
Other revenue		
Net finance income	3	1,703,402
Net realised gains and losses	4	20,438
Fair value gains and losses	5	(43,678)
Other operating revenue		65,071
		1,745,234
Total net revenue		6,601,962
Benefits, losses and expenses		
Net benefits and claims	6	(3,572,770)
Underwriting and policy acquisition costs (including reinsurance)	7	(890,536)
Other operating and administrative expenses	8	(1,547,821)
Depreciation on property and equipment		(58,015)
Total benefits, losses and expenses		(6,069,141)
Profit before income tax	9	532,821
Income tax expense	-	-
Profit for the year		532,821

Comments

1. Gross written premium (GWP) represents the price charged by insurance companies in order to pay claims or benefits applicable under the life insurance policy. Similar to general insurance, GWP is comparable with the “turnover” of a trading or manufacturing organization. Life insurance GWP is also accounted on an accrual basis.
2. Bears the same meaning as for non life insurance.
3. Similar to non life insurance
4. Net realised gains / losses illustrate the profit or loss arrived on selling available for sale financial assets.
5. Similar to non life insurance

6. Life insurance losses and loss adjustment expenses reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers.
7. Similar to non life insurance
8. Overhead expenses e.g. staff, administration, sales and marketing costs related to the life insurance operation are reflected under this point.
9. Profit represents the difference between the provisions for life business as at year end and life policyholder liabilities which are valued based on actuarial principles.

GLOSSARY OF INSURANCE TERMS

Aa

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, home loans, 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.

Annual basis of accounting - A basis of accounting for non life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity - A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant. A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

Bb

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.

Cc

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.

Cc

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 development table - A table that compares actual claims paid and current estimates of claims with previously reported estimates of the same claims, demonstrating the sufficiency or otherwise of those previous estimates.

Claims incurred but not reported (IBNR) - Claims arising out of events which have occurred by the balance sheet date but have not been reported and reported but not enough reports (IBNER) to the insurer at that date.

Claims outstanding - Non life insurance business - The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

Claims outstanding - life insurance business - The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the balance sheet date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Co insurance - An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Commissions - A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Dd

Deferred acquisition costs - Non life insurance business - Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.

Deferred expenses - investment management services - Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF, under which investment management services are rendered, which are deferred to the extent that these costs can be identified separately, measured reliably and it is probable that these costs will be recoverable out of future revenue margins.

Deferred revenue - Initial and other front-end fees received for rendering future investment management services relating to investment contracts without DPF, which are deferred and recognised as revenue when the related services are rendered.

<p>Dd</p>	<p>Discretionary participation features (DPF) - A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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 • The profit or loss of the company, fund or other entity that issues the contract 	<p>li</p>	<p>Investment contract - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance</p> <p>Investment management services - The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.</p>
<p>Ff</p>	<p>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.</p>	<p>LI</p>	<p>Liability adequacy test - An annual assessment of the sufficiency of insurance and/or investment contract with DPF liabilities, to cover future insurance obligations.</p> <p>Non-life insurance - Comprises general insurance and healthcare and includes an insurance contract that is not life insurance.</p>
<p>Gg</p>	<p>General insurance business - Insurance (including reinsurance) business falling within the classes of insurance specified as General Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000.</p>		<p>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.</p> <p>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.</p>
	<p>Gross / net - The terms gross and net mean before and after deduction of the portion attributable to reinsurance.</p>	<p>Mm</p>	<p>Loss ratio - Percentage ratio of claims expenses to earned premiums.</p> <p>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.</p>
<p>Hh</p>	<p>Healthcare - An insurance contract which provides medical coverage to a policyholder.</p>		
<p>li</p>	<p>Incurred but not reported (IBNR) - Claims to be made by a policyholder, but not yet reported to the insurance company.</p> <p>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.</p> <p>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.</p> <p>Insurance provision – Non life - Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, as well as the related net acquisition costs and gross claims outstanding.</p> <p>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.</p>	<p>Nn</p>	<p>Net - Refer Gross / net</p> <p>Net asset value - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.</p> <p>Net combined ratio - Indicates the profitability of a general insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income.</p> <p>Net earned premium - In the case of general insurance business, net earned premium is the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.</p> <p>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.</p> <p>Net expense ratio - A formula used by general insurance companies to relate net earned premium to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).</p>

Glossary of Insurance Terms Contd.

