

A complex, glowing network of white lines and dots on a yellow-to-orange gradient background. The lines form a web-like structure with several prominent curved paths and nodes, some highlighted with blue dots. The overall effect is one of dynamic connectivity and forward motion.

# **Transform Tomorrow Today.**

# Contents

## Company Highlights

About Us	6
Operational Footprint	7
Highlights of the Year 2013	8
Financial Highlights	10
Chairman's Message	12
Chief Executive Officer's Review	16

## Management Discussion and Analysis

Snapshot of Material Issues	22
Our Journey Towards Triple Bottom Line Performance	24
Integrated Approach to Engaging with Our Stakeholders	26
Industry Overview	33
Regulatory Review	34
Overview of the Company	36
Economic Review	43
Financial Value Creation	48
Segmental Review - Non Life	56
Products	78
Customers	81
Segmental Review - Life	86
Products	99
Customers	104
Shareholders	110
Employees	116
Field Staff	132
Responsible Supply Chain and Reinsurance Partners	137
Society	139
Environment	146
Future	152

## Sustainability

What Sustainability Means to Us	158
Sustainability Performance Highlights	161
Our Sustainability Goals	162
Performance Snapshot	166
Assurance Report	170
Global Reporting Initiative Index	171
GRI Certificate	184
Stakeholder Feedback Form	185

## Intellectual Capital Report

Intellectual Capital Report	188
Brand Valuation and Brand Building Process	197

## Corporate Governance

Chairman's Statement	202
Board of Directors	204
Chief Executive Officer and Executive Committee	210
Corporate Governance Committee Reports	215
Performance Governance	263
Integrated Risk Management	274
Statement of solvency and approved assets	280
	293

## Financial Information

Reports / Statements	296
Financial Statements	308
Notes to the Financial Statements	322

## Supplementary Information

Financial Position of Life Insurance Fund and Notes	405
Shareholder Information	414
Quarterly Analysis	421
Ten Year at a Glance	423
Understanding Our Financials	426
Glossary of Insurance Terms	429
Distribution Network	434
Notice of Meeting	438
Proxy Form	439
Corporate Information	IBC



# *Transform* **Tomorrow** **Today.**

Getting what you want is one thing. Getting what you want, when you want it, from wherever you are... that's another matter.

At Union Assurance we're rapidly going digital across every level of the company. From issuance of policies to settling claims, increasing security to accessibility, we're working a range of digital solutions into our processes and systems; solutions that will connect us to all our customers with speed and precision... anytime, from literally anywhere. What we do today is also what we will achieve tomorrow. We want to stay ahead of the curve of technology that takes our industry forward, and we will. That's why we're driving towards a digital future.

We're transforming tomorrow, today.

# Transforming Tomorrow...

## Digital Advisor Toolkit (DAT)

The digital advisor toolkit (DAT), enables the sales team to conduct fact finding interviews, generate quotations and create proposals with digital signatures. The DAT application was created to take advantage of the mobile expansions in the country and widespread mobile usage among advisors. This is a multi functional tool, which is on laptops, PCs and TABs, with TABs leading the way. It supports all conventional and unit linked life insurance products. Its multilingual capability supports the wider community within Sri Lanka providing services to English, Sinhala and Tamil speaking communities.

## Union eMotor system

Union eMotor system empowers our non life sales force to issue motor insurance quotations, policies and cash receipts through their laptops instantaneously without having to visit a branch. The system has the capability and controls that enables pre underwriting calculations empowering sales advisors to issue policies independently at customers' door step. More than 75% of our non life sales staff use eMotor effectively. The solution is leveraged as a web application where customers can also buy policies on line.

## Integrated Claim Approval System (ICAS) (Motor / Non motor)

Integrated claim approval system is an application suite which is capable of managing multiple types of claims in a workflow environment. This enables UA to manage claims more efficiently and effectively and deliver a speedier service to our customers. Further, the system provides a "dashboard" view of pending claims and indicates at what point a claim is pending.

## Online claim tracking system (Non Motor)

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

## SAP

Implemented SAP to enhance integrity of financial information and controls over financial transactions. This application integrates with SAP financials and treasury module and is tightly integrated with core Insurance applications.

## Online travel insurance policies

"Now your travel policy is just a click away" This facility enables UA customers to buy travel policies simply by logging on to our corporate website from anywhere, any time. All the details are in e-form, hence customers do not have to carry any hard copies. The flexibility allows customers to pick the best cover that suits their wallet and travel requirement.

## Mobile solution for motor technical engineers

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 multiple features which enable customer convenience, such as capturing of images of accidents and documents relevant to same. System has the capability to work both online and offline. The application has empowered TE's to make instant payments through associated banks. System is well integrated with head office call centre which is a 24 X 7 operation.

## GPS technology

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 75 assessors with a wide range of experience, competencies and specialisations. Use of GPS technology has enabled us to deploy assessors to accident sites within a very short time.

## 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 greater convenience to customers.

### ***“Speed Cash”***

“Speed Cash” is the most convenient motor claims settlement solution in the market. UA’s claim assessors are empowered to finalise the claim at the accident site itself. If the customer agrees to the value of the claim, he / she will immediately receive an SMS indicating the final value payable. Customers can collect cash over the counter from any Commercial Bank branch by presenting the SMS and proof of their identity.

### ***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. This system along with “Speed Cash” claim settlement ensures that any motor claim below Rs. 50,000/- is settled within a few minutes at the site of the accident or garage.

### ***Online customer portal***

Union Assurance launched an online portal where customers are able to access most of their insurance needs at a click of a button. The portal is currently accessible to all existing life insurance policyholders and for an array of personalised services are available to them.

Services include, viewing policy details, such as the cover amounts, paid premium details, claims history and fund balances. Customers can also pay their premiums online and the portal can be accessed from the company website [www.unionassurance.com](http://www.unionassurance.com).

### ***Online access to surgical and hospitalisation insurance system***

This system provides on line access to employees of selected corporate clients to view details of their entitlement at a click of a button. This will enhance the transparency of the claim settlement process and will provide customers a greater convenience in managing their surgical and hospitalisation policies.

### ***e-Learning***

This learning platform was launched, in line with international practices and with a view to enhancing the quality of learning and development for both office and field sales staff. Employees are able to access the system at anytime, anywhere and refer learning and sales material on a variety of topics developed for specific learning needs.

### ***Sales force management system (FAME)***

Online sales force management system provide easy access to sales staff to view details pertaining to their businesses at anytime from anywhere at their convenience. This is an effective tool in aiding sales management to monitor and motivate their sales teams as well.

### ***Tri lingual corporate website***

As a trend setter in the industry UA launched a trilingual website in 2011. It was the first of its kind in the Sri Lankan insurance industry. Objective of the concept is to make insurance more user friendly and understandable to a wider audience which would result in increasing penetration.

### ***Mobile compatible corporate website***

Launched the mobile compatible corporate website providing an opportunity for customers to buy Union motor star and Union travel insurance policies via their smart phones. This do it yourself solution has the possibility to report accidents quickly and easily.

### ***Microsoft Office 365***

We migrated to Microsoft Office 365 cloud technology based e-mail solution to provide a best in class email solution to employees with enhanced security and zero downtime. This provides greater convenience as users can check e-mails from anywhere at any time.

## ***Technology Recognition***

### ***2012 - “Celent Model Insurer Award - Asia” for “Union eMotor solution”***

Union Assurance received the 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.

### ***2012 - 16th Asia Insurance Industry Award for “Union Motor Reload”***

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.

### ***2012 - “Asian Insurance Review Best Insurer Technology Award” for “Integrated Customer Service Solution”***

Regional recognition – awarded “Best Insurer Technology Award 2012” for excellence and innovation from Celent, Asia Insurance Review for UA’s Integrated Customer Service Solution.

### ***2013 - “Celent Model Insurer Award - Asia” for “Union Digital Advisory Toolkit”***

Union Assurance received the prestigious “Celent Model Insurer Award” for best product design and definition for Digital Advisory Toolkit (DAT). The award recognises the best insurance technology creativities in the Asia Pacific region.

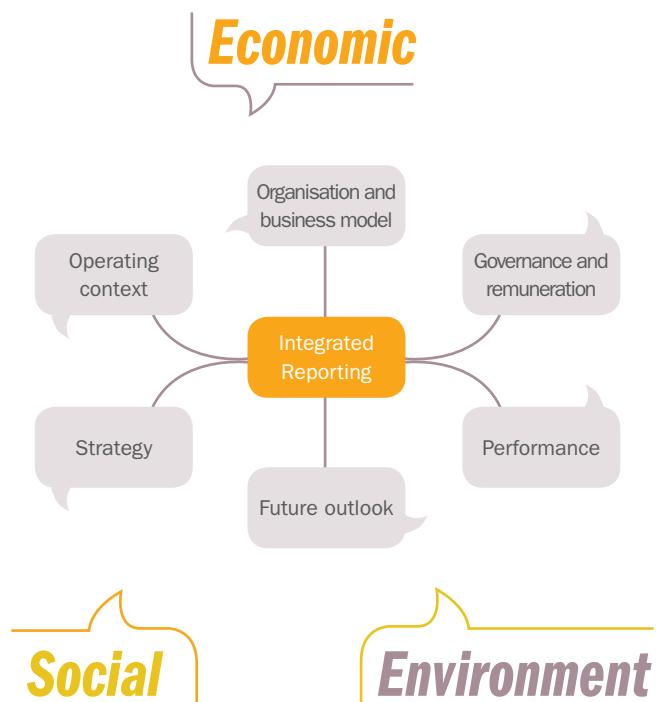
---

# Introduction to Our First Integrated Annual Report

This report is a reflection of the integrated approach adopted by management encompassing the economic, social and environmental performance of the company for the twelve months ending 31 December 2013.

In line with our belief that the social and environmental performance is paramount in creating a sustainable business, the sustainability performance has been integrated to the respective sections of the report. This enables us to demonstrate to our stakeholders how we create and sustain value and work towards ensuring the long term viability of the business.

The information contained in this Annual Report is in compliance with the laws and regulations pertaining to the financial reporting standards of The Institute of Chartered Accountants of Sri Lanka and comply with the laws and regulations of the Companies Act No.7 of 2007, listing rules of the Colombo Stock Exchange (CSE) and subsequent revisions to date and laws and regulations governing the Insurance Industry.



***“In preparing our first Integrated Annual Report we have sought to narrate the performance of the year ended 31 December 2013 in a comprehensive and concise manner.”***

With regards to our sustainability performance, the data measurement techniques and the basis of calculations including assumptions and estimates applied in the compiling of such sustainability performance indicators are in accordance with standard industry practices and the indicator protocols provided under Global Reporting Initiative (GRI) 3.1 sustainability guidelines.

## About Union Assurance

26<sup>+</sup>  
years of  
trusted service

### OUR 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*

Union Assurance is one of Sri Lanka's largest providers of life and non life insurance solutions. Anchored by a team of experienced and dynamic professionals, a strong capital base and reinsurance partnerships with highly rated global reinsurers, Union Assurance offers a wide range of tailor-made insurance products and services that are of international standards.

### 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

# Operational Footprint

# 120+

## LOCATIONS

### Western

Aluthgama  
Bandaragama  
Bulathsinhala  
Corporate Office  
City Office  
Colombo South  
Dehiwala  
Diwulapitiya  
Gampaha  
Hanwella  
Homagama  
Horana  
Ingiriya  
Ja-Ela  
Kadawatha  
Kaduwela  
Kalutara  
Katunayaka  
Kelaniya  
Kiribathgoda  
Kirindiwela  
Kolonnawa  
Kotahena  
Kottawa  
Maharagama  
Matugama  
Minuwangoda  
Moratuwa  
Motor Centre  
Negombo  
Nittambuwa  
Nugegoda  
Padukka  
Panadura  
Piliyandala 1  
Piliyandala 2  
Ratmalana  
Thalawathugoda  
Wattala

### Uva

Badulla  
Bandarawela  
Bibile  
Mahiyangana  
Monaragala  
Passara  
Welimada  
Wellawaya

### Sabaragamuwa

Avissawella  
Balangoda  
Embilipitiya  
Godakawela  
Kalawana  
Kegalle  
Mawanella  
Pelmadulla  
Rambukkana  
Ratnapura  
Ruwanwella  
Warakapola

### North Central

Anuradhapura  
Bakamuna  
Hingurakgoda  
Medirigiriya  
Padawiya  
Polonnaruwa  
Tambuttegama

### North Western

Anamaduwā  
Chilaw  
Kuliyapitiya  
Kurunegala  
Madampe  
Mahawa  
Melsiripura  
Narammala  
Nikaweratiya  
Pannala  
Polgahawela  
Puttalam  
Wariyapola  
Wennappuwa

### Northern

Chavakachcheri  
Chunnakam  
Jaffna  
Kilinochchi  
Mannar  
Mullaitivu  
Point Pedro  
Vavuniya

### Southern

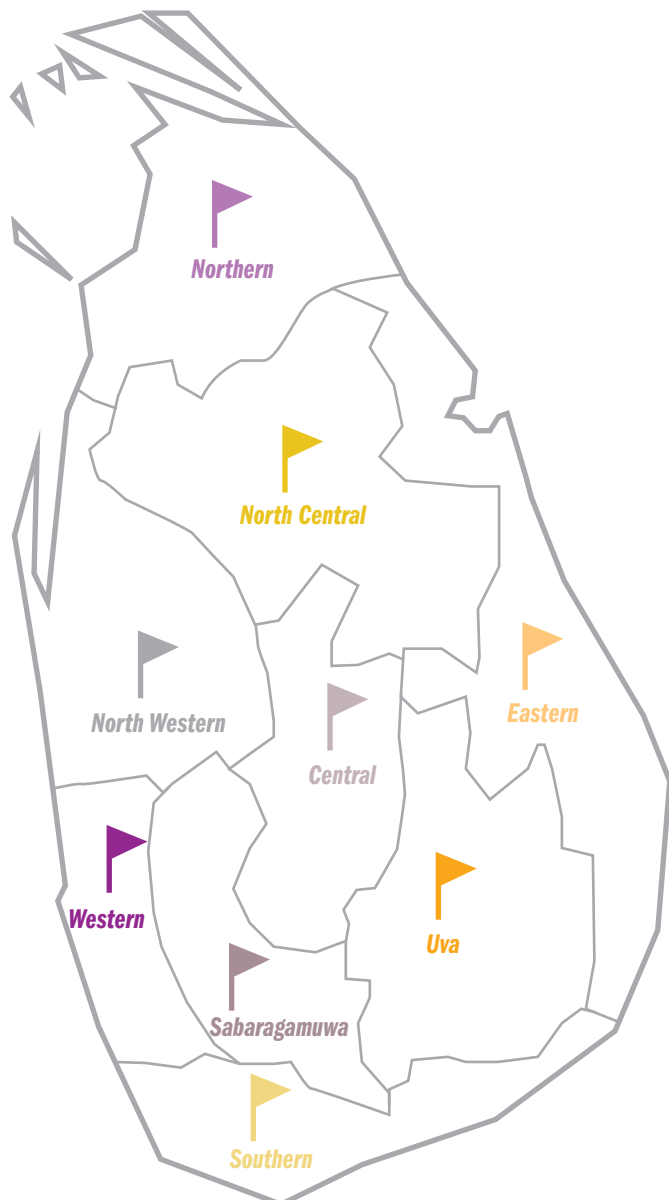
Akuressa  
Ambalangoda  
Ambalantota  
Baddegama  
Deniyaya  
Elpitiya  
Galle  
Kamburupitiya  
Matara  
Tangalle  
Tissamaharama  
Weligama

### Eastern

Akkarai pattu  
Ampara  
Batticaloa  
Chenkaladi  
Kaluwanchikudi  
Kalmunai  
Mahaoya  
Muttur  
Pottuvil  
Trincomalee  
Valaichchenai

### Central

Dambulla  
Digana  
Galewela  
Gampola  
Hatton  
Kandy  
Katugastota  
Matale  
Nawalapitiya  
Nuwara Eliya



# Highlights of the Year 2013

## January

Accelerated the company's **digital transformation** initiative by launching a scheme to empower at least a 1,000 sales staff with laptops and tablet computers to enhance their productivity and provide greater customer convenience. As at date, the company has issued over 800 laptops and tablet computers to sales staff.

## February

UA's sustainability practices were recognised for the 5<sup>th</sup> consecutive year. Sustainability Report 2011 won a commendation award in the medium scale category at the **Sustainability Awards** ceremony organised by the Association of Chartered Certified Accountants (ACCA).

## March

The company published its first annual report in compliance with the new accounting standards 'Sri Lanka Financial Reporting Standards' and 'Sri Lanka Accounting Standards' (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka.

Launched **Union MediGuard**, a medical reimbursement insurance plan which can be added to any life insurance policy, to provide health insurance cover to the entire family.

Union Assurance was recognised as the first runner-up for quality financial statements and second runner-up for corporate governance disclosures at the annual report awards ceremony conducted by the South Asian Federation of Accountants (SAFA).

## July

Launched a **customer portal** for life policyholders enabling instant online access to view their policy, claims, payment, adviser and other details. This is the first ever "fully fledged" customer portal launched in the local insurance industry.

## August

Partnered with one of the largest commercial banks in the country to sell non life insurance products to the bank's customers at over 212 branches located across the island.

## September

Redesigned the Life Advantage insurance plan with flexible terms and launched '**Flexi-Advantage**' enabling policyholders to select the duration of their insurance coverage to coincide with their life cycle needs.

## April

Launched the **mobile compatible corporate website** enabling customers to buy their motor and travel insurance policies via their smart phones. This do it yourself solution also has a facility to report accidents quickly and easily.

## May

Union Assurance was recognised as one of the 15 great places to work in Sri Lanka through a survey conducted by the **Great Place to Work®** Institute in partnership with LMD and the Ceylon Chamber of Commerce. The survey was conducted across many banking and financial institutions as well as multinationals and public listed companies.

## June

A direct marketing campaign was conducted for existing policyholders to enhance their insurance coverage at a nominal cost.

**Annual sales awards ceremony 2012** was held to felicitate UA's top performers. This exclusive event was attended by over 1,600 sales and support staff members.

## November

Adjudged overall winner for excellence in performance management and secured another Gold award for business excellence in the insurance sector at the **Business Excellence Awards** ceremony conducted by the National Chamber of Commerce. UA was the only insurer to be recognised with two awards.

Awarded **Service Brand of the Year** – Silver at SLIM brand excellence awards ceremony conducted by the Sri Lanka Institute of Marketing (SLIM). UA was the only insurer to be awarded this prestigious title which clearly demonstrated the collaborative brand building work carried out year on year by the company.

## December

UA partnered with Colts Cricket Club to amplify UA's CSR platforms of road safety and health awareness. The vision of this partnership is to use cricket as a means to create greater awareness on these two platforms.

The 2012 Annual Report won a Bronze award for Corporate Governance Disclosures, Bronze award for Management Discussion and Analysis Disclosures and Silver award in the insurance sector for the Best Annual Report at the annual report awards ceremony conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Reported the highest profit in the company's history crossing **Rs. 1 billion profit after tax**, a 22% growth from the previous year. Crossed Rs. 10 billion in combined gross written premium income with 12% growth over last year.

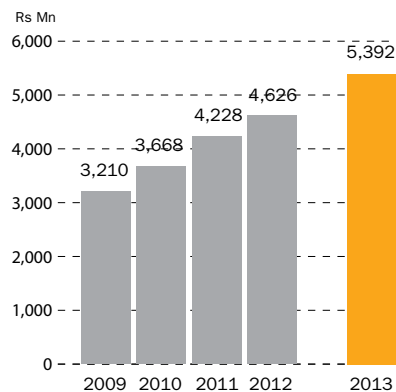
# Financial Highlights

## Non life Insurance

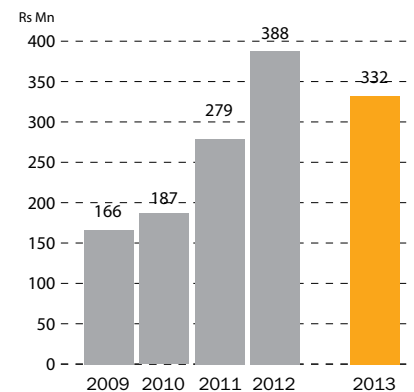
Non life insurance gross written premium grew by 17% from Rs. 4.6 billion to Rs. 5.4 billion in 2013. All classes of non life insurance business contributed to this growth and both retail and corporate distribution channels expanded their business.

Net profit declined by 14% from Rs. 388 million to Rs. 332 million in 2013.

Gross Written Premium - Non Life



Profit - Non Life



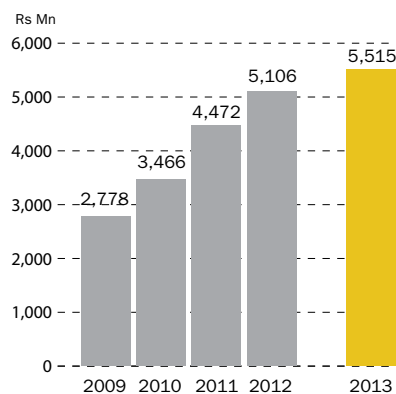
## Life Insurance

Life insurance gross written premium grew by 8% from Rs. 5.1 billion to Rs. 5.5 billion in 2013.

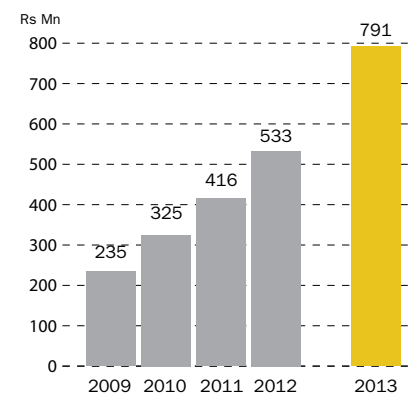
Net profit increased by 48% from Rs. 533 million to Rs. 791 million in 2013.

Based on an independent actuarial valuation, Rs. 612 million was transferred as surplus from the life fund. This was 17% higher than the 2012 surplus.

Gross Written Premium - Life

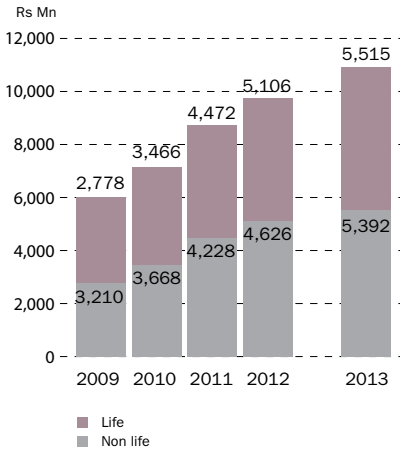


Profits - Life

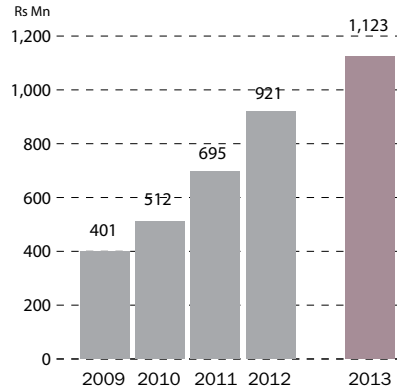


# Company

Gross Written Premium - Non Life and Life



Profit for the year



Earnings per Share



**Rs. 1.1 Bn**

Profit for the year reported a growth of 22% from Rs. 921 million in 2012 to Rs. 1,123 million in 2013.

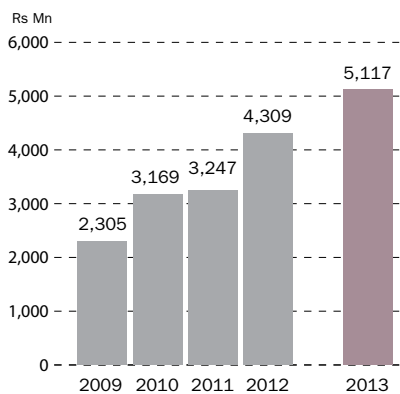
**Rs. 5.4 Bn**

Non life insurance gross written premium grew by 17% from Rs. 4.6 billion to Rs. 5.4 billion.

**Rs. 5.5 Bn**

Life business maintained its growth momentum with a gross written premium growth of 8% from Rs. 5.1 billion to Rs. 5.5 billion

Net Assets



Return on Net Assets



# Chairman's Message

COMPANY HIGHLIGHTS



**Ajit D. Gunewardene**  
Chairman



Read Chairman's Message online

***“We are pleased with the strong financial momentum that the company has maintained, but are mindful that we cannot ensure sustained success by focusing solely on our financial performance.”***

It gives me great pleasure to present the annual report of your company for the year ended 31 December 2013 as Union Assurance (UA) continues to report excellent results in terms of turnover and profitability.

The consistent results achieved by UA since its incorporation over 25 years ago, the many innovations pioneered by the company and the multiple on going initiatives to digitalise the core activities of the business gives the Board of Directors a great deal of confidence that the UA team has the capacity to transform the insurance landscape and take advantage of the significant opportunities that lie ahead.

While we are pleased with the strong financial momentum that the company has maintained, we are mindful that we cannot ensure sustained success by focusing solely on our financial performance. As such we are pleased to present UA's first integrated report, highlighting the progress we have made to balance our economic achievements with the social and environmental aspects of the business.

We believe this holistic approach best represents UA's core values and enable UA to achieve its vision and mission of being the most sought after provider of insurance solutions, while adding value to all stakeholders.

#### **MACRO ECONOMIC ENVIRONMENT**

The economy grew at 6.3% during the first half of 2013. Sluggish private sector credit growth stemming from the tight monetary policies implemented in 2012 and adverse weather conditions which effected agricultural production were concerns in the early part of the year.

The economy rebounded to record a 7.8% year on year growth rate in the 3<sup>rd</sup> quarter and reassuringly, private sector credit showed signs of picking up in the fourth quarter. Large scale infrastructure projects continued to take centre stage in 2013 and had a positive impact on the growth of the economy.

The equity market reported an improvement, with the All Share Price Index gaining by 4.8% during the year. Encouraged by the tax concessions granted in the 2013 national budget, Rs. 68 billion was raised in the local debt market as well.

With a lower interest rate environment and a slow but steady global recovery anticipated, the economic outlook for 2014 is positive. However, the risk of capital outflows from emerging and developing markets has created some uncertainty as the US Federal Reserve scales back its quantitative easing programme.

#### **NON LIFE INSURANCE INDUSTRY**

The non life insurance industry remains price competitive with nineteen companies offering non life insurance services. The sector is expected to report satisfactory growth in 2013 primarily driven by new vehicle registrations and large scale infrastructure projects.

#### **LIFE INSURANCE INDUSTRY**

The life insurance accounts for only 0.49% of Sri Lanka's GDP. This statistic combined with the fact that only 29% of the working population has some form of life insurance reflects the significant under penetration and catch up potential in the industry.

#### **COMPANY PERFORMANCE**

UA maintained a steady growth rate in turnover and profits. Non life and Life insurance premium increased by 12% from Rs. 9.7 billion in 2012 to Rs. 10.9 billion in 2013. Profit after tax increased by 22% from Rs. 921 million in 2012 to Rs. 1,123 million in 2013.

More information on the company's performance is provided in the CEO's review, management discussion and analysis and the audited financial statements.

# Chairman's Message

## STRENGTH AND STABILITY

As in previous years, several steps have been taken to strengthen UA's balance sheet. Net assets increased from Rs. 4.3 billion in 2012 to Rs. 5.1 billion in 2013. As reflected on page 293, the company's solvency position improved compared with the previous year. UA's reinsurance programme continues to be led by reinsurers who have been assigned at least an "A" rating by international rating agencies. The details of our reinsurance panel are available on the inner back cover. We have also obtained actuarial valuations of our life policyholder liabilities and provision for incurred but not reported claims. The reports of the actuaries are available on pages 303 and 304 respectively.

## REGULATIONS

Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, composite insurance companies such as UA, which provide life and non life services will have to segregate these lines of business into two separate legal entities by February 2015. UA has submitted a proposal on the segregation of its businesses to the Insurance Board of Sri Lanka (IBSL) and are awaiting the regulator's comments.

UA along with other insurance companies in the country are carrying out tests (under the guidance of the IBSL) to assess their capital requirements as per the risk based capital framework proposed by IBSL which will come into effect by 2016.

We are confident that UA is well positioned to benefit from the opportunities that would arise when these regulations are implemented.

## ACHIEVEMENTS

It is with a deep sense of pride that I report on the numerous national and international accolades that UA has gained during the year.

Our financial disclosures and corporate governance practices were judged amongst the best in Sri Lanka and the South Asia Region by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the South Asian Federation of Accountants (SAFA) respectively.

We were adjudged the overall winner in 'Excellence in Performance Management' and the Gold award winner for 'Business Excellence' in the insurance sector at the prestigious National Business Excellence Awards organised by the National Chamber of Commerce.

Our initiatives to enhance the UA brand was recognised for the second consecutive year as we were the recipient of the silver award in the 'Service Brand of the Year 2012' category at the Sri Lanka Institute of Marketing, Brand Excellence Awards ceremony.

Our sustainability practices were recognised by the Association of Certified Chartered Accountants (ACCA) as well.

## BUSINESS STRATEGIES

Given the price competitive nature of the non life business, we will continue to build scale in a cost effective manner, leveraging the technical skills and IT platform we have developed to provide convenience to customers across the entire purchase and claims cycle.

On the life insurance segment, we are progressing with initiatives to digitalise the end to end sales process, as we believe a blend of technology and face to face advice will further enhance the transparency and convenience required by current and prospective customers.

We expanded our customer engagement programmes during the year and will continue to implement the suggestions made by our customers and intermediaries, in a structured manner.

## CORPORATE SOCIAL RESPONSIBILITY

We work closely with the Sri Lanka Police and Ministry of Health to implement programmes related to road safety and health awareness as the CSR platforms for our non life and life business segments respectively. These platforms are directly linked with our business activities and are closely monitored in terms of their impact on the community.

### FUTURE OUTLOOK

We maintain a very positive outlook for both non life and life business segments as rapid economic development will increase disposable incomes and across all segments of the Sri Lankan population. This will fuel demand for insurance products.

The non life industry remains relatively fragmented and price driven. We anticipate that the soft market cycle will remain at least until the end of 2014. The regulatory requirement to segregate life and non life businesses and the need to comply with the risk based capital framework is likely to focus greater attention on underwriting results from 2015 onwards.

We anticipate a greater degree of activity in the life segment as insurers continue to build scale and tap the potential to improve life insurance penetration in Sri Lanka.

We believe that UA with its technically competent team, distribution structure, strong brand and reputation for good governance and transparency will be able to exploit these opportunities while navigating the challenges ahead.

### DIVIDENDS

The Board of Directors is pleased to declare a first and final dividend of Rs. 6.00 per share for 2013. The dividend payout for the year amounts to Rs. 514 million which is a 20% increase over the previous year's payout of Rs. 429 million.

### ACKNOWLEDGEMENTS

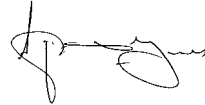
On behalf of the Board, I wish to place on record our sincere appreciation to the Chairperson, Director General and staff of the IBSL for developing and maintaining a regulatory framework that ensures the sustainability of the industry.

We also wish to record our thanks to the Insurance Ombudsman who continues to work tirelessly to build confidence among the insuring public by providing an efficient, independent grievance redress mechanism.

On behalf of the Board, I also take this opportunity to thank the Chief Executive Officer, the management team and the staff at UA for their continuing commitment and dedication to achieving the Company's objectives. I also sincerely appreciate the contribution made by our valued partners, the sales team, the brokers and other business associates.

A special word of thanks go to our customers for their continued confidence in UA together with the assurance that we will continue to invest in building a service culture and develop products which meet their evolving needs.

We also wish to thank our shareholders, for being an integral part of UA's success. Finally, I wish to acknowledge the unstinted support and co-operation I have received from the fellow members of the Board. Their valuable inputs and guidance and their enthusiastic participation in Board matters is much appreciated.

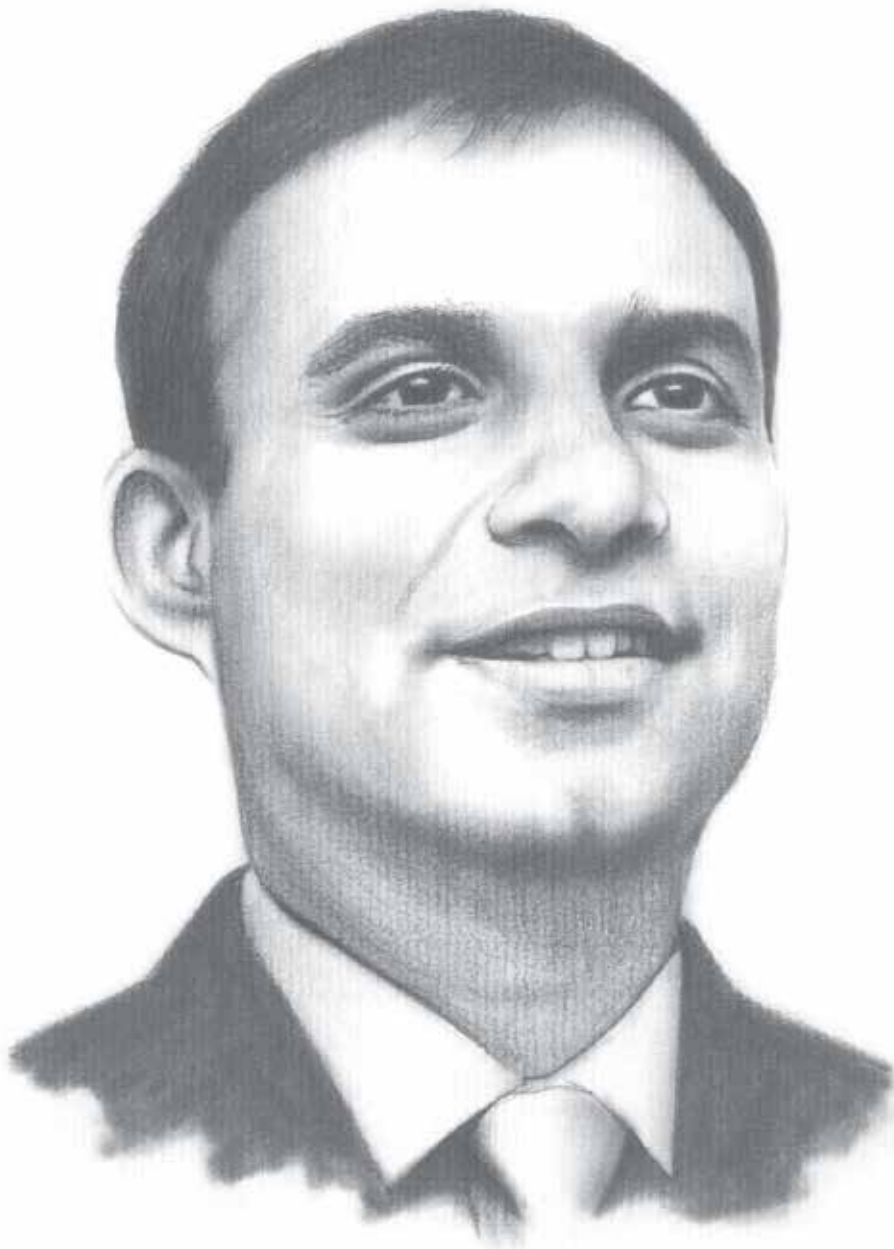


**Ajit D. Gunewardene**  
Chairman

25 February 2014

# Chief Executive Officer's Review

COMPANY HIGHLIGHTS



**Dirk Pereira**  
Chief Executive Officer



Read CEO's Review online

**“With our strong brand, reputation for transparency and good governance, professional team and performance driven culture UA is well positioned to capitalise on this new environment and add value to all stakeholders.”**

Despite a challenging business climate Union Assurance reported strong financial results in terms of premium volume and profits. This was made possible due to our continued focus on the strategic objectives as listed 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
- Improve the morale, motivation and products of our staff

#### ACHIEVE SUSTAINABLE, PROFITABLE GROWTH IN LIFE INSURANCE

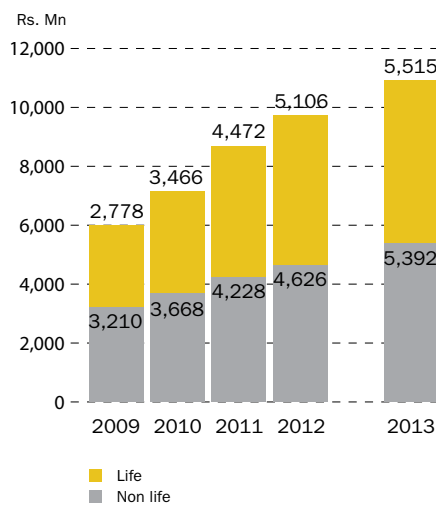
Life insurance premium grew by 8% from Rs. 5.1 billion in 2012 to Rs. 5.5 billion in 2013. Growth was generated mainly from traditional and single premium products while investment linked products reported a decline.

In terms of the value drivers of the business, the number of advisors selling our products increased and the average premium size of products sold also reported a year on year growth.

The bancassurance channel continued to report growth. The organisational structure within the channel was streamlined to ensure adequate levels of leadership and supervision is in place to further exploit the potential of this channel.

Following an actuarial valuation, the life business generated a surplus of Rs. 612 million which is 17% higher than the Rs. 525 million surplus reported in 2012.

Gross Written Premium - Non life and Life



#### FOCUS ON PROFITABLE GROWTH IN NON LIFE INSURANCE

Non life premiums increased by 17% from Rs. 4.6 billion in 2012 to Rs. 5.4 billion in 2013. Both retail and corporate channels contributed positively to this growth momentum which exceeded the industry growth rate.

Disciplined pricing yielded desired results in the motor and property lines of business. However, investments to expand distribution capability in the retail segment and price competition in the health insurance segment had a negative impact on the underwriting result for the year.

We are confident that the investments in distribution will yield positive results over the medium term. Several steps have been taken to improve the margins in the health insurance segment as well.

# Chief Executive Officer's Review

## PROVIDE CONSISTENT HIGH QUALITY CUSTOMER SERVICE

Building strong, value adding, long term relationships with customers is a core competency of the UA team. During the year, we significantly expanded our customer engagement processes to elicit direct feedback regarding our products and services.

This information is reviewed on a monthly basis and new product ideas and service improvements are implemented in a structured manner.

A customer portal was launched for life customers enabling them to access their policy details and make service requests from the comfort of their home any time of the day.

We also implemented a paperless work flow system to manage non motor claims to speed up processing and settlement of claims.

## INCREASE PROFITABILITY BY MANAGING CLAIMS AND EXPENSES

Conscious price discipline ensured that claims from motor and property classes of non life business were in line with expectations.

Two low incident but high severity occurrences had a negative impact on marine claims ratios.

Price competition and medical inflation caused a deterioration in the health portfolio. As mentioned previously, steps have already been taken to manage the margins of this line of business.

A key strategy we continue to adopt to manage non life claims ratios is to enhance the technical knowledge of our underwriting, claims, operational and distribution teams.

Our philosophy with regard to expenses is to incur overheads in a manner which is efficient and creates value for money. Hence, expense management is not solely driven by a targeted year on year expense reduction but a concerted effort to spend money in a manner which delivers cost efficiencies over the medium term by allocating expenses to the most productive human and / or technological resources.

Our efforts in this regard are reflected in the 6.3% and 14.3% increase in life and non life overheads vis-à-vis 8% and 17% growth in the respective GWP numbers.

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

## DEVELOP PRODUCTS WHICH MEET CUSTOMER NEEDS

During the year, the company launched Union MediGuard, a "rider" which can be attached to a basic life insurance product to provide health insurance benefits to customers. The product is structured to meet the health insurance needs of all customer segments and provides coverage upto 70 years of age.

In addition, the Union Advantage life product was enhanced to provide greater flexibility for customers to create insurance plans which align with their age and life cycle needs.

The company also launched a single premium product which was well received in the market.

The actuarial pricing model implemented to target motor insurance business in a profitable manner, was further improved during the year. The success of the changes is reflected in the GWP growth which was achieved while maintaining claims ratios at acceptable levels, despite the intense competition in the market.

The technical and distribution teams developed several tailor made solutions for corporate customers with sophisticated insurance and risk management needs. The success of our efforts is reflected in the year on year growth achieved in most non motor insurance classes of business.

## IMPROVE THE MORALE, MOTIVATION AND PRODUCTIVITY OF OUR STAFF

We are pleased to report that UA was recognised among the top 15 great places to work in Sri Lanka by the Great Place to Work Institution in 2013. The achievement is a clear indication that employees appreciate the training and development initiatives and career progression opportunities available for talented individuals in the UA team.

Learning and development initiatives focused on developing leadership competencies as well as enhancing the technical

knowledge and competencies of our distribution and underwriting staff.

We have initiated a formal succession planning process to identify suitable candidates for all “people management” roles. As part of the process technical and soft skill gaps in potential successors are identified and addressed in a systematic manner. This is the 3<sup>rd</sup> year since the process has been formalised and as at end 2013, we have identified internal successors for 48% of “people management” roles.