<p>Nn</p>	<p>Net loss ratio - A formula used by general insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurance).</p> <p>Non-participating business - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.</p> <p>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.</p>	<p>Pp</p>	<p>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.</p> <p>Provision for outstanding claims - Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.</p> <p>Provision for premium deficiency - The provision for premium deficiency reflects management assessment of claims expected to be incurred after the reporting date in respect of current insurance contracts, that will, together with any deferred expenses, exceed the premiums to be earned on those contracts after the reporting date.</p>
<p>Oo</p>	<p>Outstanding claims provision Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.</p>		<p>Provision for unearned premiums - A provision for premiums received or receivable for which the underlying risk has not yet expired. This provision is released over the term of the contract as the underlying risk expires.</p>
<p>Pp</p>	<p>Participating business - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.</p> <p>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.</p> <p>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.</p> <p>Premiums - The installments paid by the customers</p> <p>Premiums earned - In the case of general insurance business, earned premium is the proportion of written premiums (including, where relevant, those of prior accounting periods) attributable to the risks borne by the insurer during the accounting period. For non-life insurance contracts the premium income attributable to the insurance risks borne by the insurer in the reporting period, that is after adjusting for the opening and closing balances of unearned premium.</p> <p>Premiums written - For general insurance, premiums written are that an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. These are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.</p> <p>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).</p>	<p>Rr</p>	<p>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.</p> <p>Reinsurance commission - Commission received or receivable in respect of premiums paid or payable to a reinsurer.</p> <p>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.</p> <p>Reinsurance inwards - The acceptance of risks under a contract of reinsurance.</p> <p>Reinsurance outwards - The placing of risks under a contract of reinsurance.</p> <p>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.</p> <p>Retention - That part of the risk assumed which the insurer / reinsurer does not reinsure / retrocede, i.e. retained net for own account.</p> <p>Retrocession - The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.</p>
		<p>Ss</p>	<p>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 take the form of average if-then analyses.</p>

Ss	Solvency margin – Non life - The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.	Uu	Unexpired risk reserve - The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).
	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.		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.
	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.	Vv	Value at risk - Method of quantifying risk; measures the potential future losses that may not be exceeded within a specified period and with a specified probability.
	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).		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.
Tt	Technical provisions - Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.	Ww	Written premium - general insurance business - Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.
Uu	Ultimate loss - As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.		Written premium - life insurance business - Premiums to which the insurer is contractually entitled and received in the accounting period.
	Underwriter - Member of an insurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a 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.		
	Underwriting profit - The underwriting result generated by transacting general insurance business, without taking into account the investment income.		
	Unearned premium - The portion of premium income in the financial year that is attributable to periods after the balance sheet date is accounted for within the technical provisions as unearned premiums.		

DISTRIBUTION NETWORK

Corporate Office

Union Assurance Centre

20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 011-2343095

Life Insurance Division

1st Floor, Union Assurance Centre
20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 011-2438165

General Insurance Division

2nd Floor, Union Assurance Centre
20, St. Michael's Road, Colombo 3.
Customer Service: 011-2428000
General Line: 011-2428428
Fax: 2nd Floor - 011-2343065,
3rd Floor - 011-2347701

Motor Centre

33, St. Michael's Road,
Colombo 3.
General Line: 011-2462462, 011-
2462100
Fax: 011-2462222