### CORPORATE SUSTAINABILITY

UA's strategic objectives are closely integrated with our sustainability initiatives to add value to customers, shareholders and the community, engage with employees and field staff members and build strong partnerships with reinsurers and other suppliers while conducting our business activities with minimal impact to the environment.

As mentioned in the previous paragraphs significant progress has been made on many of these fronts. However, we are aware that more needs to be done and our strategies need to evolve in line with the changing expectations of our stakeholder groups.

We have always been conscious of the social and environmental impact that our business has on various stakeholders. Nevertheless, as reflected in our first integrated report, we have aligned these aspects to a much greater degree over the recent past.

We have three areas of particular focus:

- Sustainable development. Integrating social and environmental considerations into our business decisions, products and services to help our customers achieve their sustainability ambitions and deliver long term value for all our stakeholders.
- Diversify and inclusion. Building the most diverse and inclusive workforce across the country to help us innovate, identify new markets, connect with customers and make better, more informed decisions.
- Financial inclusion and capability. Building the financial capability of people across our regions to promote financial inclusion and progression of individuals and communities.

### OUTLOOK

We anticipate a heightened level of activity by life insurers in the short to medium term as the industry seeks to tap the vast potential to target Sri Lanka's uninsured and under insured population. Distribution, new product development and investments to promote products and awareness of the benefits of life insurance is likely to continue apace, especially considering that most of the established life insurers are composite companies that need to separate life and non life businesses in line with regulatory requirements by February 2015.

We expect price competition in the non life segment to remain intense. Once again the rationale for this view is the likelihood that insurers will look to scale up their operations prior to separating the two lines of business.

### FUTURE STRATEGY

Our long term objective is to build a market leading position in the life and non life sectors. To this end we have set clear priorities within UA to improve the customer experience we offer as service providers, diversify revenues, drive productivity and increase shareholder returns.

UA will maintain the growth trajectory of the life insurance business with a strong focus on profitability. Investments will be made in traditional distribution channels as well as in the bancassurance channel. We will leverage the combined strengths to our technical and distribution resources and IT platforms to exploit the opportunities in this segment. We believe that recruiting and retaining the right talent is key to expanding our life business and this aspect will receive focused management attention. We are also reviewing several options to enhance the life product portfolio as well.

The company has invested significantly to enhance distribution, product development, service and training for all levels of staff and we anticipate that this foundation will provide an ideal platform for UA to grow the non life segment in a profitable manner.

### CONCLUSION

The results we have achieved is solely due to the commitment of the highly skilled and professional staff members of the UA team whose efforts I acknowledge with gratitude.

I also place on record our sincere thanks and appreciation to the brokers and other business partners who play a vital role in our success.

The Board of Directors have been a constant source of strength and their accessibility and willingness to share their insights and experience has helped steer the company to a pre-eminent position in the industry.

Our customers have chosen to place their trust in UA and for this we are deeply grateful.

Sri Lanka is moving towards a USD 4,000 per capita income economy. This goal while ambitious will transform the socio economic dynamics of the country.

UA with its strong brand, reputation for transparency and good governance, professional team and performance driven culture is well positioned to capitalise on this new environment and add value to all stakeholders.



**Dirk Pereira**  
Chief Executive Officer

25 February 2014



# **MANAGEMENT DISCUSSION AND ANALYSIS**

***Transforming  
tomorrow, today***

# Management Discussion and Analysis

## Snapshot of Material Issues

### MATERIAL ISSUE 1:

#### DELIVERING SUSTAINABLE VALUE TO CUSTOMERS

We are 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

- Provide affordable quality products and services
- Deliver superior customer service and convenience
- Settle claims in a speedy and fair manner
- Mechanism to obtain timely feedback to understand expectations
- Streamline the complaint management process

### MATERIAL ISSUE 2:

#### SHAREHOLDERS

We are committed to enhance shareholder returns in a sustainable manner while continuing to meet the company's medium to long term objectives

- Increase return on investment
- Sustainable business performance
- Reliable and timely information to shareholders and public
- Best in class governance and assurance

***“The issues reported in our integrated annual report have been identified through an engagement process with our stakeholders.”***

### **MATERIAL ISSUE 3: PEOPLE AND CULTURE**

To develop a sustainable business solution it is important to attract, retain and develop appropriate skills

- Build ownership by engaging employees in our business
- Provide a rewarding career
- Ensure a healthy work life balance
- Provide a great place to work
- Fair performance management and grievance handling process
- Enhance productivity and professionalism of field staff

### **MATERIAL ISSUE 4: RESPONSIBLE SUPPLY CHAIN AND REINSURANCE PARTNERS**

Our suppliers enable us to deliver the promise of protection and high quality service to our customers

- Re-insurers
  - Deliver a balanced profitable portfolio
  - Reliable and timely information
  - Effective risk assessment practices and policies
- Supply chain
  - On time settlement of dues
  - Fair and unbiased vendor selection process

### **MATERIAL ISSUE 5: COMMUNITY**

Success of our business depends on the extent to which we have understood the expectations of the community within which we operate

- Provide direct and indirect job opportunities to develop the local economy
- Improve the welfare of the community
- Supporting health and safety in the local community

### **MATERIAL ISSUE 6: ENVIRONMENT**

We are committed to continuously identifying all potential impacts on the environment due to our own actions and manage such impacts in a more sustainable and efficient manner

- Minimise waste and environmental impact
- Optimise energy consumption and minimise the carbon footprint

## Management Discussion and Analysis

### Our Journey Towards Triple Bottom Line Performance

**“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”**

—World Commission on the Environment and Development

In line with the concept of triple bottom line, we firmly believe that our organisation’s success is no longer defined only by monetary gains but also by the impact our business has on society as a whole.

As mandated by the triple bottom line concept, we undoubtedly understand the company’s responsibility to stakeholders rather than only to shareholders. For us, stakeholders means anyone who has direct interest in and / are affected by our operations. Hence, understanding and effectively engaging with them is imperative for the success of our organisation. Our consideration towards the stakeholders are provided henceforth.



Since we believe that the social, environmental and economic performance is paramount in creating a sustainable business, well chartered processes are in place to engage with all our stakeholders, to understand and satisfy their expectations and to manage the risks associated with this integrated approach.

Our success against the triple bottom line performance is monitored against the key performance indicators of social, environmental and economic performance. A snapshot of key performance indicators are mentioned below,

Triple Bottom Line Performance		2013	2012
<b>SOCIAL</b>			
Strength of the permanent staff	No. of persons	1,157	1,088
Strength of the non permanent staff	No. of persons	5,348	4,662
Training per permanent staff member	No. of hours	24	31
Training per non permanent staff member	No. of hours	83.1	79.4
Investment in training and development	Rs. million	55	60
Safety awareness campaigns	Number	373	405
Health awareness campaigns	Number	11	72
Investment in community services	Rs. million	2.4	0.3
Customer complaints	Number	813	982
Disputes referred to insurance Ombudsman	Number	32	23
<b>ENVIRONMENTAL</b>			
Carbon footprint	Metric tons	3,940	4,555
Carbon footprint per Rs. million of revenue	Metric tons	0.36	0.47
Water withdrawal	Cubic metres	22,967	22,179
Water discharge	Cubic metres	22,967	22,179
Direct energy consumption	Gigajoules	2,568	2,426
Direct energy consumption per Rs. millions of revenue	Gigajoules	0.23	0.25
Indirect energy consumption	Gigajoules	7,784	7,440
Indirect energy consumption per Rs. millions of revenue	Gigajoules	0.71	0.76
<b>ECONOMIC</b>			
Revenue	Rs. million	10,907	9,733
Growth in revenue	%	12	12
Net profit	Rs. million	1,123	921
Growth in net profit	%	22	33
Dividend per share	Rs.	6	5
Dividend payout	%	46	41
<b>Economic value distributed</b>			
Customers (claims and benefits)	Rs. million	4,558	4,087
Employees	Rs. million	1,117	1,090
Intermediaries	Rs. million	1,214	1,169
Reinsurers	Rs. million	1,537	1,162
Suppliers	Rs. million	1,200	1,039
Society including Government	Rs. million	59	87
Shareholders	Rs. million	429	375

## Management Discussion and Analysis

### Integrated approach to engaging with our stakeholders

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

# CUSTOMERS

- Conduct formal and informal research
- Customer satisfaction surveys
- Outbound call centres (customer welcome calls)
- Regular formal interactions with intermediaries / corporate customers
- Formalised complaint management process

## CUSTOMER ENGAGEMENT PROCESS

- Leverage technology, technical knowledge / competencies of internal staff and 3<sup>rd</sup> party service providers to meet these expectations
- Conduct risk surveys, portfolio reviews to ensure that non life insurance coverage has been adequately obtained
- Conduct fact finding / financial need analysis to ensure that life insurance coverage is obtained in line with customers' income and lifestyle requirements
- Enhance convenience by expanding the distribution network and customer service points
- Regularly review service standards and aim to outperform industry benchmark
- Settle claims in a fair and speedy manner

## OUR COMMITMENT TO MEET THEIR EXPECTATIONS

## POTENTIAL RISKS

- Inability of 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

## OUR RISK MITIGATION STRATEGIES

- 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 throughout 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

# Management Discussion and Analysis

**Integrated approach to engaging with our stakeholders**

## SHAREHOLDERS

- Annual General Meeting
- Quarterly reports and Annual reports
- Announcements through the CSE
- Articles published via media regarding company activities
- Dedicated investor relations hotline

### SHAREHOLDER ENGAGEMENT PROCESS

- 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
- Structured investment committee with internal controls to optimise return on investments
- Regular review of performance and update of corporate governance practices
- Structured internal control framework

### OUR COMMITMENT TO MEET THEIR EXPECTATIONS

### POTENTIAL RISKS

- Focus on year on year improvement in results / dividend payout without due consideration to long term sustainability

### OUR RISK MITIGATION STRATEGIES

- Maintain continuous dialog with shareholders regarding industry dynamics, business opportunities, financial performance and any regulatory changes affecting the company / Industry
- Effective performance management system
- Strategically grow our portfolio while balancing risk and product profitability

# PEOPLE

- Conduct regular employee satisfaction surveys
- Skip level meetings for all staff to elicit their ideas to improve service / productivity including providing an opportunity to address concerns
- Formal review meetings with distribution channel representatives and technical staff (field staff)
- Conduct group sessions covering all areas of the business to identify new ideas, issues and any other local business dynamics prior to compiling medium to long term strategies
- Structured corporate communication via emails, company intranet, company news letter, etc; to all employees

## EMPLOYEE ENGAGEMENT PROCESS

- Ensure company communications cascade to all levels of staff
- Ensure adequate participation from all areas of business at strategic and operational planning events
- Ensure recruitment, promotions and rewards are based on qualifications, merit and capability, regardless of race, religion or gender
- Invest in training and development infrastructure and resources
- Ensure proper work life balance
- Ensure health and safety at the workplace

## OUR COMMITMENT TO MEET THEIR EXPECTATIONS

## POTENTIAL RISKS

- Lack of experienced / qualified staff in industry and intense poaching especially with new entrants to the insurance space
- Inability to keep pace with changing consumer needs due to lack of knowledge
- Mis-selling / lack of skills in identifying customer needs and resultant consequences

## OUR RISK MITIGATION STRATEGIES

- Continue to focus on technical training for distribution and support services staff to enhance the skill 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

# Management Discussion and Analysis

Integrated approach to engaging with our stakeholders

## SUPPLY CHAIN AND REINSURANCE PARTNERS

- Regular formal interactions with reinsurance partners and suppliers

### ENGAGEMENT WITH SUPPLIERS AND REINSURANCE PARTNERS

### POTENTIAL RISKS

- Soft market conditions may reduce reinsurance options for company / industry
- Inability to form long term partnerships with high quality, reliable suppliers

- Implement disciplined underwriting and walk away from business opportunities which do not generate sufficient premiums to meet claim expenses
- Implement processes to ensure UA meets contractual obligations
- Attempt to develop long term relationships with key suppliers based on quality, price and related considerations
- Registration of vendors through a formal internal selection process

### OUR COMMITMENT TO MEET THEIR EXPECTATIONS

### OUR RISK MITIGATION STRATEGIES

- Focus on maintaining pricing discipline
- Effective risk management initiatives
- Invest time and effort at appropriate levels to build sustainable relationships
- Regular review of registered vendors

# COMMUNITY

- Regular, formal interaction with community representatives

---

- Interactions with community activity partners e.g. representatives from Sri Lanka Police, Ministry of Health

---

- Corporate website

---

- Through company Facebook page

---

- Posters at various local areas for any activities planned

## ENGAGEMENT PROCESS WITH THE COMMUNITY

- Partnerships with national level institutions e.g. Sri Lanka Police, Ministry of Health

---

- Create a network at grass roots level to ensure activities yield a positive impact across the island

---

- Local awareness campaigns

## OUR COMMITMENT TO MEET THEIR EXPECTATIONS

## POTENTIAL RISKS

- Demand for multi-pronged initiatives which may not be aligned with company's business strategy

## OUR RISK MITIGATION STRATEGIES

- Focus on building long term relationships with national institutions and implement programmes which are aligned with the company's long term strategy to uplift health and safety in the communities we operate in

---

- Constantly communicate and focus on the health and safety platforms to engage with the local communities we operate in

# Management Discussion and Analysis

Integrated approach to engaging with our stakeholders

## ENVIRONMENT

- Train employees to be aware of the environmental impact of our operations and integrate environmental considerations into business decisions

**ENGAGEMENT PROCESS TO CONTRIBUTE POSITIVELY TO THE ENVIRONMENT**

- Extensively use alternative energy sources to reduce fuel consumption and carbon emission
- Recycling of used items
- Leverage IT to minimise impact on environment

**OUR COMMITMENT TO MEET THEIR EXPECTATIONS**

**POTENTIAL RISKS**

- Impact on the environment could be overlooked as core business operations do not have a direct impact on the environment

**OUR RISK MITIGATION STRATEGIES**

- Policies and procedures in place to control / minimise impact on the environment

## Industry overview

**“The insurance industry maintained a solid growth momentum in 2012.”**

The insurance industry maintained a solid growth momentum in 2012. Combined life and non life premiums increased by 13% from Rs. 79 billion in 2011 to Rs. 89 billion in 2012.

Life insurance premiums grew by 5.3% from Rs. 35.1 billion in 2011 to Rs. 37 billion in 2012.

Non life premiums also increased by 20% from Rs. 43 billion to Rs. 52 billion over the same period.

The industry is expected to grow by 9% in 2013 as well. Based on available data life and non life premiums are expected to grow by 10% and 9% to Rs. 41 billion and Rs. 57 billion respectively.

The premium income generated by the two segments in the recent past and the estimated premium volume for 2013 is as follows;

Premium Income Rs. millions	2007	2008	2009	2010	2011	2012	2013(e)
Life insurance	20,706	23,613	24,005	31,152	35,181	37,047	40,628
Non life	31,184	34,558	33,548	35,101	43,331	51,835	56,564
<b>Total premium Income</b>	<b>51,890</b>	<b>58,171</b>	<b>57,553</b>	<b>66,253</b>	<b>78,512</b>	<b>88,882</b>	<b>97,193</b>
Total premium as a % of GDP	1.45	1.32	1.19	1.18	1.20	1.15	1.13
Growth rate in total premium (%)	21	12	(1)	15	19	13	9

Source: IBSL Annual Report and Industry statistics

As per the annual report prepared by the IBSL the industry comprised of over 1,000 branches, provided employment to over 12,000 people with a distribution force in excess of 36,000 agents. Province wise breakdown of the statistics is as follows.

Province	No. of Branches	No. of Employees	No. of Agents
Central	112	800	3,338
Eastern	71	343	1,916
North Central	95	540	2,363
North Western	116	780	3,592
Northern	83	364	2,704
Sabaragamuwa	95	500	2,257
Southern	143	948	4,080
Uva	79	492	2,200
Western	390	7,704	14,351
<b>Total</b>	<b>1,184</b>	<b>12,471</b>	<b>36,801</b>

Source: IBSL Annual Report 2012

# Management Discussion and Analysis

## Regulatory Review

The following regulatory requirements are expected to have a profound impact on the insurance industry in the short term.

### Segregation of Composite Insurers in to Life and Non Life Business Entities

As per Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, composite insurance companies (i.e. insurers who provide life and non life solutions) are expected to separate these lines of business into two separate legal entities by February 2015. This regulation will impact 13 insurers who currently operate as composite companies. The Insurance Board of Sri Lanka (IBSL) has provided guidance in terms of their expectations and set a road map for composite insurers to submit their proposals and required financial and actuarial information by specified dates.

### Mandatory Listing of Insurance Companies

As at December 2013, 7 insurance companies (32%) are listed on the Colombo Stock Exchange. However, all insurance companies are expected to list by February 2016. (i.e. one year from the deadline to segregate life and non life businesses)

The industry is not in favour of a mandatory listing but is lobbying for greater and consistent disclosures to be presented by all industry participants.

### Risk Based Capital (RBC) Framework

By 2016 life and non life insurance companies will have to maintain a capital amount as computed under the risk based capital (RBC) framework introduced by the IBSL or Rs. 500

million whichever is higher. Detailed guidelines on the RBC framework has already been drafted and all insurers are expected to participate in mandatory road tests to review the impact of the proposed guidelines on their solvency positions / balance sheets.

The IBSL has indicated that insurers will be permitted to adopt the new framework before the stipulated 2016 deadline.

### Computation of Solvency and Valuation of investments

The IBSL computes the solvency position of insurers (i.e. excess of assets over liabilities including an appropriate margin) using bases of valuation which has been gazetted from time to time.

The industry has identified an anomaly in the current rules since liabilities are valued on a historical cost basis but assets are required to be valued on a market value basis.

However, this anomaly would be corrected when insurers adopt the RBC framework as mentioned above.

### Industry Scale in Terms of Total Assets and Shareholders' Funds

As per the table below, assets of insurance companies have recorded a CAGR of 18% over the 5 year period ended December 2012. Total assets include shareholder funds which increased from Rs. 52 billion in 2011 to Rs. 69 billion as at December 2012.

Figures as at December Rs. millions	2008	2009	2010	2011	2012
Long term insurance	97,730	118,305	139,647	165,519	182,826
Non life Insurance and Shareholder funds	58,263	62,740	82,450	100,192	124,209
<b>Total</b>	<b>155,993</b>	<b>181,045</b>	<b>219,102</b>	<b>261,412</b>	<b>301,917</b>

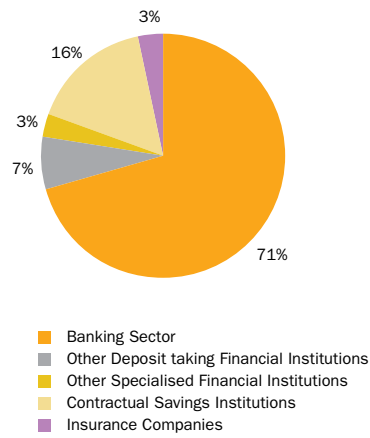
Source: IBSL Annual Report 2012

The top 5 insurance companies control 89% of total assets of the industry. As per the given diagram the combined value of Rs. 302 billion held by all insurance companies represents approximately 3.2% of the total assets held by all major financial institutions.

### Solvency Position, Life Policy Liabilities and Non life Technical Reserves

The following table depicts the solvency position of the industry by life and non life segments as well as the policy liabilities and technical reserves as at 2012.

Distribution of Total Assets of Major Financial Sectors



Figures as at December 2012	Available solvency margins (ASM) (Rs. millions)	Required solvency margins (RSM) 5% of policy liabilities (Rs. millions)	Solvency ratio (ASM/RSM)	Value of policy liabilities / technical reserves (Rs. millions)
Life insurance	43,901	5,920	7.42	118,404
Non life insurance	23,335	9,094	2.46	33,346

Source: IBSL Annual Report 2012

As per statistics available, the top 5 insurance companies accounted for 96% of the available solvency margin of life business and 92% of life policy liabilities.

Similarly, in the non life sector, the top 5 insurance companies accounted for 73% of the available solvency margin and 78% of technical reserves.

# Management Discussion and Analysis

## Overview of the company

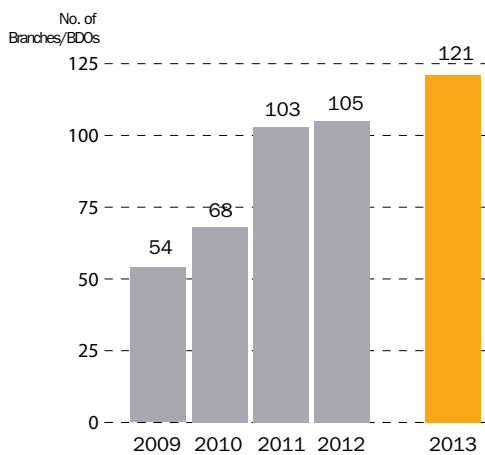
**“Union Assurance is a composite insurance company offering life and non life insurance solutions to corporate and retail customer segments.”**

MANAGEMENT DISCUSSION AND ANALYSIS

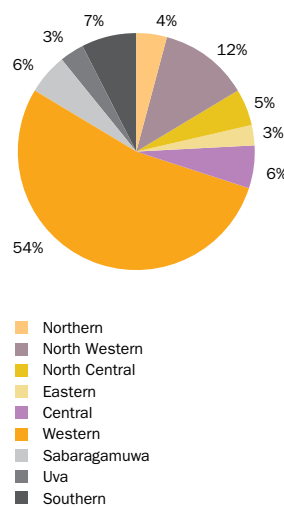
The life insurance segment contributed 51% (2012 - 52%) of total premium and generated 70% of the company's profits (2012 - 58%). The non life insurance segment contributed the balance premium and profits.

The company provides direct employment to 1,157 permanent staff and distributes life and non life products via a 5,348 field sales team geographically spread throughout the island through a network of 121 branches, business development offices and other distribution outlets.

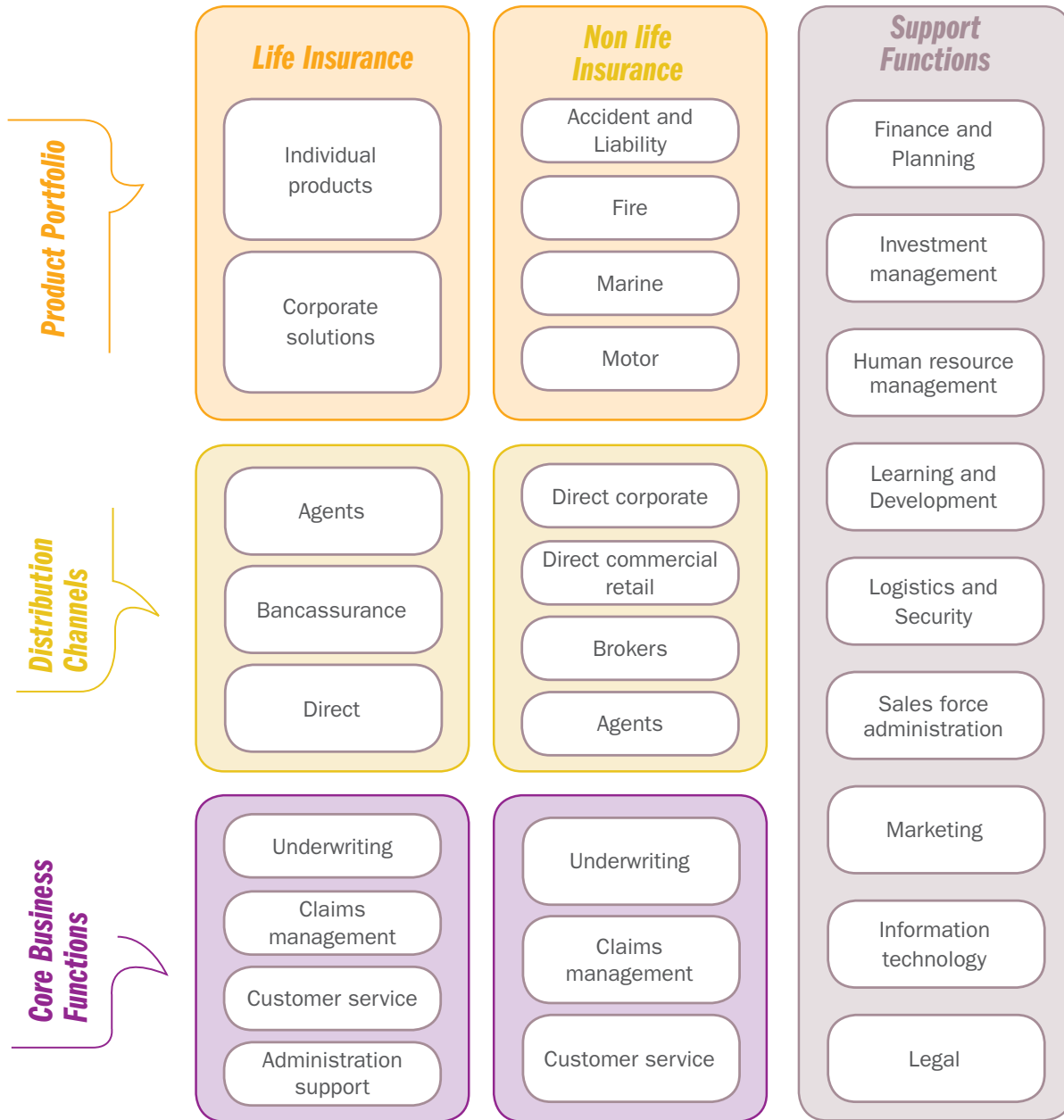
Expansion in Distribution Network



GWP Contribution by Province - 2013



The current organisation structure of the company is provided below.



# Management Discussion and Analysis

## Overview of the Company

The following outlines UA's main lines of business, market differentiators, business strategy, highlights of performance in 2013 and strategic priorities.

### LIFE INSURANCE

#### Market Differentiators

- Balance sheet strength stability
- Strong corporate governance framework
- Comprehensive and competitive product range
- Training capabilities and facilities
- In-house actuarial support
- Strong distribution structure and brand
- Web based sales force management system

#### Business Strategy

- Expand our presence in the life insurance market in a cost effective manner by;
  - Offering competitively priced protection products and long term savings products
  - Enhancing the sales, customer servicing, underwriting and claims management skills of our people and
  - Building a strong brand in our chosen market segments

### MOTOR

#### Market Differentiators

- Technical expertise
- Strong distribution network and alliances
- Centralised management through integrated systems
- Ability to leverage multiple IT platforms to enhance efficiency, effectiveness and customer convenience
- Differentiated products and access to alternative distribution channels

#### Business Strategy

- Exploit profitable growth opportunities by offering competitively priced solutions to selected market segments
- Build strong relationships across multiple distribution channels
- Provide consistent, high quality customer service
- Launch new products and augment existing products in line with customer needs

### NON MOTOR

#### Market Differentiators

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

#### Business Strategy

- Exploit profitable growth opportunities by;
  - Offering a competitive range of products across all segments of the market
  - Building strong relationships across multiple distribution channels
  - Providing superior customer service and leveraging our underwriting and claims management skills
  - Leveraging structured learning and development initiatives to improve technical competencies of underwriting, claims and distribution channel / staff

***“We have been investing in automation of our back-end systems to drive down transaction costs and improve service quality and resilience.”***

#### Highlights of Performance 2013

- Life insurance premiums grew by 8%
- Profits increased by 48%
- Satisfactory volumes achieved from traditional and unit linked products
- Enhanced customer engagement processes
- Successfully launched direct / telemarketing initiatives
- Enhanced several value drivers linked to agency channel

#### Strategic Priorities

- Maintain growth momentum by expanding distribution reach in a cost effective manner
- Launch new products and augment existing products in line with customer needs
- Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions
- Implement activities to operationalise brand positioning
- Manage lapsation

#### Highlights of Performance 2013

- Motor GWP growth expected to exceed industry growth rate
- Reported improvement in claims ratios
- Recalibrated risk based pricing model
- Expanded distribution reach in cost effective manner
- Improved motor claims related customer satisfaction score

#### Strategic Priorities

- 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

#### Highlights of Performance 2013

- Non motor premium increased by 17%
- Improved claims ratios in property class despite intense price competition
- Tailor made insurance solution for largest private sector led infrastructure project in Sri Lanka
- Expanded risk management services offered to corporate clients

#### Strategic Priorities

- 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

## Overview of the Company

### 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 actions 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 2013
<p><b>Pressure on Capital</b></p> <p>Insurers will have to ensure that they have adequate financial strength on a continuous basis. The concept of "risk based capital" will be the benchmark of regulators. The days when insurers could continue to remain in business by simply complying with minimum capital requirements are numbered.</p>	<ul style="list-style-type: none"> <li>■ Maintain net assets in excess of minimum requirements</li> <li>■ Monitor solvency position on a monthly basis</li> <li>■ Obtain annual verification of life solvency position from independent actuary</li> <li>■ Obtain regular updates regarding risk based capital models implemented in regional markets</li> </ul>	<ul style="list-style-type: none"> <li>■ UA's net assets as at 31 December 2013 is Rs. 5.1 billion</li> <li>■ Solvency computations for the year are provided in page 293</li> <li>■ Continuously reviewed impact of proposed risk based capital framework</li> </ul>
<p><b>Pressure on Volumes</b></p> <p>Fierce competition to increase volume and market share will prevail. Two avenues would be open to insurers: to be the least cost producer or to offer a differentiated product or service. The latter may appear easier. But developing new products is expensive and the advantage short lived since it can be quickly copied. Another option is to maximise customer retention. This can pay rich dividends since it is more cost effective to maintain current customers than target new ones.</p>	<ul style="list-style-type: none"> <li>■ Product development initiatives focus on creating differentiated products that meet customer needs, which can be sold and serviced effectively</li> <li>■ Scan market to identify customer needs and new product opportunities</li> <li>■ Monitor life insurance premium persistency and non life insurance renewal retention</li> </ul>	<ul style="list-style-type: none"> <li>■ Launched Union MediGuard to meet the health insurance requirements of all customer segments</li> <li>■ Enhanced flexibility of Union Life Advantage product to create solutions aligned with the life cycle needs of customers</li> <li>■ Enhanced customer engagement processes and customer satisfaction surveys to monitor life and non life service standards</li> <li>■ Continuously monitored life insurance premium persistency and non life renewal retention rates</li> </ul>

## Challenge

## UA's Response

## Update 2013

**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.

- 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

- Continuously enhanced web based solutions to enhance customer convenience and improve productivity of sales and operational staff
- Constantly reviewed key expense items and implemented cost saving measures
- Profit tested life insurance products
- Fine tuned actuarial risk based pricing model for motor insurance

**Pressure on Services**

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.

- Increase learning and development initiatives to enhance knowledge and capabilities of technical and distribution staff
- Constantly monitor service standards and take corrective action as appropriate
- Inculcate a customer service culture across all levels in the organisation
- Identify key technologies which will enhance customer services for both external and internal customers

- Increased learning and development across all employee and field staff categories
- Increased customer engagement and satisfaction surveys
- Developed service level standards for all functions and conducted training programmes to inculcate service culture in line with UA's brand pillars
- Reviewed existing processes and automated / implemented web based technologies to handle high volume transactions

**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.

- Provide reinsurance partners with a balanced portfolio
- Ensure reasonable retention levels

- UA's reinsurance programme continues to be led by highly rated international reinsurers
- Monitored business performance from reinsurers' perspective
- Increased number of participants in reinsurance treaties

**Pressure on Organisations**

The emergence of new economic models and new entrants with greater financial resources, management and technical expertise, 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

- 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 a key differentiator

- Leveraged IT to deliver cost effective operating and business models
- Provided staff with exposure to international best practices via participation in seminars, training programmes etc.
- Developed structured leadership programmes for all levels of staff

# Management Discussion and Analysis

## Overview of the Company

Challenge	UA's Response	Update 2013
<p><b>Pressure to Attract and Retain Quality People</b></p> <p>The key drivers of the future will be the quality and commitment of our people. Success will depend primarily on the ability to attract, motivate and retain the best people</p>	<ul style="list-style-type: none"> <li>■ Monitor employee satisfaction on a regular basis</li> <li>■ Increase employee engagement by conducting strategic planning workshops with representatives from all functions to ensure buy in and commitment to deliver corporate objectives</li> <li>■ Launch skip level meetings with staff</li> <li>■ Implement talent management and succession planning programmes</li> </ul>	<ul style="list-style-type: none"> <li>■ Recognised among the top 15 great places to work in Sri Lanka</li> <li>■ Training and development initiatives linked to succession plans and career progression</li> <li>■ Over 500 employees participated in the strategic planning process</li> <li>■ Conducted 20 skip level meetings during the year</li> </ul>
<p><b>Pressure on the use of Information Technology</b></p> <p>Insurers are entering an era where speed of response will be a key competitive differentiator. 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.</p>	<ul style="list-style-type: none"> <li>■ Provide IT solutions on different platforms to enhance productivity and services offered to both internal and external customers</li> <li>■ Expand IT infrastructure to maintain presence in different geographical locations and thereby provide better services in a cost effective manner</li> </ul>	<ul style="list-style-type: none"> <li>■ Introduced / improved mobile and wireless solutions to improve customer service and enhance staff productivity</li> <li>■ Launched customer portal for life customers</li> <li>■ Enhanced AS400 based life and non life applications</li> </ul>
<p><b>Pressure on Intermediaries</b></p> <p>Insurers will have to make sure that the persons representing them in the front end of the business, including agents, sales representatives and field officers, are well trained and equipped with the necessary skills to provide accurate advice to potential customers. These persons must be able to demonstrate that they can really add value through their intermediation</p>	<ul style="list-style-type: none"> <li>■ Enhance sales skills and technical competencies</li> <li>■ Implement reward / recognition schemes to motivate sales staff</li> <li>■ Use technology to improve productivity and enhance their professional image</li> <li>■ Create career paths linked to performance, training attended and experience</li> </ul>	<ul style="list-style-type: none"> <li>■ Continued to invest in programmes to enhance technical and leadership competencies of staff</li> <li>■ Aligned reward and recognition schemes with business objectives</li> <li>■ Created digital sales tools which could be accessed on laptop and tablet computers</li> </ul>
<p><b>Pressure from Regulatory Authorities</b></p> <p>The ultimate aim of regulation is to protect policyholders and ensure the viability of the industry. On the one hand regulators will have to ensure that insurers adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities. On the other hand, they will be required to play a proactive role in developing the market and promoting competition and innovation</p>	<ul style="list-style-type: none"> <li>■ Work closely with relevant regulatory bodies</li> <li>■ Work closely with other industry participants</li> </ul>	<ul style="list-style-type: none"> <li>■ Strengthen regulatory compliance processes</li> <li>■ Participated in industry road tests to assess impact of RBC framework</li> <li>■ Active participation in all industry lobby groups and sub committees</li> </ul>

# Economic Review

The economy continued its modest growth momentum in 2013 fueled by continuing infrastructure development, albeit shadowed by concerns of lack of private sector credit demand, adverse weather effecting agricultural production and fears of economic turmoil that might engulf emerging markets due to cut backs in the US Federal Reserve's stimulus program.

## GDP GROWTH

The economy grew by 6.3% in real terms during the first half of 2013. The impact of unfavourable weather conditions, subdued global growth and the lag effect of tight monetary policy measures introduced during 2012 slowed growth momentum in the first half of 2013. Growth in the third quarter improved to 7.8% YoY led by the industrial and service sectors. Sri Lanka continues to grow faster than most emerging market economies. The IMF projects the 2013 GDP growth for Sri Lanka at 6.2% while the Central Bank expects the number to be 7.2%.

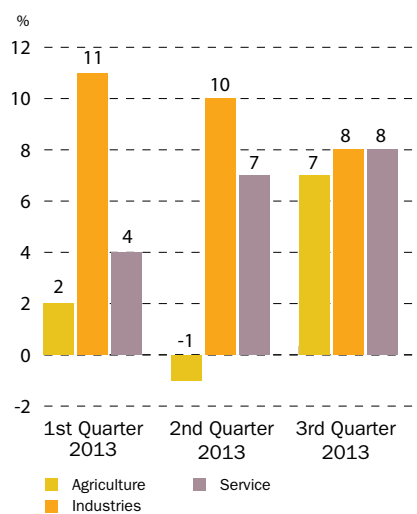
The agriculture sector recorded a marginal growth of 0.5% compared to the relatively high growth of 10.4% recorded during the first half of 2012. The adverse weather conditions prevailing at the beginning of the year affected domestic agricultural production, particularly paddy and other food crops which include vegetables and highland crops. Export agricultural production such as rubber and coconut were also affected although tea performed favorably.

The services sector grew by 5.5%, despite the continuing slowdown of wholesale and retail trade activity, as transport and financial services continued to expand.

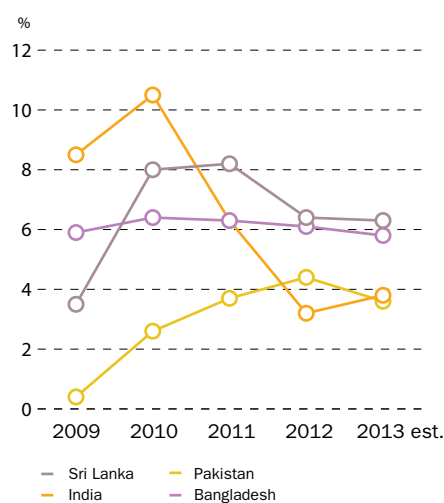
The industry sector continued to post strong growth of 10.4%, largely driven by the construction and manufacturing sub-sectors. The continuation of major public infrastructure programmes and an increase in private sector construction activities contributed to the strong growth in the sector.

The loosening of monetary policy by the Central Bank during 2013 will have an effect on the economy in 2014. Signs of this could be seen in the slight improvement in private sector credit demand in the fourth quarter. The Central Bank expects to achieve a GDP growth rate of 7.8% in 2014 while the IMF projects the GDP growth rate for Sri Lanka to be around 6.8% in 2014. Furthermore the IMF in its recent update cautions emerging markets and developing economies of the need to manage the risks of capital flow reversals.

Sectorial GDP Growth



Regional Comparison of GDP growth



# Management Discussion and Analysis

## Economic Review

### IMPROVEMENTS IN THE FISCAL FRONT

In 2013 much needed action was taken on the fiscal front. The most important of these was the increase of electricity and petroleum tariffs which led to both CEB and CPC cutting back on their losses and funding requirements.

Grant and revenues for the first 9 months of 2013 stood at Rs. 783 billion, increasing by 1% YoY. Total expenditure increased by 1.4% YoY in the first 9 months of 2013, amounting to Rs. 1275 billion, due to a 3.8% YoY increase in recurrent expenditure, while public investments decreased by 4% YoY.

The treasury expects the deficit to reduce to 5.8% of GDP by the end of 2013 compared with a deficit of 6.4% reported in 2012. It expects to reduce the deficit to 5% in 2014 and reduce it still further during 2014-2016. The treasury expects to improve government revenue which is around 13% of GDP to 15% and to 16% levels in the medium term.

Total foreign debt was at 44% of total debt as at end June 2013. The government did not issue a sovereign bond during 2013 but encouraged commercial banks and corporate institutions to raise foreign debt. One such borrowing was carried out by the National Savings Bank which was issued at a yield of 8.875% which was considered high. Subsequently the government raised USD 1 billion in January 2014 at a yield of 6%.

The US Federal Reserve announcing the tapering of its stimulus programme jittered emerging markets during the latter part of 2013. It remains to be seen how this gradual reduction of the programme would affect the government's ability to borrow by way of foreign debt.

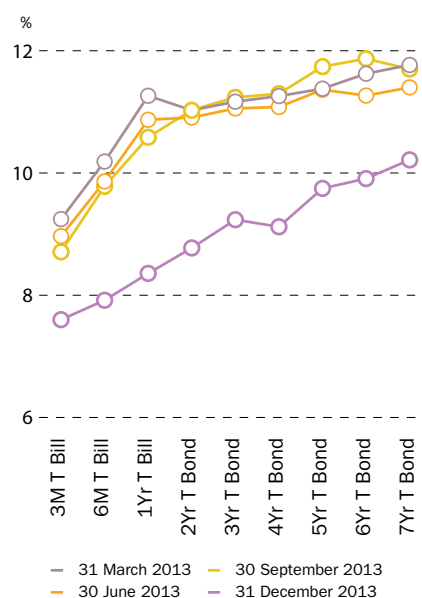
### Interest Rates on the Decline

The Central Bank executed a sustained monetary easing programme during 2013 which included two 50 basis points rate cuts in May and October and a reduction in the statutory reserve requirement in June 2013. This comes after the tightening programme undertaken in the later part of 2012 which led to a reduction in private sector credit. Although affected by the crowding out effect created by government borrowings, private sector credit started picking up by

September 2013 when credit disbursed by domestic banking units of commercial banks to the private sector increased by Rs. 20 billion.

The yield on the one year treasury bill came down by approximately 250 basis points during the year to end at 8.29%. The longer tenure treasury bonds also declined by an average of 150-225 basis point during the year.

Government Securities Yield Curve



The Central Bank continued the easing programme in 2014 with a 50 basis point cut to the standing lending facility rate (previously known as the reverse repurchase rate). Although it is expected that the low interest rate regime would prevail throughout 2014, external factors such as the tapering of the US Federal Reserve's stimulus programme as mentioned earlier could create upward pressure on rates.