Aa

Akkarapaththu

155, Ampara Road,
Akkarapaththu.
Tel: 067-2279385, 067-3696287

Akuressa

64, Matara Road, Akuressa.
Tel: 041-2283393
Fax: 041-2283493

Aluthgama

Galle Road, Aluthgama.
Tel: 011-3135922

Ambalangoda

26 B/2, New Road, Ambalangoda.
Tel: 091-2258747
Fax: 091-2255882

Ambalantota

1 /46, Main Street, Ambalantota.
Tel: 047-2223370
Fax: 047-2225500

Ampara

Kandy Road, Ampara.
Tel/ Fax: 063-2224668

Aa

Anamaduwa

88, Chilaw Road, Anamaduwa.
Tel: 032-2263838

Anuradhapura

280 A, 1st Floor, Main Street,
Anuradhapura.
Tel: 025-2224677-8
Fax: 025-2235547

Avissawella

15 1/2, Kudagama Road,
Avissawella.
Tel: 036-2231349
Fax: 036-2233575

Bb

Baddegama

402/3, Galle Road, Baddegama.
Tel: 091-3092772

Badulla

158, Modern Complex,
Lower Street, Badulla.
Tel/ Fax: 055-2229536

Bakamuna

37, Near Bank of Ceylon,
Hospital Road, Bakamuna.
Tel: 066-2256100

Balangoda

No:164, Thumbagoda Junction,
Balangoda.
Tel: 045 3603111

Bandaragama

55, Horana Road, Bandaragama.
Tel: 011-22343064

Bandarawela

341/A, 1st Floor, Badulla Road,
Bandarawela.
Tel: 057-2223239, 057-2223396
Fax: 057-2223397