**Declining Inflation**

Inflation continued its descent from 9.80% in January 2013 to 4.70% in December 2013. Inflation during the initial months of the year remained at elevated levels due to disruptions to domestic agricultural production caused by adverse weather conditions in major cultivation areas coupled with upward pressure due to increases in energy and petroleum tariffs.

Improvement in domestic supply conditions of agricultural products and more favourable commodity prices in international markets resulted in the easing of inflation. Core inflation, which excludes food, energy and transport, declined to record levels and was at 2.1% in December 2013.

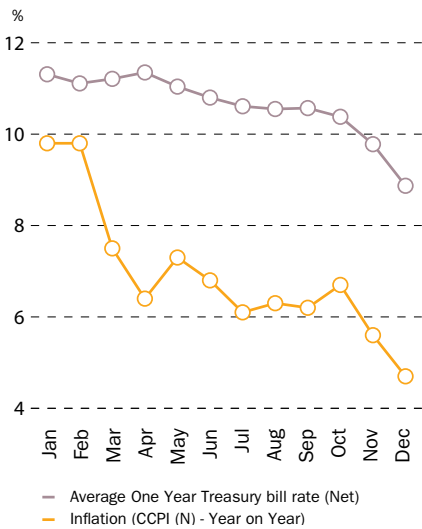
For 2014 inflation is largely dependent on favourable weather conditions. Further a depreciation of currency which is likely to be impacted by unfavourable capital flows could also induce upward pressure on prices.

**EXTERNAL SECTOR**

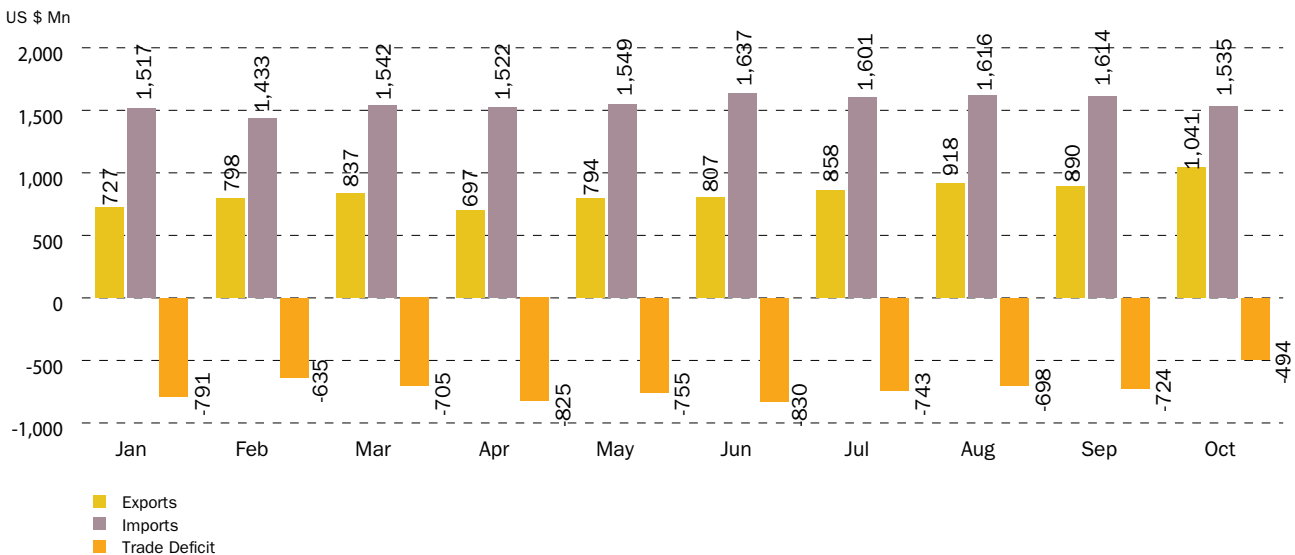
Exports for the period of January to November 2013 increased by 5.6% YoY, an improvement over the 4.47% YoY drop experienced in the first half of 2013. Industrial exports increased by 4.1% with garments and textiles, which accounts for more than 40% of total exports, rising by 11.6% YoY as at November 2013 due to improving economic conditions in the USA and parts of Europe. Agricultural exports too revived in the second half of 2013 which was largely attributable to an increase in world tea prices.

The import of consumer goods which declined rapidly in the first half of the year, rose by 25.6% YoY in October 2013 and 10.9% in November 2013 following a fall in interest rates and an easing of credit conditions. This has resulted in cumulative consumer imports in the first 11 months of 2013 rising by 4.5% YoY. Fuel imports, which accounts for more than 25% of Sri Lanka's total import bill, reduced by 12.8% YoY in the first half 2013 following an increase in hydro power generated due to favourable weather conditions. This resulted in the overall import bill for the first 11 months to falling by 2.5% YoY.

Interest Rates vs. Inflation



External Trade Performance



# Management Discussion and Analysis

## Economic Review

Workers remittances grew by 12.7% YoY during January to November 2013, compared to the 17.1% YoY growth recorded in 2012.

Reserves remained at USD 6.88 billion as at the end of November 2013, increasing from a decline within the year, following selective interventions by the CBSL to curb volatility of the LKR. Gross reserves translate to the equivalent of 4.2 months of imports and total international reserves to the equivalent of 5 months of imports. Reserves have been supported by a USD 750 million loan taken out by the National Savings Bank of Sri Lanka, a USD 100 million loan taken out by DFCC bank and USD 1 billion raised through a sovereign bond issue in January 2014.

The favourable economic conditions in the European and US markets are expected to help improve the export numbers in 2014. The reduction on interest rates on the other hand will result in an increase in imports. Furthermore the import bill for fuel would largely depend on weather conditions and the capacity to generate hydro electricity.

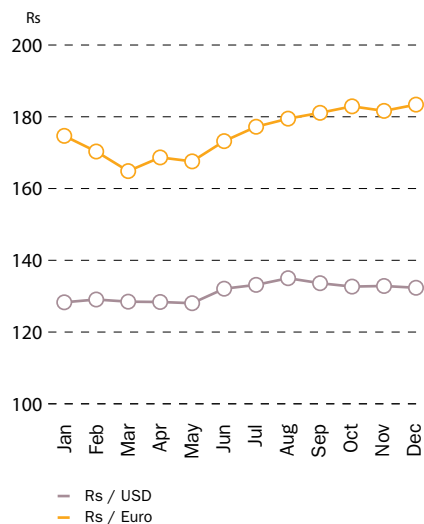
### The Rupee Depreciates

The Sri Lanka Rupee (LKR), which ended at Rs. 127.50 to the US Dollar in 2012, was under depreciation pressure from June 2013 after the US Federal Reserve announced that it might taper its stimulus programme. The increase in imports driven by the reduction in policy rates also created depreciation pressure on the LKR.

The LKR strengthened towards the final few months of 2013 following an increase in textile exports and rising world tea prices which resulted in exports crossing the USD 1 billion mark in the month of October.

The LKR closed the year at Rs. 132.34 to the USD recording a 4% depreciation during the year.

SL Rupee vs EURO/ USD

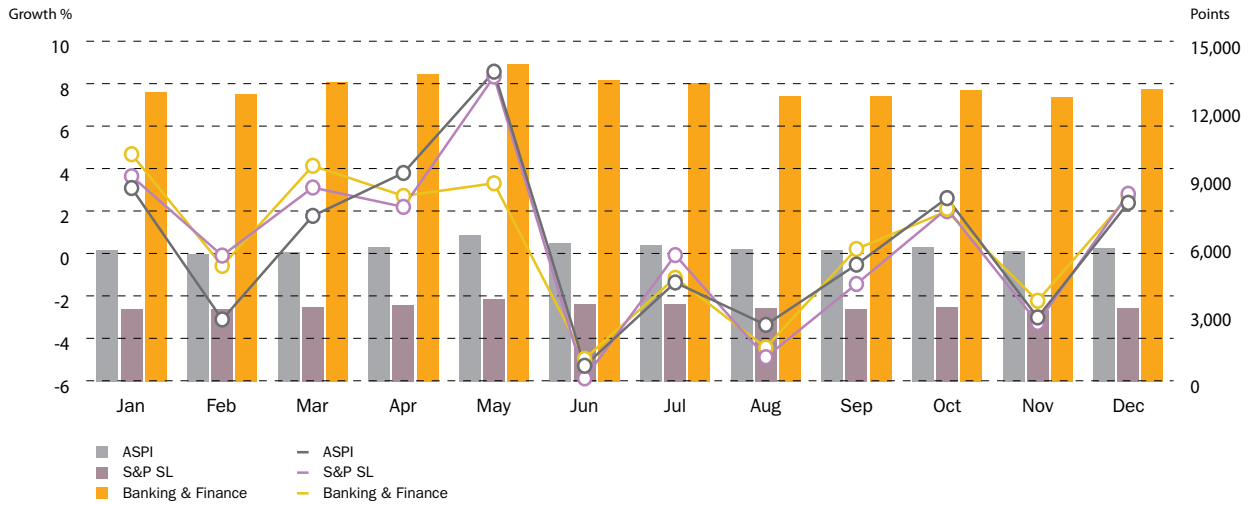


The currency outlook for 2014 greatly depends on external factors. The cutting back of the US Federal Reserves stimulus programme has caused capital outflows from emerging markets and although Sri Lanka has not been affected so far, it is unlikely that we would be completely immune from this impact.

### STOCK MARKET PERFORMANCE

The stock market performance for 2013 was marginal with the All Share Price Index rising by 4.8% and the S&P SL20 rising by 5.8%. This was in the face of a tighter domestic monetary environment in latter part of 2012 as well as global volatility connected actions by the US Federal Reserve. The energy price hikes as well as the higher interest rates in the latter part of 2012 resulted in earnings remaining flat last year. Lower discretionary incomes meant that revenue growth and margins stayed largely flat for some consumer driven companies.

Stock Market Performance



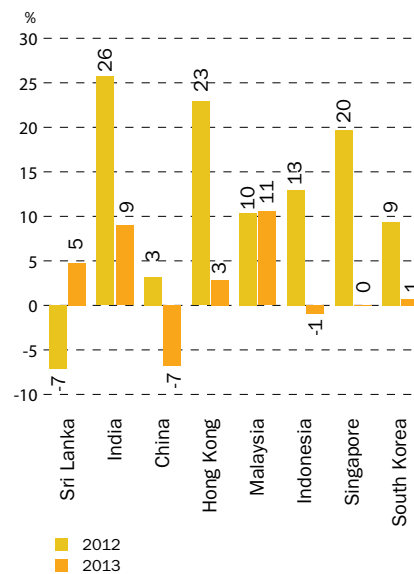
Domestic participation outweighed foreign participation in 2013 with 65% of the turnover for the year coming from domestic investors. Foreign purchases outweighed sales with Rs. 84 billion purchases and Rs. 61 billion sales.

The listed corporate debt market expanded exponentially during the year due to tax concessions granted in the 2013 budget. As a result Rs. 68 billion of capital was raised in the markets from 28 debt issues in 2013.

**CONCLUSION**

Corporate results are expected to improve in 2014, mainly due to the low interest rate environment and recovery of the global economy. Further the drive by the Central Bank to encourage consolidation in the financial sector is expected to have a positive impact on the market. However, worries about capital outflow from emerging and developing markets continue to shadow this optimistic outlook.

Colombo Stock Exchange vs. Regional Markets



# Management Discussion and Analysis

## Financial Value Creation

**“Year 2013 was a landmark year in which we crossed Rs. 10 billion in combined gross written premium with overall profit after tax crossing Rs. 1.1 billion.”**

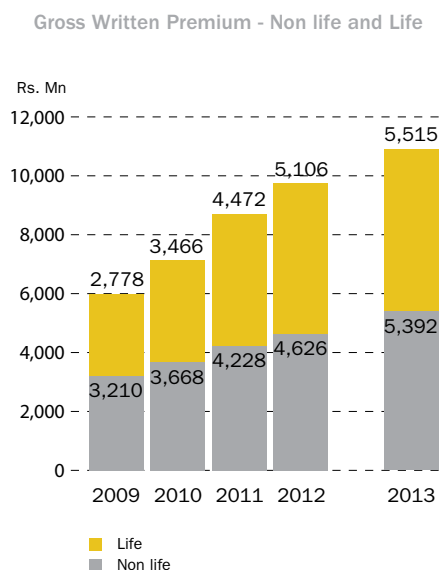
### STATEMENT OF INCOME

Combined life and non life insurance premium increased by 12% from Rs. 9.7 billion in 2012 to Rs. 10.9 billion in 2013. Total net revenue recorded a growth of 13% from Rs. 10.7 billion in 2012 to Rs. 12.1 billion in 2013. Profit for the year crossed the billion rupee mark recording a 22% growth from Rs. 921 million in 2012 to Rs. 1.1 billion in 2013.

Results overview Rs. million	2013	2012	2011	2010	2009
Gross written premium	10,907	9,733	8,700	7,133	5,989
Net earned premium	9,227	8,385	7,351	5,691	4,882
Net investment and other operating income	2,845	2,333	1,658	2,229	1,795
Net revenue	12,072	10,718	9,010	7,920	6,677
Net benefits, claims and expenses	(10,890)	(9,710)	(8,248)	(7,327)	(6,210)
Profit before tax	1,183	1,008	762	593	467
Income tax expense	(59)	(87)	(67)	(81)	(67)
<b>Profit for the year</b>	<b>1,123</b>	<b>921</b>	<b>695</b>	<b>512</b>	<b>401</b>
Equity	5,117	4,309	3,247	3,169	2,305
Dividends	514	429	375	234	188

### Gross written premium

The company wrote gross premiums totalling Rs. 10.9 billion in 2013, an increase of 12% from Rs. 9.7 billion recorded in 2012. This was mainly due to 17% growth in non life insurance premiums which increased from Rs. 4.6 billion in 2012 to Rs. 5.4 billion in 2013. In addition, life insurance premium grew by 8% from Rs. 5.1 billion in 2012 to Rs. 5.5 billion in 2013.



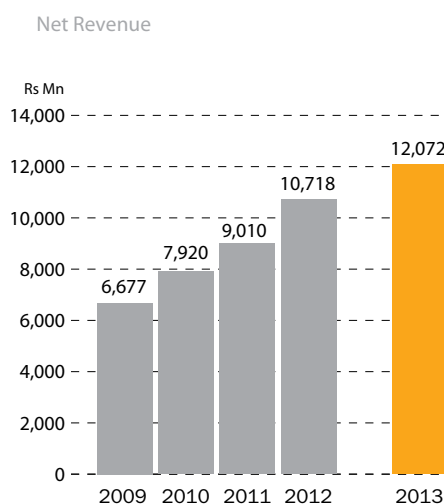
### Net earned premium

Net earned premium increased by 10% from Rs. 8.4 billion in 2012 to Rs. 9.2 billion in 2013. During the year, Rs. 833 million (2012 - Rs. 218 million) and Rs. 690 million (2012 - Rs. 32 million) was 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. 464 million. This increase together with the growth of Rs. 378 million in life insurance net written premium, boosted net earned premium by 10%, from Rs. 8.4 billion in 2012 to Rs. 9.2 billion in 2013.

### Total net revenue

Overall, total net revenue of the company increased by 13% from Rs. 10.7 billion in 2012 to Rs. 12.1 billion in 2013.



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 training of the sales force together with prudent management of the investment portfolio

### Investment and other income

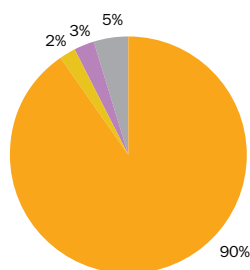
The composition of investment income for the year is as follows;

For the year ended 31 December	2013	2012	Change %
Rs.'000			
Interest income	2,569,859	2,211,829	16%
Dividend Income	65,764	43,661	51%
Net realised, fair value gains / (losses)	76,333	(25,092)	404%
Other operating revenue	133,364	102,827	30%
<b>Total Investment and other income</b>	<b>2,845,320</b>	<b>2,333,225</b>	<b>22%</b>

# Management Discussion and Analysis

## Financial Value Creation

Total Investment and other income



- Interest income
- Dividend Income
- Net realised, fair value gains / (losses)
- Other operating revenue

Over 90% of interest income is mainly from investments which provides fixed returns and from guaranteed investments.

### Net benefits, claims and expenses

During the year net benefits, claims and expenses have recorded a 12 % growth mainly driven by 15% growth in net benefits and claims.

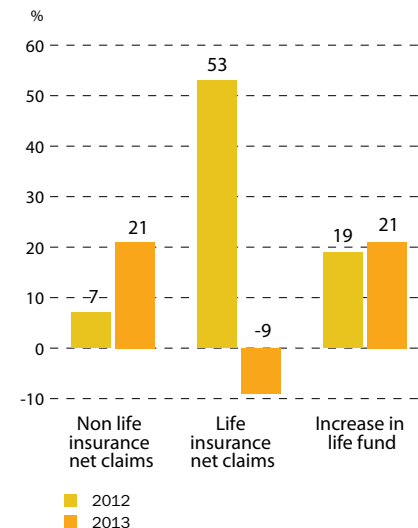
### Net benefits and claims

Insurance benefits and claims increased by 15% from Rs. 5.9 billion in 2012 to Rs. 6.8 billion in 2013 mainly driven by increase in life insurance contract liabilities.

The movement in life insurance contract liabilities increased by Rs. 503 million from Rs. 2.4 billion to Rs. 2.9 billion as a consequence of increased business volumes.

Non life insurance claims (net of reinsurance recoveries) increased by Rs. 479 million and this factor contributed to the overall increase in insurance claims irrespective of the life insurance net claims and benefits decrease of Rs. 99 million.

Movement of Net Claims and Benefit  
Non life and Life



For the year ended 31 December  
Rs.'000

2013 2012 Change %

Net benefits and claims	6,775,505	5,892,875	15%
Underwriting and net acquisition costs (including reinsurance)	1,213,921	1,169,233	4%
Other operating, depreciation and administrative expenses	2,900,145	2,648,005	10%
<b>Total benefits, losses and expenses</b>	<b>10,889,571</b>	<b>9,710,113</b>	<b>12%</b>

**Underwriting and net acquisition costs**

Underwriting and acquisition costs increased by 4%, mainly due to an increase in non life insurance commission expenses on account of higher business generated during the year.

**Other operating, depreciation and administrative expenses**

Other operating and administrative expenses have increased by 10% from 2012 mainly due to increased administrative expenses.

**Rs. 1.1 Bn**

Of overall profit after tax

**For the year ended 31 December**

Rs.'000

2013

2012

Change  
%

Employee benefits expenses	1,117,011	1,090,331	2%
Administration and establishment expenses	1,125,800	956,694	18%
Selling expenses	503,019	457,633	10%
Depreciation expense	154,315	143,347	8%
<b>Total operating and administrative expenses</b>	<b>2,900,145</b>	<b>2,648,005</b>	<b>10%</b>

The company continued to implement initiatives to leverage information technology to enhance productivity and change existing operating model and business practices in order to optimise expenses.

**Profit before tax**

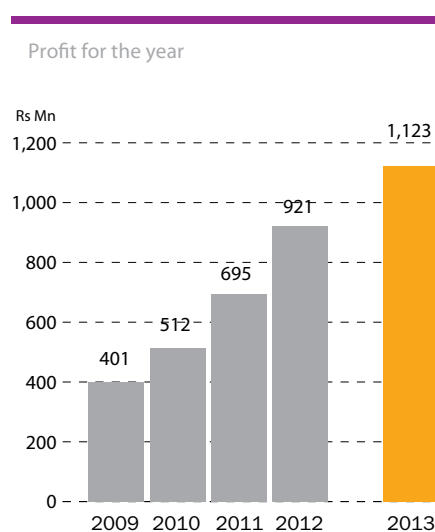
The company recorded a remarkable growth of 17% in profit before income tax in 2013. The profit from life business increased from Rs. 533 million in 2012 to Rs. 791 million in 2013 and non life insurance contribution decreased from Rs. 475 million to Rs. 392 million during the same period.

**Income tax expense**

As per current tax regulations, life and non life insurance businesses are taxed separately. The company is taxed at the rate of 28%. Current income tax charge of Rs. 59 million is arising from the non life business.

**Profit for the year**

UA's profit for the year increased by 22% from Rs. 921 million in 2012 to Rs. 1.1 billion in 2013. 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 22%.

**DIVIDENDS**

UA recognises the importance of a clear, stable and coherent dividend policy. Dividend payments to shareholders depend on the company's cash flow and capital position. The Directors declared a first and final dividend of Rs. 6.00 per share and the dividend payout amounts to Rs. 514 million for 2013.

Dividend payout ratio is 46% in 2013 compared to 41% in 2012. The company's earnings per share increased by 7%, from Rs. 12.28 in 2012 to Rs. 13.11 in 2013.

# Management Discussion and Analysis

## Financial Value Creation

**“Our overall asset base grew by 16%. The life fund grew by 17% reaching Rs. 19.3 billion.”**

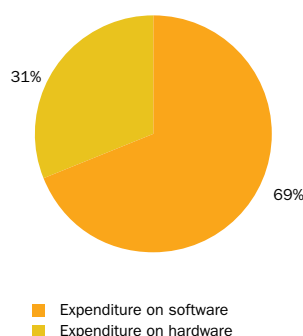
### FINANCIAL POSITION

#### Financial investments

The investment portfolio which includes government securities, corporate securities, bank deposits and equity investments has increased by 17%, from Rs. 20.8 billion in 2012 to Rs. 24.3 billion in 2013.

For the year ended 31 December Rs. '000	2013	2012	change %
Held to maturity financial assets	14,408,803	14,355,333	0%
Loans and receivables	3,992,502	2,285,832	75%
Available for sale financial assets	3,530,880	2,372,574	49%
Financial assets at fair value through profit or loss	2,365,313	1,788,570	32%
Total financial investments	24,297,498	20,802,309	17%

IT Expenditure - 2013



The composition of the investment portfolio for the current year is based on the following categories;

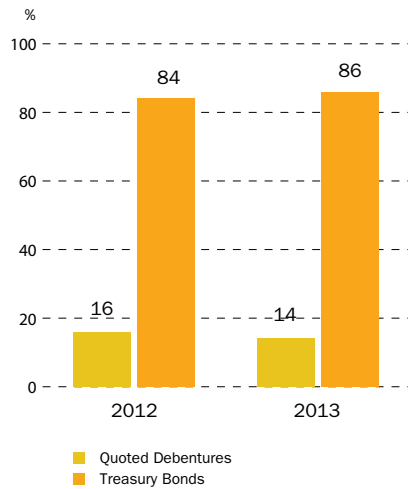
#### Held to maturity financial assets (HTM)

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 fulfill this criteria under the category of HTM.

Quoted debentures and treasury bonds have been classified under HTM. The chart on the next page illustrates the quantum of instruments classified under HTM category for the current as well as the preceding year.

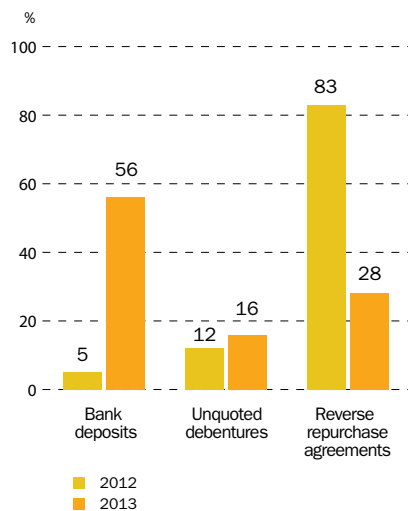
Composition of HTM Investments



**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.

Composition of L&R Investments



The total loans and receivables have increased by 75% from Rs. 2.3 billion in 2012 to Rs. 4 billion in 2013.

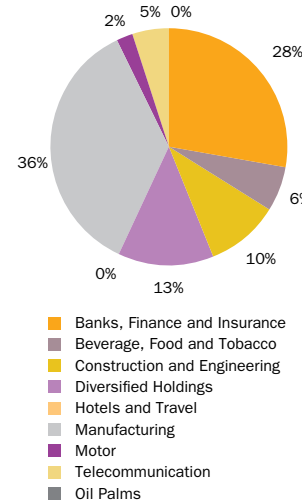
**Fair value through profit or loss (FVTPL)**

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 diversified by investing in different industries across the stock market. The chart below provides insights in to equity portion in different industries during the year.

FVTPL Equity Investments 2013



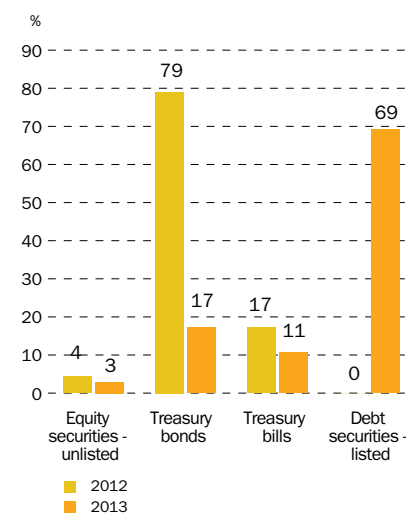
Investments made through the unit linked segment are also categorised as FVTPL. The unit linked investments comprise of equity and debt instruments including treasury bills and reverse repurchase agreements.

**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 comprise of treasury bills, treasury bonds, reverse repurchase agreements with fixed interest rates and unquoted equity investments.

Composition of AFS Investments



# Management Discussion and Analysis

## Financial Value Creation

Instruments under AFS have increased by 49% to Rs. 3.5 billion in 2013 from Rs. 2.4 billion in 2012.

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

### Property, plant and equipment

The net book value of property plant and equipment in 2013 and 2012 were Rs. 1.5 billion and Rs. 1.3 billion respectively. Land and buildings account for 70% of this asset class, with computer equipment accounting for 19% of the net book value.

### Reinsurance receivable

Reinsurance receivables comprise Rs. 115 million receivable on paid claims (2012 - Rs. 83 million) and Rs. 391 million (2012 - Rs. 358 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 36% from Rs. 1.3 billion to Rs. 1.7 billion.

### Life insurance provision

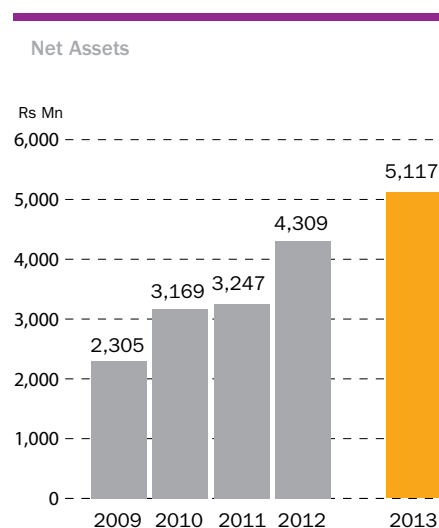
Following the annual valuation of life policyholder liabilities, the life insurance provision increased from Rs. 15.4 billion in 2012 to Rs. 17.5 billion in 2013. The life insurance provision includes Rs. 391 million of unclaimed benefits due to policyholders. In addition, the unit linked insurance provision increased from Rs. 1.1 billion to Rs. 1.8 billion.

### Non life insurance provision

The non life insurance provision, which includes net (after reinsurance) unearned premiums and gross (before reinsurance) outstanding claims increased by 4% from Rs. 3.2 billion in 2012 to Rs. 3.3 billion in 2013.

### Equity

Improved profitability and revaluation surplus resulted in equity increasing from Rs. 4.3 billion in 2012 to Rs. 5.1 billion in 2013.



### CASH FLOW ANALYSIS

The aggregate cash inflows from operating activities remained positive. Net cash from operating activities decreased marginally by 2% from Rs. 3.98 billion in 2012 to Rs. 3.89 billion in 2013.

Following the Rs. 383 million dividend payment in March 2013 to shareholders, cash and cash equivalents recorded a net increase of Rs. 72 million as at December 2013.

### CONTRIBUTION TO THE NATIONAL ECONOMY

Insurance serves a number of valuable economic functions that are largely distinct from other types of financial services. The concept of indemnification and risk pooling of insurance facilitates the management of non diversifiable risk more effectively by providing greater opportunities for economic activities.

Among other things, the smoothing effect helps to avoid excessive and costly bankruptcies and facilitates lending to

businesses. Most fundamentally, the availability of insurance enables risk averse Individuals and entrepreneurs to undertake higher risk, higher return activities than they would do in the absence of insurance, promoting higher productivity and growth.

Our economic value added statement reflects the manner in which the company has generated and distributed wealth among its various stakeholders.

### Statement of Value Addition Rs. million

	2013	2012	2011	2010	2009
<b>Total value added</b>					
Net premium	9,227	8,385	7,351	5,691	4,882
Investment and other income	2,845	2,333	1,659	2,229	1,795
Net claims and benefits	(4,558)	(4,087)	(2,912)	(2,393)	(2,205)
Cost of external services	(1,200)	(1,039)	(966)	(880)	(922)
	<b>6,314</b>	<b>5,592</b>	<b>5,132</b>	<b>4,647</b>	<b>3,550</b>
<b>Value Distributed</b>					
To employees as salaries and other benefits	1,117	1,090	875	787	646
To intermediaries as commission	1,214	1,169	1,088	848	616
To the Government as taxes	59	87	67	81	67
To shareholders as dividends	429	375	234	188	122
To life policyholders as increase in life fund	2,218	1,807	2,044	2,123	1,616
	<b>5,037</b>	<b>4,529</b>	<b>4,308</b>	<b>4,027</b>	<b>3,065</b>
<b>Retained with the business</b>					
- as Depreciation	154	143	129	108	82
- in Reserves	1,123	921	695	512	401
	<b>1,277</b>	<b>1,064</b>	<b>824</b>	<b>620</b>	<b>483</b>
	<b>6,314</b>	<b>5,592</b>	<b>5,132</b>	<b>4,647</b>	<b>3,550</b>

The combined value generated through the sources of income from life and non life insurance segments for the current year is Rs. 6.3 billion. The income which has been distributed to the economy has shown an increase compared to the preceding year.

Contribution to the National Economy - Company



# Management Discussion and Analysis

## Segmental Review - Non Life

### INDUSTRY OVERVIEW

The non life insurance market is estimated to have grown by 9.1% from Rs. 52 billion in 2012 to Rs. 57 billion in 2013. Growth was driven mainly by the increase in new vehicle registrations, large scale infrastructure projects and organic growth.

There are 22 insurance companies registered with the IBSL as at 31 December 2013. Of these three are stand alone life insurance companies and seven are stand alone non life insurance companies and twelve insurance companies transacting both life and non life insurance business. Brokers play a dominant role in the industry, accounting for 22% of industry volume as at December 2012.

UA reported a 17% growth in non life premium in 2013, which was ahead of the industry growth rate. The size of the market, industry growth rate and UA's growth over the past 5 years is as follows. The top 5 insurance companies accounted for 71% of the total market (2012 – 72%)

Non life Insurance Rs. million	2009	2010	2011	2012	2013(e)
Market size	33,548	35,101	43,331	51,797	56,564
Market growth	(3)	5	23	20	9
UA growth	1	14	15	9	17

Source: IBSL Annual Report and Industry Statistics

Motor insurance continues to be the dominant line of business accounting for approximately 61% of the total market.

### Class wise Distribution of Business (%)

	2009	2010	2011	2012	2013
Fire	21	14	12	14	15
Marine	4	4	4	3	3
Motor	54	60	63	62	61
Accident and liability	21	22	21	21	21
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: IBSL Annual Report and Industry Statistics

The growth in motor premium has resulted in an increase in premium retained by insurers. As per table below premium retained as a percentage of total GWP increased from 70% in 2008 to 82% in 2012.

As per information published in the IBSL annual report 2012, the industry combined ratio has declined from 119% in 2008 to 99% in 2012, mainly due to a reduction in the expenses ratio.

Net Combined Ratio	2008	2009	2010	2011	2012
Net expenses (Rs. million)	12,767	12,907	10,058	12,105	14,662
Net expense ratio (%)	53.54	52.52	39.58	38.04	38.16
Net combined ratio (%)	119.57	121.79	100.85	101.82	98.73

Source: IBSL Annual Report 2012

All lines of business continue to be price competitive reflecting a prolonged soft market cycle, which is likely to prevail until 2015 / 16 when several regulatory changes which will require companies to focus on underwriting profits will be effected.

### BUSINESS REVIEW

UA's non life gross written premium (GWP) increased by 17% from Rs. 4.6 billion in 2012 to Rs. 5.4 billion in 2013. Both retail and corporate distribution channels contributed to this growth. Premiums from the motor segment accounted for 50% of the total premium and health insurance premiums constituted a further 21% of the portfolio.

Net written premiums (GWP less reinsurance premiums) grew by 11% from Rs. 3.7 billion in 2012 to Rs. 4.1 billion in 2013. Net earned premium (net written premium adjusted for premium attributed to future risk periods) increased by 13% from Rs. 3.5 billion in 2012 to Rs. 4 billion in 2013.

The overall claims ratio (claims net of reinsurance recoveries divided by net earned premium) deteriorated from 65.8% in 2012 to 70.1% in 2013. This was mainly due to an escalation in health insurance related claims and two low frequency, high severity incidents affecting the marine portfolio.

The expense ratio (expenses divided by net earned premium) declined from 37.2% in 2012 to 35.3% in 2013, reflecting the scale efficiencies gained from investments to improve distribution reach, brand visibility and customer service.

As a result of the above the combined ratio (total of loss and expense ratios) increased from 103% in 2012 to 105.4% in 2013. The increase in the combined ratio is reflected in the underwriting results which deteriorated from a loss of Rs. 104 million in 2012 to a loss of Rs. 215 million in 2013.

Investment and other income reported a 7% increase from Rs. 566 million in 2012 to Rs. 604 million in 2013 due to prudent cash management and locking in funds at higher interest rates which prevailed during the early part of the year.

Profit before tax from the non life insurance business amounted to Rs. 392 million which was 18% lower than the profit reported in 2012. Profit after tax amounted to Rs. 332 million which was a decline of 14% compared with 2012.

# Management Discussion and Analysis

## Segmental Review - Non Life

### SUMMARY OF THE PROGRESS AGAINST STRATEGIC PRIORITIES OF 2013

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

Priorities	Progress	Achievement
<b>Expand Distribution Capabilities in Retail Segment</b>		
Expand non permanent sales force to target opportunities in retail segment	<ul style="list-style-type: none"> <li>■ Achieved increase in non permanent cadre</li> <li>■ Generated 43% of zonal GWP from non permanent cadre</li> <li>■ Streamlined processes, technology and training to enhance productivity and enabled the sales force to provide better customer service</li> <li>■ Implemented grading system to monitor and manage performance</li> </ul>	■
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"> <li>■ Number of pre underwritten policies increased by 8%</li> <li>■ Usage of e-motor system increased to 78% as at December 2013</li> </ul>	■
Continuously provide learning and development opportunities for existing and new recruits	<ul style="list-style-type: none"> <li>■ Synergised underwriting and distribution resources to ensure adequate training on sales techniques and operational processes was provided to new recruits</li> <li>■ Launched 'Product Champions' training programme for sales staff in the corporate distribution channel</li> </ul>	■
Expand corporate sales team in a selective manner	<ul style="list-style-type: none"> <li>■ On going. Corporate distribution channels generated 15% growth in GWP</li> </ul>	■
<b>Continuous Improvement in Service Standards</b>		
Leverage enhanced motor claims service features to improve time taken to settle claims	<ul style="list-style-type: none"> <li>■ Launched garage on the spot solution enabling motor assessors to approve garage estimates on the spot at the garages</li> <li>■ Certified 70% of motor claims assessors to provide superior service to customers</li> <li>■ Recorded improvement in satisfaction rate among motor insurance customers who made claims against their policies</li> </ul>	■
Review options to implement end to end workflow process for non motor claims	<ul style="list-style-type: none"> <li>■ Paperless work flow system for all non motor claims other than health insurance claims launched in 2013</li> </ul>	■

Priorities	Progress	Achievement
Enhance IT system features and functionality in cost effective manner	■ On going. Enhancements to core system implemented in a structured manner	■
<b>Develop Alternate Distribution Channels</b>		
Expand volumes from all alternate channel operations	■ Growth reported from all channels	■
Review options to enhance sales process / resources at Keells supermarkets	■ Sales process restructured and dedicated resources assigned to selected outlets to build relationships and develop markets in the vicinity	■
Enhance alternative channel resources in a selective manner	■ On going. Resources are allocated based on business potential	■
Review options to enhance existing relationships and develop tie ups with new partners	■ Deepened presence within existing channels	■
<b>Develop New products and Augment Existing Products</b>		
Ensure optimal use of web based motor and non motor systems	■ Usage of e-motor solution increased to 78% as at December ■ Recorded increased volumes and premiums from web based non motor products	■
Continuously monitor environment for new product ideas that meet customer needs	■ On going activity	■
Provide value added benefits to customers	■ Launched co-branded Nexus card enabling UA customers to access Nexus rewards scheme	■
<b>Strengthen Underwriting Processes</b>		
Use risk based pricing methodology to manage profitability of motor portfolio	■ Revamped risk based pricing methodology ■ Motor claims ratios for the year in line with budget	■
Set walk away pricing limits for property risks	■ Regular review of pricing and terms and conditions on large risks on going ■ Claim ratios for property portfolio reported a year on year decline	■
Further simplify policy wording in line with risk guidelines / appetite	■ On going	■
<b>Strengthen Claims Management Processes</b>		
Continue to focus on staff learning and development	■ Certification of underwriting staff on going ■ Regular training provided to claims management staff to identify potential leakage	■
Work with reinsurance partners to update knowledge	■ On going	■
Expand relationships with motor repair shops in a selective manner to manage motor claims leakage	■ Implemented process to build relationships with selected repair shops in a structured manner	■
Use non motor claims work flow system to monitor / manage claims service and outgo	■ Non motor claims work flow system implemented	■

# Management Discussion and Analysis

## Segmental Review - Non Life

### 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 of developing non permanent distribution resources gathered momentum during the year. The company invested in dedicated leadership resources to manage the channel and implemented a grading system to monitor and improve performance of the team.

Sales staff were empowered with UA's web based motor and non motor underwriting solutions and training programmes were standardised to enhance their IT skills and familiarise the team regarding the operational and compliance aspects of the business. The training was conducted by a combination of training and underwriting resources to ensure that all new recruits have adequate background knowledge to conduct business in a productive manner.

Retail distribution resources combined well with the corporate distribution channels to generate 17% growth in GWP. A breakdown of GWP between the two channels is as follows;

### Improve Service Standards

UA launched a new level of convenience for motor insurance customers by introducing a garage on the spot scheme, empowering motor assessors to approve garage estimates on site. Considering the potential leakage which would arise, assessors had to undergo an internal certification process prior to being granted authority. As at end December 2013, 70% of our staff were certified to offer this facility to customers.

The above initiative together with several other process improvements launched over the period resulted in an improvement in customer satisfaction levels, from 73% in 2012 to 81% in 2013.

Following the success derived from implementing a paperless work flow solution to manage motor claims, a similar solution was implemented to manage non motor claims (other than health claims) as well.

Distribution Channel Wise GWP	2013 Rs. Mn.	2012 Rs. Mn.	Growth %	2013 Mix %	2012 Mix %	Change in Mix %
Direct Corporate	1,669	619	170	31	13	18
Direct Commercial / retail	1,023	1,212	(16)	19	26	(7)
Brokers	1,832	1,693	8	34	37	(3)
Agents	868	1,104	(21)	16	24	(8)
<b>Total</b>	<b>5,392</b>	<b>4,626</b>	<b>16</b>	<b>100</b>	<b>100</b>	<b>-</b>

### Develop Alternative Distribution Channels

UA reported growth from all alternative channel partnerships. The company revamped the sale of non life products at Keells Super outlets by assigning dedicated resources at selected locations.

### Product Development

Usage of the company's web based motor and non motor solutions gathered momentum with a record number of transactions being generated from the system. This resulted in a year on year increase in premiums as well.

The company entered into a formal agreement with Nexus to co-brand the UA motor insurance plastic card, enabling customers to use their motor certificate to collect and redeem points at all Nexus approved stores.

### Strengthen Underwriting and Claims Management

The company updated the actuarially validated risk based pricing model to target profitable business opportunities in the motor segment. As a result, UA recorded an above industry growth in this line of business while maintaining the claims ratio in line with budget.

Focused attention on managing pricing in the property segment delivered the desired results, as claims ratios reported a year on year decline despite the soft market cycle prevailing at the present time.

The company continued to invest significant resources to train both technical and non technical staff on the latest trends in pricing, underwriting practices and claims management. UA also leveraged the relationships established with global reinsurers to improve the knowledge of underwriting and claim staff.