Batticaloa

No.217, Trincomalee Road,
Batticaloa.
Tel/ Fax: 065-2224574

Bibila

'Isuru Traders', Monaragala
Junction, Bibila.
Tel: 055-3051532

Bulathsinhala

46, Bulathsinhala South,
Mathugama Road, Horana.
Tel: 034-2282985

Cc

City Office

Upper Floor, 646, Galle Road,
Colombo 3.
Tel: 011-2589192-3
Fax: 011-2589191

Chawachachcheriya

Kandy Road, Chawachachcheriya.
Tel: 021-2270073

Cc

Chenkalady

191, Main Street, Chenkaladi.
Tel: 065-5611422

Chilaw

No. 1, Jetty Street, Chilaw.
Tel/ Fax: 032-2222104

Chunnakam

160, K. K. S. Road, Chunnakam.
Tel: 021-2241844

Dd

Dambulla

661, Anuradhapura Road,
Dambulla.
Tel/ Fax: 066-2284628

Dehiwala

No. 218/A/2/1, Galle Road,
Rathmalana.
Tel: 011 2710105

Deniyaya

211, Viharahena Road, Main
Street, Deniyaya.
Tel: 041-3003457

Divulapitiya

101/1, Meerigama Road,
Divulapitiya.
Tel: 031-2243557

Digana

No.36B, Victoria Golf Road,
Digana, Rajawella.
Tel: 081-2376580

Ee

Elpitiya

No.44A1/1, Ambalangoda Road,
Elpitiya.
Tel: 091-2291957

Embilipitiya

Main Street, Pallegama,
Embilipitiya.
Tel: 047-2230463
Fax: 047-2261946

Gg

Galewela

No. 324B, Dambulla Road,
Galewela.
Tel: 066-2288264

Galle

16 A, Gamini Mawatha, Galle.
Tel: 091-2243948, 091-2226700
Fax: 091-2223759

Gampaha

262, Colombo Road, Gampaha.
Tel: 033-2222802, 033-2226441
Fax: 033-2228430

Gampola

10 B, Nidahas Mawatha, Gampola.
Tel/ Fax: 081-2350127

Godakawela

186/1/1, Main Street, Godakawela.
Tel: 045-2240715

Hh	Hatton No.199/B/2/1, Dimbulla Road, Hatton. Tel: 051-2223820	Kk	Katugastota 185/4, Galagedara Road, Katugastota. Tel: 081-2500286	Mm	Maharagama 139, Elhena Road, Maharagama. Tel: 011-2896474
	Hingurakgoda Airport Road, Hingurakgoda. Tel: 027-2246581 Fax: 027- 2245299		Katunayake No. 16,2A, Plaza Complex, Phase 1, IPZ, Katunayake. Tel: 011-2251131 Fax :011-2251132		Mahiyangana 5, Kandy Road, Mahiyangana. Tel: 055-2258244, 055-2258255 Fax: 055-2258200
	Homagama 119/2, Katuwana Road, Homagama. Tel: 011-2892802 – 3 Fax: 011-2892804		Kegalle 134, 1st Floor, Kalugalle Mawatha, Kegalle. Tel: 035-2232829 Tel/ Fax: 035-2230363		Mannar No.43, Ward No.2, Pallimuni Street, Mannar. Tel/Fax: 023-3238255
	Horana 161, Ratnapura Road, Horana. Tel/ Fax: 034-2264182		Kelaniya 342 / 2/1, Dalugama, Kelaniya. Tel: 0112-905582		Matale 553 F 1/1, Trincomalee Road, Matale. Tel/ Fax: 066-2231536
li	Ingiriya 3, 1st Floor, "Phandra" Building, Main Street, Ingiriya. Tel: 034-2268095	Kilinochchi 83 & 85, 1st Floor, Kandy Road, Killinochchi. Tel: 021 2280117-8 Fax: 021 2280119	Matara No.13, 1st Floor, Station Road, Matara. Tel: 041-2223024, 041-2222953 Fax: 041-2223026		
	Ja-Ela 1 /17, 1st Floor, Negombo Road, Ja-Ela. Tel/Fax: 011-2243633	Kiribathgoda No. 94, 2nd Floor, Makola Road, Kiribathgoda. Tel: 011-2916924, 011-2916925 Fax: 011-2916852	Mathugama Agalawatha Road, Mathugama. Tel/Fax: 034-3944339		
Jj	Jaffna 139, Stanley Road, Jaffna. Tel/Fax: 021-2223753	Kirindiwela 153/2, Wijaya Building, Gampaha Road, Kirindiwela. Tel: 033-2247411	Mawanelle 156 1/1, New Mawanelle Road, Mawanelle. Tel: 035-2247351		
	Kk	Kadawatha 211, Ehala Biyanvila, Kadawatha. Tel/Fax: 0113071596	Kolonnawa No. 250/1/1, Kotikawatta Road, Gothatuwa, New Town. Tel: 011-2410044	Medirigiriya No.417, Main Street, Madirigiriya. Tel: 027-2248310	
Kaduwela 76/A/2, New Kandy Road, Kothalawala, Kaduwela. Tel: 011-2548338		Kotahena 76, Srimath Bandaranayke Mawatha, Colombo12. Tel: 011-3135427	Melsiripura 105/18, Siripura Estate, 15 Mile Post, Melsiripura.		
Kalawana 46 1/1,Mathugama Road, Kalawana. Tel: 045-2255772		Kottawa 197 /1 E, Horana Road, Kottawa. Tel: 011-2178008	Minuwangoda 85, Veyangoda Road, Minuwangoda. Tel: 011-2281923		
Kalawanchikudi 7,46 1/1, Rajahs Building, Main Street, Kaluvanchikudy. Tel: 065-2251402		Kuliyapitiya 245 A, Hettipola Road, Kuliyapitiya. Tel/ Fax: 037-2281904	Monaragala 5, Wellawaya Road, Monaragala. Tel/ Fax: 055-2276290		
Kalmunai No.74, 1st Floor, Main Street, Kalmunai. Tel: 067-2222636, 067-2222633 Fax: 067-2222320		Kurunegala Union Assuarnc Centre 6, Rajapihilla Road, Kurunegala. Tel: 037-2224252, 037-2222474, 037-2222282 Tel/Fax: 037-2227585	Moratuwa 472 1/1, Galle Road, Rawathawathe, Moratuwa. Tel: 011-2641666, 011- 2641800 Fax: 011-2641811		
Kalutara 340, Main Street, Kalutara. Tel: 034-2228964, 034-2223132 Fax: 034-2228963		Kurunegala Business Development Centre 6, Rajapihilla Road, Kurunegala. Tel: 037-2222282, 037-2224252 Tel/Fax: 037-2227585	Nn		
Kandy 28, Hill Street, Kandy. Tel: 081-2227443, 081- 2232731 Tel/Fax: 081-2233291				Narammala 209, Kuliyapitiya Road, Narammala. Tel: 037-2248511	
			Nawalapitiya 31/A, Dolosbage Road, Nawalapitiya. Tel: 054-2224088		

Distribution Network Contd.

Nn	Negombo No.147, St.Joseph Street, Negombo. Tel: 031-2235042-3, 031-2224264 Fax: 031-2224243	Rr	Ratnapura 53 ½, Senanayake Mawatha, Ratnapura. Tel: 045-2230739 Fax: 045-2223525	Ww	Wellawaya 210, Moneragala Road, Wellawaya, Tel / Fax: 055-3600031
	Nikaweratiya 71, Puttalam Road, Nikaweratiya. Tel/ Fax: 037-2260367		Ruwanwella 185.5, Avissawella Road, Ruwanwella. Tel: 036-2266631 Fax: 036-2268747		Wennappuwa 6, Colombo Road, Wennappuwa. Tel/ Fax: 031-2255844
	Nittambuwa 538/3, Near the 38 k.m Post, Malwatta, Nittambuwa. Tel: 033-2293924		Tt	Talawathugoda 1114/1, Wicramasinghepura Junction, Talawathugoda. Tel: 011-2796311-2 Fax: 011-2796310	
	Nugegoda 376, High Level Road, Gangodawilla. Tel: 011-2815511-3 Fax: 011-2815515			Tambuttegama No 319, Rajina Junction, Tambuttegama. Tel/ Fax: 025-2276060	
	Nuwara Eliya 36, 2nd Floor,Park Road, Nuwara Eliya. Tel/ Fax: 052-2223017			Tangalle 61/1, Beach Road, Tangalle. Tel: 047-2241841	
Pp	Padaviya N0: 2, New Town, Padaviya. Tel/Fax: 025-3770757	Tissamaharama Main Street, Tissamaharama. Tel: 047-2237711 Fax: 047 2239644			
	Panadura 571/3, Galle Road, Panadura. Tel / Fax: 038-3392217	Trincomalee No.83, Main Street, Trincomalee. Tel: 026-2227530 Fax: 026-2226455			
	Passara No.203/A2, Main Street, Passara. Tel: 055-2288898	Vv	Valachchanai 830 B, Main Street, Valachchanai. Tel: 065-5671422		
	Piliyandala 48/1/1, Colombo Road, Piliyandala. Tel: 011-2619550		Vavuniya 113 A, Kandy Road, Vavuniya. Tel/ Fax: 024-2223138		
	Point Pedro 357, Main Street, Point Pedro. Tel / Fax: 011-3158153		Ww	Warakapola 198 B, 1/1, Wilvara Complex, Kandy Road, Warakapola. Tel/ Fax: 035-2267441	
	Polonnaruwa 5, Batticaloa Road, Polonnaruwa. Tel/ Fax: 027-2223261			Wariyapola 273/3, Chilaw Road, Wariyapola. Tel: 037-2267206	
	Pothuvil 2/1, Market Road, Pottuvil. Tel: 067-3696286			Wattala 146 2/3, Pearl Park Complex, Negombo Road, Wattala. Tel: 011-3037591	
	Puttalam Yard No.02, Kurunagala Road, Puttalam. Tel/ Fax: 032-2265980	Welimada 34, Old Post Office Road, Welimada. Tel / Fax: 057-3585615			
	Rr	Rambukkana 87/14 1/2, Mawanella Road, Rambukkana. Tel: 035-2264646			
		Ratmalana No. 228, Galle Road, Ratmalana. Tel: 011-2726612-3 Fax: 011-2726611			

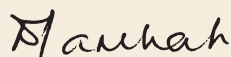
NOTICE OF MEETING

Notice is hereby given that the 26th Annual General Meeting of Union Assurance PLC, will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 on Thursday 28th March 2013 at 9.00 a.m for the following purposes;

1. To read the Notice convening the meeting
2. To receive and consider the annual report and financial statements of the company for the year ended 31st December 2012 with the report of auditors thereon
3. To re-elect as a Director, Mr. Gerald Fredrick Christopher De Saram who retires in terms of Article 84 of the Articles of Association of the Company
4. To re-elect as a Director, Mr. Ashan Suresh De Zoysa who retires in terms of Article 84 of the Articles of Association of the Company
5. To re-appoint auditors and authorise Directors to fix their remuneration
6. Any other business of which due notice has been given

By Order of the Board

Union Assurance PLC



Keells Consultants (Private) Limited
Secretaries

26 February 2013

Note:

- a. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him / her
- b. A proxy need not be a member of the company. The form of proxy is attached to the annual report
- c. The completed form of proxy should be deposited at the registered office of the company not less than 48 hours before the time appointed for the holding of the meeting

NOTES

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Management Reports

Management Discussion & Analysis

Corporate Governance

Sustainability Report

Financial Information

PROXY FORM

I/We of being a member/s of Union Assurance PLC hereby appoint of or failing him/her.