### Expenditure to Enhance Future Results

The annualised cost of increased sales staff, support staff, infrastructure, learning and development resources and brand building initiatives is as follows;

Expenditure	Rs. Mn.
Sales staff	20
Support staff	7
Infrastructure	9
Learning and development	15
Brand development	39
<b>Total</b>	<b>90</b>

### CURRENT PERFORMANCE AGAINST KEY PERFORMANCE INDICATORS (KPIs)

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

KPI	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> <table border="1"> <caption>Increase In Gross Written Premium (%)</caption> <thead> <tr> <th>Year/Type</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>9</td> </tr> <tr> <td>13 Obj</td> <td>20</td> </tr> <tr> <td>13 Act</td> <td>17</td> </tr> <tr> <td>14 Obj</td> <td>13</td> </tr> </tbody> </table>	Year/Type	Value (%)	12 Act	9	13 Obj	20	13 Act	17	14 Obj	13	All classes of business reported growth. Both retail and corporate channels contributed to the increase which is expected to exceed the industry growth rate. However, premiums fell short of expected volumes due to price competition, which meant having to walk away from businesses where we could not charge a fair premium.
Year/Type	Value (%)												
12 Act	9												
13 Obj	20												
13 Act	17												
14 Obj	13												

# Management Discussion and Analysis

## Segmental Review - Non Life

KPI	What does it show?	Presentation of Results	Comments										
Net combined ratio	Our underwriting profit margin. A ratio less than 100% represent profits and vice versa	<p>Net Combined Ratio</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>103.0</td> </tr> <tr> <td>13 Obj</td> <td>103.9</td> </tr> <tr> <td>13 Act</td> <td>106.7</td> </tr> <tr> <td>14 Obj</td> <td>104.2</td> </tr> </tbody> </table>	Year	Ratio (%)	12 Act	103.0	13 Obj	103.9	13 Act	106.7	14 Obj	104.2	Net combined ratio is higher than budget and previous year mainly due to escalation in health related claims, which resulted in an overall increase in the claims ratio
Year	Ratio (%)												
12 Act	103.0												
13 Obj	103.9												
13 Act	106.7												
14 Obj	104.2												
Profit for the year	The final bottom line result for the year	<p>Profit for the year - Non life</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Profit (Rs Mn)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>388</td> </tr> <tr> <td>13 Obj</td> <td>332</td> </tr> <tr> <td>13 Act</td> <td>332</td> </tr> <tr> <td>14 Obj</td> <td>291</td> </tr> </tbody> </table>	Year	Profit (Rs Mn)	12 Act	388	13 Obj	332	13 Act	332	14 Obj	291	Profit for the year was in line with the budget, but lower than 2012 result mainly due to expenses incurred to expand the distribution network and escalation of health insurance related claims
Year	Profit (Rs Mn)												
12 Act	388												
13 Obj	332												
13 Act	332												
14 Obj	291												

***“We have identified our key priorities for next year through an extensive planning process.”***

### SNAPSHOT OF 2014 PRIORITIES

#### Expand distribution capability especially in retail segment

We will continue to build scale in the retail segment of the market to augment our strong presence in the corporate segment

- Continue to expand distribution capabilities in cost effective manner
- Implement further improvements to web based sales force management system
- Use learning and development as a key differentiator to enhance distribution effectiveness
- Update web based motor and non motor sales tools in line with business requirements

#### Develop alternative distribution channels to exploit cross marketing opportunities within the group

In addition to traditional direct B2B and B2C sales teams, we continue to invest in web and other distribution channels to provide customer convenience and exploit emerging opportunities in a cost effective manner.

- Continue to expand alternative distribution channels in cost effective manner
- Rationalise existing and new business opportunities in terms of premium and profit
- Cross sell products offered via alternative channels to customers serviced by traditional B2B channels

#### Continuous improvements in service standards

Despite the intense price competition, we remain convinced that service and value addition will be the long term differentiator in the industry.

- Leverage non motor claims workflow system to improve claims settlement process
- Maintain current customer satisfaction levels
- Leverage customer feedback to improve renewal retention ratios
- Implement dedicated call centre to handle health insurance related claims and queries
- Implement one stop shop for sales staff to access underwriting and technical resources to improve productivity and customer conveniences

#### Develop new products and augment existing products

We are mindful of the intense price competition in the market and the evolving needs of our customers. Hence we constantly seek feedback regarding customer requirements and market dynamics and strive to deliver value for money products.

- Update web based sales tools in line with customer requirements and market dynamics
- Review options to continuously add value to corporate and retail clients
- Tailor made solutions based on risk management requirements of large corporates

# Management Discussion and Analysis

## Segmental Review - Non Life

### Strengthen underwriting processes

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.

- Implement structured programmes to enhance knowledge of technical and distribution staff
- Strengthen underwriting controls to prevent leakage
- Expand reinsurance panel and leverage their global expertise to upgrade staff capabilities
- Review options to centralise document storage to avoid disputes
- Consider translating policy terms and conditions to Sinhala and Tamil to enhance transparency

### Strengthen claims management processes

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.

- Continue to enhance the knowledge and competencies of staff in a structured manner
- Work with reinsurers, loss adjustors and other industry professionals to reduce claims leakage and enhance customer service
- Leverage relationships with selected motor vehicle repairers to reduce leakage and improve customer satisfaction
- Use non motor claims workflow system to monitor / manage claims service and outgo

**ANALYSIS OF BUSINESS SEGMENTS**

The non life insurance business comprises distinct classes of business as follows.

- Accident and liability
- Fire
- Marine
- Motor

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

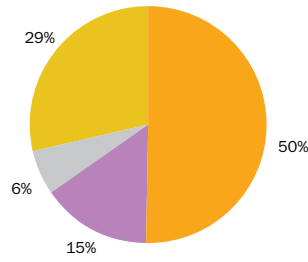
**ACCIDENT AND LIABILITY**

Accident and liability GWP contributed 29% 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 accounted for a significant component of GWP. The full range of products / covers offered under this class of business is provided on page 79.

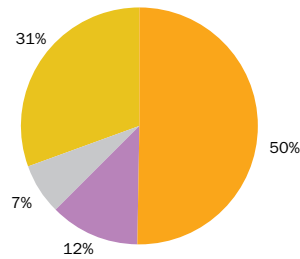


Accident and liability contributed **29%** of the total non life premium

GWP Mix - 2013



GWP Mix - 2012



- Motor
- Fire
- Marine
- Accident and Liability

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

Accident and Liability	2009	2010	2011	2012	2013 (e)
Market size GWP (Rs. million)	7,158	7,641	9,123	10,949	11,990
UA GWP (Rs. million)	591	939	1,196	1,410	1,534
Market growth %	0%	7%	19%	20%	10%
UA growth %	-5%	59%	27%	18%	9%
UA market share %	8%	12%	13%	13%	13%
UA rank	4	3	3	3	3

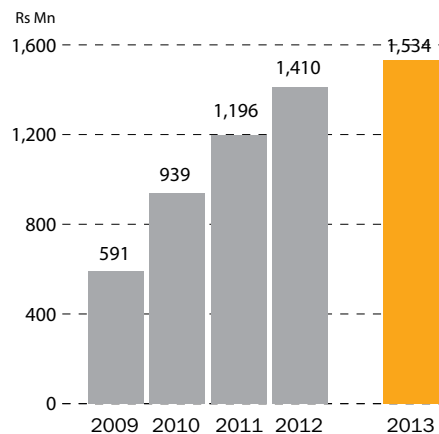
Source: IBSL Annual Report 2012 and Industry statistics

# Management Discussion and Analysis

## Segmental Review - Non Life

As per the table on the previous page, accident and liability class of business has recorded a CAGR of 14% over the last 5 years compared with UA's CAGR of 27% over the same period. It is estimated that UA ranks as the 3<sup>rd</sup> largest accident and liability insurer in the market.

UA Accident and Liability GWP over past 5 years



### Alignment with Strategic Objectives

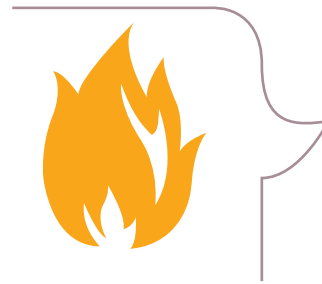
The following table indicates how this line of business contributed to achieving the strategic objectives of the non life business.

Strategic Objective	Activities
Expand distribution capacity especially in retail segment	<ul style="list-style-type: none"> <li>GWP from retail channels increased by 31% in 2013 compared with 2012</li> <li>Used web based travel insurance solutions to target growing number of travelers out of Sri Lanka</li> <li>Reported 21% growth in class of business despite intense price competition</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>Launched web based solution for claimants to track entitlements / coverage available on their health policies</li> <li>Maintained / improved service standards for large corporate portfolios throughout the year</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>Generated 9% growth in personal accident product distributed exclusively at customer premises</li> <li>Reviewed options to increase suite of products sold at selected Keells Super outlets</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>Implemented paperless claims workflow system to improve claims settlement speed and prevent leakage</li> <li>Conducted portfolio studies and risk surveys to identify any gaps in existing coverage and provide risk improvement recommendations</li> <li>Conducted open file reviews and knowledge sharing initiatives to enhance knowledge of decentralised underwriting team members</li> <li>Maintained / increased number of reinsurance partners supplying UA's capacity</li> </ul>

## FIRE

Fire class of business which contributed 15% 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 SME segments of the market as well. The full range of products / covers offered under the fire class of business is provided on page 79.

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



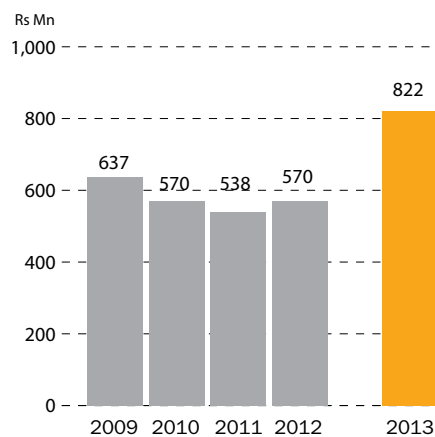
Fire contributed **15%** of UA's total non life premium

Fire	2009	2010	2011	2012	2013 (e)
Market size GWP (Rs. million)	7,049	5,012	5,379	7,460	8,394
UA GWP (Rs. million)	637	570	538	570	822
Market growth %	3%	-29%	7%	39%	13%
UA growth %	-12%	-11%	-6%	6%	44%
UA market share %	9%	11%	10%	8%	10%
UA rank	3	4	4	4	3

Source: IBSL Annual Report 2012 and Industry statistics

As per table above, fire class of business has reported a CAGR of 4% over the last 5 years compared with UA's CAGR of 7% over the same period. It is estimated that UA ranks as the 3<sup>rd</sup> largest property insurance provider in the market.

UA Fire GWP over past 5 years



# Management Discussion and Analysis

## Segmental Review - Non Life

### 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 the retail segment	<ul style="list-style-type: none"> <li>■ Conducted targeted training programmes</li> <li>■ Leveraged business relationships to target large scale infrastructure projects</li> <li>■ Worked closely with distribution resources to target profitable segments in the retail segment of the market</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>■ Increased productivity by training staff on features and functionality of IT systems</li> <li>■ Conducted portfolio reviews for selected clients</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>■ Conducted audits of underwriting processes</li> <li>■ Participated in knowledge sharing / webinars organised by reinsurance partners</li> <li>■ Participated in lectures and knowledge sharing initiatives organised by loss adjusters and risk managers</li> <li>■ 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</li> <li>■ Recorded improved claims ratios despite soft market cycle</li> <li>■ Negotiated improved terms and conditions from panel of reinsurers</li> <li>■ Maintained / increased number of global reinsurers supporting UA capacity</li> </ul>

## MARINE

The marine portfolio which contributed 6% of UA's total portfolio consists mainly of covers provided to the corporate segment, with commercial / SME 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 79.

Marine contributed  
6% of UA's total non  
life premiums



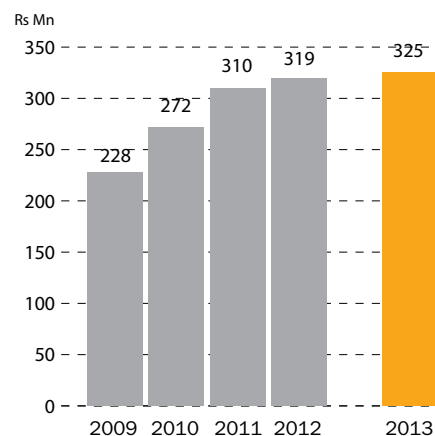
The following table depicts the size of the marine market, UA's market share and relevant growth rates.

Marine	2009	2010	2011	2012	2013 (e)
Market size GWP (Rs. million)	1,443	1,499	1,691	1,673	1,813
UA GWP (Rs. million)	228	272	310	319	325
Market growth %	-21%	4%	13%	1%	9%
UA growth %	-17%	19%	14%	3%	2%
UA market share %	16%	18%	18%	19%	18%
UA rank	2	3	3	2	3

Source: IBSL Annual Report 2012 and Industry statistics

As per table above, marine class of business has recorded a CAGR of 6% over the last 5 years compared with UA's CAGR of 9% over the same period. It is estimated that UA ranks as the 3<sup>rd</sup> largest marine insurer in the market.

UA Marine GWP over Past 5 years



# Management Discussion and Analysis

## Segmental Review - Non Life

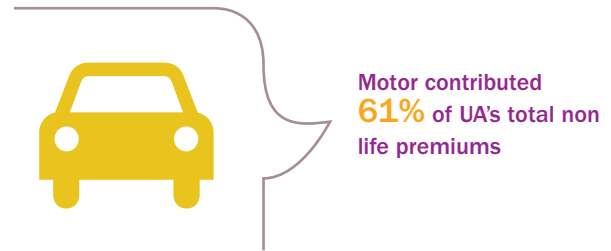
### Alignment with Strategic Objectives

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"> <li>■ Selectively target profitable marine customers by showcasing value for money solutions and IT capabilities</li> <li>■ Provided training on a continuous basis to enhance the knowledge of the distribution team regarding marine insurance</li> <li>■ Aligned sales incentives to grow marine GWP</li> </ul>
Continuous improvements in service standards	<ul style="list-style-type: none"> <li>■ Provided web based e-marine facility to selected customers</li> <li>■ 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</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>■ Used panel of internal surveyors to verify and settle claims in a speedy manner</li> <li>■ Maintained reinsurance partnerships and high capacity with highly rated reinsures</li> <li>■ Conducted internal review of all processes / procedures and implemented improvements in a structured manner</li> </ul>

## MOTOR

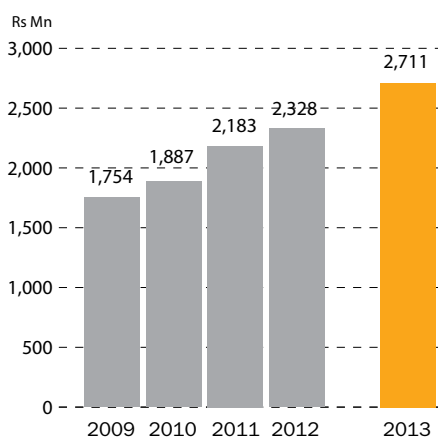
The motor class of business contributed 50% of UA's total non life premiums. As an industry, motor business is also estimated to account for 61% of the total premium. With all nineteen service providers offering motor insurance solutions, this segment is one of the most price competitive in the non life industry. Nevertheless, as depicted below, the segment has reported an 18% CAGR over the past 5 year period. UA's CAGR over the same period is 12%, as the company 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	2009	2010	2011	2012	2013 (e)
Market size GWP (Rs. million)	17,898	20,949	27,138	31,753	34,367
UA GWP (Rs. million)	1,754	1,887	2,183	2,328	2,711
Market growth %	-4%	17%	30%	17%	7%
UA growth %	10%	8%	16%	7%	16%
UA market share %	10%	9%	8%	7%	8%
UA rank	4	4	4	5	5

UA Motor GWP over past 5 years



# Management Discussion and Analysis

## Segmental Review - Non Life

### 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"> <li>■ Motor GWP increased by 16% compared with 2012</li> <li>■ Usage of web based motor sales tool increased from 64% in 2012 to 78% in 2013</li> <li>■ Product and IT training aligned with expansion in sales force</li> <li>■ Expanded motor portfolio to target motor cycle and three wheeler businesses</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>■ Launched co-branded Nexus card for UA motor customers to enjoy rewards and privileges available in the Nexus network</li> <li>■ Certified 70% of technical executives enabling them to offer settlements based on garage estimates without seeking approval from centre</li> <li>■ Increased number of technical executives to speedily attend to inspections at accident sites</li> <li>■ Continued to build relationships with selected garages to ensure UA customers received preferential treatment in the event of a claim</li> <li>■ Customer satisfaction related to claims settlement recorded year on year improvement</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>■ Increased GWP from alternative partnerships</li> <li>■ Assigned dedicated resources to promote motor insurance via web</li> <li>■ Upgraded IT systems to improve control environment</li> <li>■ Assigned dedicated resources at selected Keells Super outlets to provide insurance solutions to walk in customers</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>■ Updated risk based pricing formula which enables standard pricing based on risk factors to be offered across all distribution channels</li> <li>■ Recorded a year on year decline in motor claims ratios</li> <li>■ Enhanced knowledge of distribution staff regarding product features and IT tools</li> <li>■ Constantly updated knowledge of technical and claims management teams to provide improved customer service and minimise leakage</li> <li>■ Strengthened resources conducting claims audits to prevent leakage</li> </ul>

### Opportunities and Threats

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

Opportunity	UA's Response
Growth arising from large scale infrastructure projects financed by private sector	Leverage distribution network, competencies of technical team and strong relationships with highly rated reinsurers to provide customised solutions for such projects
Improving business confidence and positive business sentiments will create new business and organic growth opportunities	Leverage corporate reputation, strong service culture and value for money solutions to tap opportunities in corporate sector
Increased demand from retail sector due to low interest rate environment and higher disposable incomes	Utilise expanded distribution network, alternative channels and e-based sales tools to deliver products in a convenient and cost effective manner

The threats faced by the business are outlined below:

Threat	UA's Response
Intense price competition in medium term as insurers seek to create scale before life and non life businesses are separated	<p>Leverage low cost distribution and servicing options to provide value for money solutions</p> <p>Focus on improving technical competencies of distribution and underwriting teams to provide risk management advice as key differentiator</p> <p>Maintain underwriting discipline and walk away when premiums are not commensurate with risk exposure</p>
Lack of transparency regarding The National Insurance Trust Fund's (NITF) reinsurance arrangements and risk management processes as 30% of all reinsurance premiums are placed with them	Lobby relevant authorities to increase transparency and provide certainty to industry e.g. ensure NITF has adequate risk management / reinsurance arrangements in place to respond in the event of large scale catastrophe or single low frequency high severity event
Lack of technical and distribution resources to tap growth opportunities in sector	Invest in training and development of technical and distribution staff

# Management Discussion and Analysis

## Segmental Review - Non Life

### FINANCIAL REVIEW

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 maintain a growth trajectory which was ahead of industry.

### Results Overview

Rs.'000	2013	2012	Change %
Gross written premium	5,391,712	4,626,433	17%
<b>Net earned premium</b>	<b>3,992,334</b>	<b>3,528,412</b>	<b>13%</b>
Net claims incurred	(2,799,257)	(2,320,104)	21%
Underwriting and net acquisition costs (including reinsurance)	(245,740)	(278,697)	-12%
Other operating and administrative expenses	(1,213,583)	(1,061,834)	14%
Underwriting loss	(214,641)	(104,424)	106%
Investment and other income	606,281	579,857	5%
Income tax expense	(59,199)	(86,984)	-32%
<b>Profit for the year</b>	<b>332,441</b>	<b>388,449</b>	<b>-14%</b>

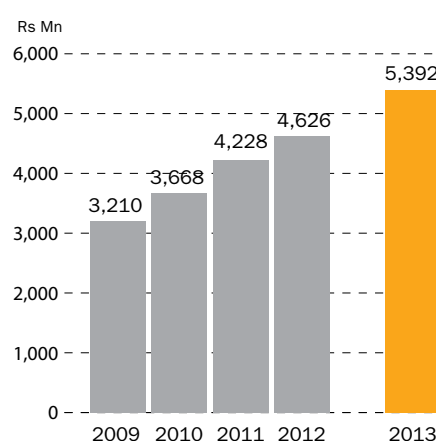
Non life GWP grew by 17% from Rs. 4.6 billion in 2012 to Rs. 5.4 billion in 2013 as most distribution channels maintained a steady growth momentum in business volumes in 2013.