Mr. Ajit Damon Gunewardene	of Colombo, or failing him
Mr. Gerald Fredrick Christopher De Saram	of Colombo, or failing him
Mr. Ashan Suresh De Zoysa	of Colombo, or failing him
Mr. Suresh Rajendra	of Colombo, or failing him
Ms. Dilani Champika Alagaratnam	of Colombo, or failing her
Mr. Harin Amendra Joseph De Silva Wijeyeratne	of Colombo,

as my/our proxy to represent me/us and vote on my/our behalf at the 26th Annual General Meeting of the Company to be held on Thursday 28th March 2013 at 9.00 a.m and at any adjournment thereof, and at every poll which maybe taken in consequence thereof.

I/WE, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified resolution as indicated by the letter "X" in the appropriate cage;

	For	Against
To re-elect as a Director Mr. Gerald Fredrick Christopher De Saram who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director, Mr. Ashan Suresh De Zoysa who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint the retiring auditors Messrs. KPMG Chartered Accountants, and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this day of Two Thousand and Thirteen.

Signature/s of Shareholder/s :

Note: instructions as to completion of proxy form are noted on the reverse hereof

Instructions as to completion of proxy

1. Please perfect the form of proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed form of proxy should be deposited at the registered office of the company at No.20, St. Michael's Road, Colombo 3, not later than 48 hours before the time appointed for the holding of the meeting.
3. If the form of proxy is signed by an attorney, the relevant power of attorney should accompany the completed form of proxy for registration, if such power of attorney has not already been registered with the company.
4. If the appointer is a company or corporation, the form of proxy should be executed under its common seal or by a duly authorized officer of the company or corporation in accordance with its articles of association or constitution.
5. If this form of proxy is returned without any indication of how the person appointed as proxy shall vote, then the proxy shall exercise his / her discretion as to how he/she votes or, whether or not he/she abstains from voting.

CORPORATE INFORMATION

Name of Company

Union Assurance PLC

Legal Form

A public limited liability company incorporated in Sri Lanka on 8th January 1987 and registered under the Companies Act No. 7 of 2007 and quoted on the Colombo Stock Exchange since 1988

Company Registration Number

PQ12 [Previous registration number N(PBS)137]

Tax Payer Identification Number (TIN)

134001372

VAT Registration Number

1340013727000

Directors

A. D. Gunewardene - Chairman
D. C. Alagaratnam
A. S. De Zoysa
G. F. C. De Saram
S. Rajendra
H. A. J. De Silva Wijeyeratne

Secretaries and Registrars

Keells Consultants (Private) Limited
130, Glennie Street, Colombo 2

Auditors

Messrs. KPMG (Chartered Accountants)
32A, Sir Mohamed Macan Marker Mawatha,
Colombo 3

Consultant Actuaries

Actuarial & Management Consultants (Pvt) Ltd.
434, 1st Floor, R A De Mel Mawatha,
Colombo 3

NMG Financial Services Consulting Limited

Suite 2207-9 Tower 2 Lippo Centre Admiralty
Hong Kong

Lawyers

Julius & Creasy
Attorney-at-Law, Solicitors & Notaries Public
41, Janadhipathi Mawatha, Colombo 1

Bankers

Bank of Ceylon
Citibank, N.A.
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Vardhana Bank PLC
Hatton National Bank PLC
Housing Development Finance Corporation
Bank of
Sri Lanka
National Development Bank PLC
National Savings Bank
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
Peoples Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank
The Hongkong and Shanghai Banking
Corporation
Union Bank of Colombo PLC

Reinsurance Panel

Munich Reinsurance Company
Swiss Reinsurance Company Ltd.
SCOR Reinsurance Asia Pacific Pte Ltd.
The Toa Reinsurance Company Ltd.
Lloyds
Asia Capital Reinsurance Group Pte Ltd.
Hannover Re
General Insurance Corporation of India
Labuan Reinsurance Ltd.
BEST Reinsurance
Sirius Reinsurance
Trust Re
Korean Re

Registered Office of the Company

Union Assurance Centre
20, St Michaels Road,
Colombo 3

Investor Relations

All investor queries should be directed to the investor relations hotline number 011-2428502



Union Assurance Centre
20, St. Michael's Road, Colombo 3,
Sri Lanka.
www.unionassurance.com