Five year compound growth stands at 14% and the year on year growth of the business was 17% (2012:9%)

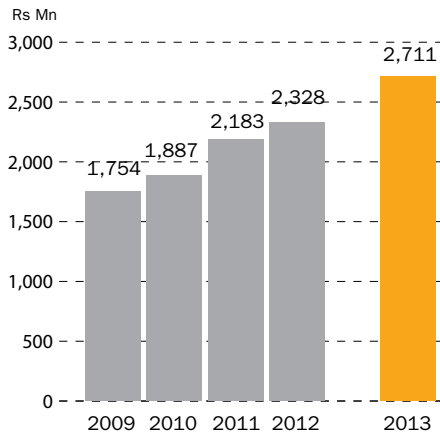
Premium ceded to reinsurers as a percentage of GWP increased from 20% in 2012 to 23% in 2013. This was mainly due to more large scale risks being underwritten during the year.

Net written premium increased by Rs. 421million, but Rs. 143 million was transferred to the unearned premium reserve as income to be accounted in 2014. In the previous year, the company transferred Rs. 186 million as unearned premiums. Following this adjustment, net earned premiums increased by 13% from Rs. 3.5 billion in 2012 to Rs. 4 billion in 2013.

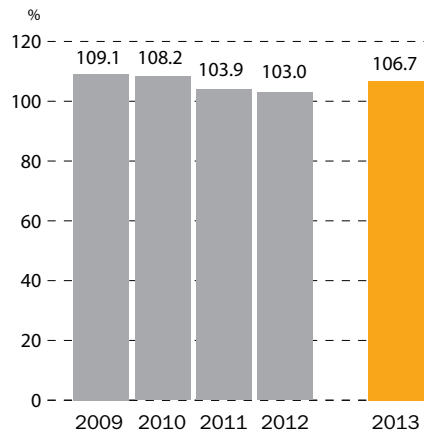
Gross Written Premium - Non life



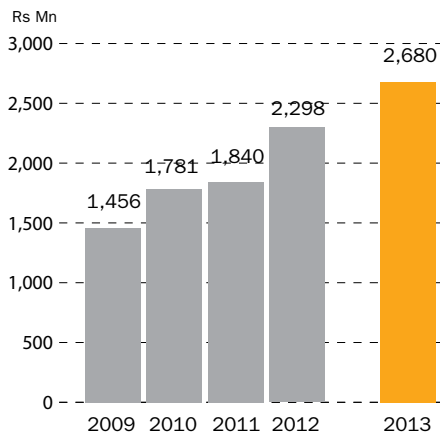
## Gross Written Premium - Motor



## Net Combined Ratio



## Gross Written Premium - Non Motor

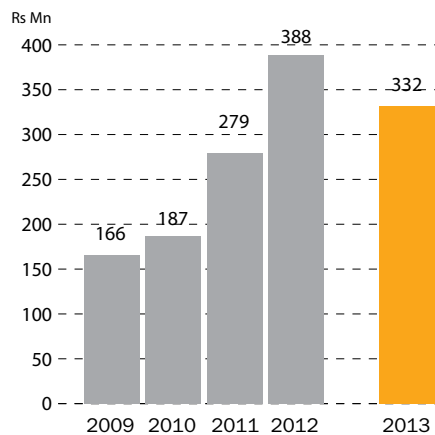


The claims ratio (computed as a % of net claims over net earned premium) increased from 66% in 2012 to 70% in 2013. Net claims expense includes Rs. 10 million charge on account of incurred but not reported (IBNR) claims which has been actuarially valued. The net expense ratio of 36.6% in 2013 (computed as a % of commission and overhead expenses over net earned premium) was lower than the 37.2% reported in 2012.

The combined ratio which is the key measure of underwriting profitability (total of the claims and expense ratios) of 106.7% in 2013 was higher than the 103% reported in 2012.

The increase in underwriting losses was off set by increase in investment income. However profit before tax from non life insurance business decreased from Rs. 475 million in 2012 to Rs. 392 million in 2013 whereas profit after tax declined by 14% from Rs. 388 million to Rs. 332 million in 2013.

## Profit - Non Life



## Contribution to National Economy

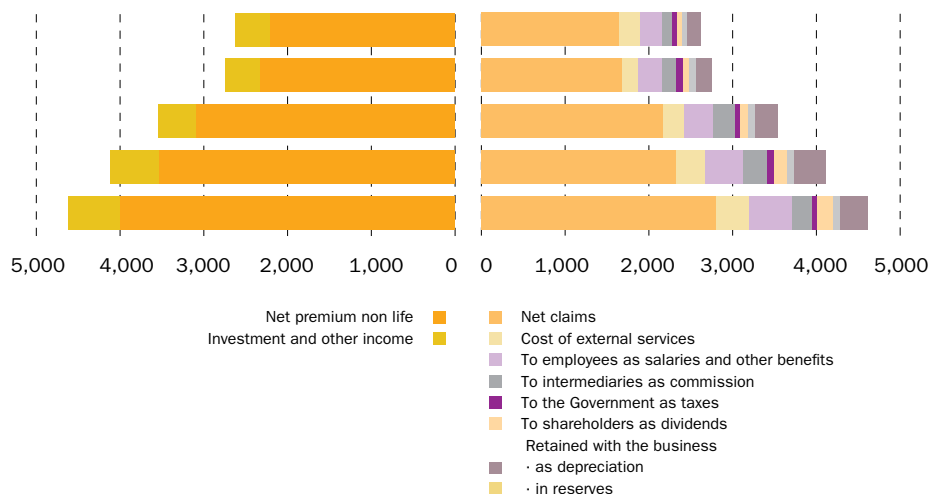
The total value generated through the sources of income from non life insurance segment for the current year is Rs. 1,417 million. The income has been distributed to our stakeholders who include employees, government, agents and shareholders.

# Management Discussion and Analysis

## Segmental Review - Non Life

Statement of Value Addition Rs. million	2013	2012	2011	2010	2009
<b>Total value added</b>					
Net premium	3,992	3,528	3,083	2,323	2,203
Investment and other income	621	588	456	422	420
Net claims	(2,799)	(2,320)	(2,165)	(1,678)	(1,643)
Cost of external services	(397)	(348)	(254)	(190)	(244)
	<b>1,417</b>	<b>1,448</b>	<b>1,120</b>	<b>878</b>	<b>736</b>
<b>Value distributed</b>					
To employees as salaries and other benefits	509	457	336	282	270
To intermediaries as commission	246	280	269	173	112
To the Government as taxes	59	87	67	81	67
To shareholders as dividends	181	151	85	78	56
	<b>995</b>	<b>975</b>	<b>757</b>	<b>614</b>	<b>505</b>
<b>Retained with the business</b>					
as depreciation	90	85	84	77	65
in reserves	332	388	279	187	166
	<b>422</b>	<b>473</b>	<b>363</b>	<b>264</b>	<b>231</b>
	<b>1,417</b>	<b>1,448</b>	<b>1,120</b>	<b>878</b>	<b>736</b>

Contribution to the National Economy - Non life



### 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 Rs. billion	2013	2012	Change (%)	Strategic Issues	Action Plans
GWP	5.39	4.62	17%	Intense price competition resulting in unviable pricing and UA having to walk away from business	<ul style="list-style-type: none"> <li>■ Offer differentiated products in terms of service</li> <li>■ Manage claims and expenses to deliver target price points</li> <li>■ Develop multiple distribution channels to compete for business</li> </ul>
Premium receivable	1.73	1.27	36%	<ul style="list-style-type: none"> <li>■ Risk of non payment of premium</li> <li>■ Cash flow implications of not receiving premiums on timely basis</li> </ul>	<ul style="list-style-type: none"> <li>■ Strict implementation of premium warranty clause</li> <li>■ Increase credit control resources</li> <li>■ Review and modify credit control practices in light of increased volumes</li> </ul>
Premium ceded to reinsurers	1.26	0.91	38%	<ul style="list-style-type: none"> <li>■ Ensure high quality reinsurance support across business cycle</li> <li>■ Inadequate transfer of risk</li> </ul>	<ul style="list-style-type: none"> <li>■ Manage underwriting and claims processes to ensure positive contribution to reinsurance partners</li> <li>■ Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>
Reinsurance receivables	0.42	0.36	16%	Inability of reinsurers to meet their commitments due to insufficient financial strength	<ul style="list-style-type: none"> <li>■ Build relationships only with reinsurers with minimum ratings</li> <li>■ Monitor ratings on a regular basis</li> </ul>
Net claims	2.79	2.32	21%	<ul style="list-style-type: none"> <li>■ Manage claims leakage</li> <li>■ Manage underwriting results by ensuring that pricing is adequate to cover ultimate losses</li> </ul>	<ul style="list-style-type: none"> <li>■ Set up audit function / review claims procedures to minimise leakage</li> <li>■ Develop management information to monitor pricing, claims experience</li> </ul>
Insurance contract liabilities - non life	3.44	3.20	7%	Ensure accuracy of reserves	Obtain actuarial sign off of unexpired risk reserve and incurred but not reported (IBNR) claims reserves
Other operating and administrative expenses	1.21	1.06	14%	Manage expenses to ensure sustainability of business and deliver competitively priced solutions	<ul style="list-style-type: none"> <li>■ Leverage IT and implement cost effective business model</li> <li>■ Expand alternative distribution channels</li> <li>■ Develop benchmarks to monitor / manage expenses</li> </ul>

# Management Discussion and Analysis

## Products - Non Life

**“Continued with our strategy to leverage technology to provide products which fulfill customer requirements in a effective manner.”**

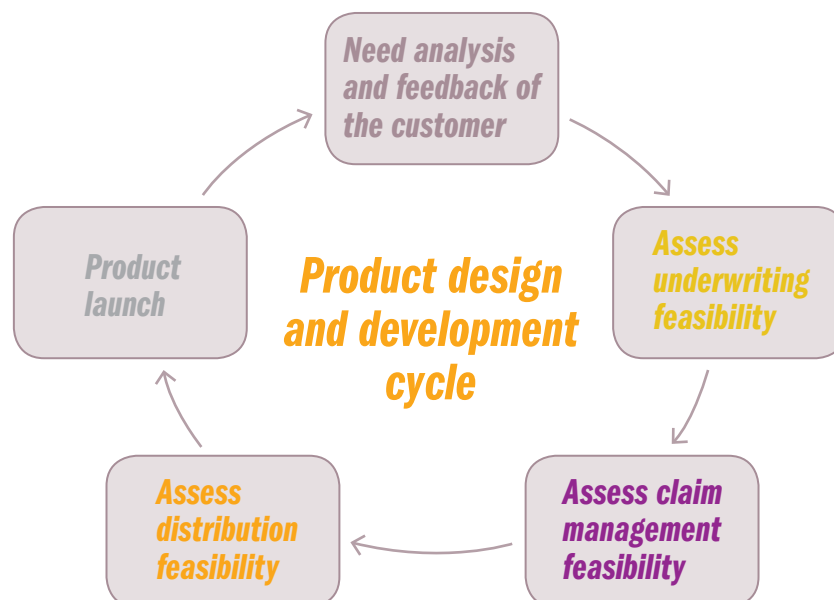
We have a range of packaged policies designed specifically to meet the needs of individuals and clients involved in small and medium industries / commercial segments. In addition, we provide tailor made solutions to corporate clients.

### Our Customer Centric Product Design

At UA customer satisfaction plays a vital role in achieving our overall business objectives. Therefore all business activities and processes within UA are designed and aligned to meet customer expectations. Product design and development is one such process.

A systematic process has been implemented within UA to identify the specific needs of the customer and product development is always initiated with comprehensive market research. The product is then developed based on a feasibility study which considers underwriting, claim management and distribution potential.

When designing, recommending and distributing products to customers, UA ensures that at all times ethical standards are adhered to.



## OUR NON LIFE INSURANCE SOLUTIONS

## Corporate Insurance Products

Product Category	Product value	Our Offering
Property Insurance	Broadly provides protection for assets of the business against many risks and contingencies that may occur	<ul style="list-style-type: none"> <li>Union Fire Insurance</li> <li>Business Interruption Insurance</li> <li>Contractor's all risk Insurance</li> <li>Erection All Risk Insurance</li> <li>Machinery Breakdown Insurance</li> <li>Electronic Equipment Insurance</li> <li>Boiler and Pressure Plant Insurance</li> <li>Goods in Cold Storage</li> <li>Tea Factory Insurance</li> <li>Overseas Terrorism Cover</li> <li>Union Shop Protector</li> <li>Union Hoteliers Combined</li> <li>Burglary Insurance</li> <li>Cash in Transit</li> <li>Union Asset Protector</li> <li>Plate Glass Insurance</li> <li>Fidelity Guarantee</li> </ul>
Motor Insurance	Covers loss or damage to commercial vehicles as well as damages caused to third parties. Also covers vehicle fleets.	Union Motor Star
Employee related	Provides the required protection to employees against accidents and illnesses which may occur	<ul style="list-style-type: none"> <li>Union Travel Freedom</li> <li>Surgical and Hospital Expense</li> <li>Employee Life Style Protector</li> <li>Union Personal Accident</li> </ul>
Liability	Provide protection against claims arising from injuries or damages to other people or to their properties due to negligence	<ul style="list-style-type: none"> <li>Public Liability Insurance</li> <li>Product Liability Insurance</li> <li>Professional Indemnity</li> </ul>
Marine	Cover loss or damage to cargo, vessels or goods in transit whilst being transported by sea, air or road.	<ul style="list-style-type: none"> <li>Cargo imports and Exports</li> <li>Inland Transit</li> <li>Goods in Transit</li> <li>Stock Throughput</li> <li>Produce in Transit</li> </ul>

## Personal Insurance Products

Product Category	Product value	Our Offering
Motor Insurance	Covers loss or damage to insured's vehicle as well as damages caused to third parties	Union Motor Star
Home Insurance	Designed to meet the insurance requirement of house owners	<ul style="list-style-type: none"> <li>Union Home Protector</li> <li>Union Fire insurance</li> <li>Electronic Equipment</li> </ul>
Travel Insurance	Provides customers peace of mind wherever on the go covering predicaments when travelling such as loss or damage to property or even life	Union Travel Freedom
Personal Accident	Offers financial relief in case of death or bodily injury to the insured person as a result of an accident	Union Araksha
Health Insurance	Designed to provide cover for the entire family for medical and surgical expenses incurred during hospitalisation, out-patient benefits and accidental death benefit	Union Family Health Net

# Management Discussion and Analysis

## Products - Non Life

### PRODUCT RESPONSIBILITY

As strongly defined by top management, UA takes great care to listen to its customers and to ensure that their needs and expectations are fulfilled.

Each UA employee is committed to fully satisfying customers by meeting or exceeding their needs and expectations through his or her attention to workmanship and performance. Sales are responsible to communicate with customers: understand customer expectations, clarify and negotiate, obtain feedback within a framework of highest level of business ethics.

Our product responsibility lies within two main functions;

- Sales
- After Sales

#### Sales

UA has a very transparent sales process in place where customers will have more visibility over covers being issued and the methodology adopted in pricing products. Further, we help our customers with our in house expertise to better understand the risks they face and in selecting the right products that meet their requirements.

We have developed internal certification programmes to enhance the technical skills of our sales staff to ensure that they are well equipped to recommend the right products for our customers.

#### After Sales

UA ensures that the new motor customers are greeted with a welcome call to ensure that the customer understands the product purchased, applicable covers and services available to him / her and the process in case of a claim.

As much as we are committed to generate sales, UA has always established integrity and objectivity on after sales performance relating to customers. A customer satisfaction survey is conducted to make sure that customer needs are adhered to. The objective of the survey is to monitor satisfaction levels with regards to our motor claims settlement process. This helps to retain customers and to keep their trust in the organisation.

A customer could always access UA's online portal for services and recommendation and a team has been entrusted with attending to all customers on a 24/7 365 day timeline, especially for motor insurance customers.

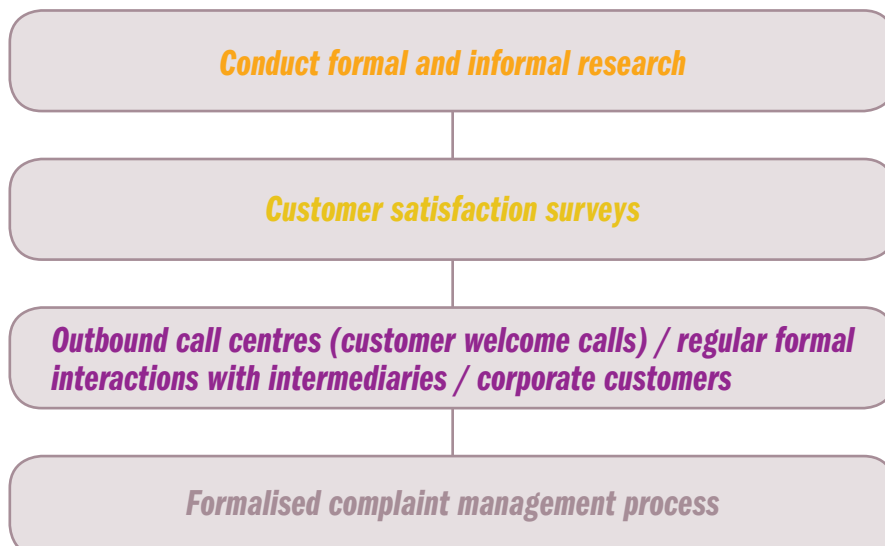
## Customers – Non Life

**“We serve more than 129,800 customers across the island.”**

Customers play an important role in our journey towards sustainable performance and 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 129,800 non life 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.

### OUR PROGRESS AGAINST KEY MATERIAL ISSUES

01. **Provide affordable, quality products customers require**
  - Reassessed product portfolio in line with changing customer requirements
02. **Deliver superior customer service**
  - Launched Union Motor Star consumer promotion
  - Expanded customer service counters at selected Keells Super outlets
  - Provided Nexus loyalty scheme to a wider customer base adding value to the motor insurance card
  - Provided assurance for motor insurance customers with a ‘motor welcome call’



# Management Discussion and Analysis

## Customers - Non Life

### 03. Settle claims in a speedy and fair manner

- Implemented an online claim tracking system (Non Motor) with advanced features
- Further enhanced workflow based claim tracking system
- Increased reach and mobility of motor assessors

### 04. Mechanism to obtain timely feedback to understand expectations

- Increased frequency of customer satisfaction surveys

### 05. Streamline complaint management process

- Streamlined / enhanced resources obtaining customer feedback

### PROVIDING PRODUCTS CUSTOMERS REQUIRE

UA believes that customer satisfaction plays a vital role in overall business success, therefore all products that are designed within UA are initiated after considering customers' requirements. The design process does not compromise on ethical standards and it focuses on sustainability over the long term.

### Reassessed product portfolio in line with changing customer requirements

At UA we make every effort to ensure that our customers are satisfied with the products we offer. During the year we re-assessed our non-life product portfolio along with the pricing strategies to ensure that products we offer are in line with prevailing market demand.

More details of our non life product portfolio is given on page 79.

### DELIVER SUPERIOR CUSTOMER SERVICE

Our competitive advantage in the market place has been maintained due to the superior customer experience that we have provided over the past 26 years. We are the pioneers in the insurance industry in adopting latest technology to provide superlative service for our customers.

### Launched Union motor star consumer promotion

To reach the hearts of our valued clientele, UA launched a grand draw offering a Mitsubishi Mirage car as the grand prize to reward and recognise our motor insurance customers for their continued loyalty. Both our new policyholders and existing customers who chose to renew their policy during the promotion period had an equal chance for winning prizes.

Union consumer promotion

### Expanded customer service counters at Keells Super outlets

We continued with the strategy of opening service counters at K-Zones and Keells Super outlets. During the year 12 new counters were opened to expand our reach. These counters have been established as a means of reaching our target customers easily. These counters have the ability to function as a mini branch within the Keells Super and K zone outlets.

### Expanded nexus loyalty scheme adding value to the motor insurance card

Union Motor Star loyalty enabled motor insurance card, to provide 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 a “two in one” card which has insurance and a value for money loyalty scheme embedded together.



### Travel policy is just a click away

This facility enables UA customers to buy travel policies simply by logging onto our corporate website [www.unionassurance.com](http://www.unionassurance.com) from anywhere, any time. All the details are in e-form; hence customers do not have to carry any physical copies. Availability of multiple packages online allows customers to pick the best cover that suits their wallet and travel requirements.

### Provided assurance for motor insurance customers with a ‘motor welcome call’

Welcoming the customers on board making them feel comfortable in getting their queries clarified, explaining the benefits they are entitled to and the limitations of the policy are the main objectives of this initiative. With this initiative UA was able to provide more assurance to our valued customers ensuring that they purchased the right product.

### Service through Training

UA continued to conduct structured training programmes for underwriting and claims management staff to enhance their overall knowledge and to keep them updated on 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, handle queries and provide solutions in a speedy manner. The details of the training sessions conducted during the year are mentioned in the “Employee” section of this report.

### Garage on the spot claims settlement process (GOTS)

UA expanded the facility of having customers’ 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 and 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 a few minutes at the accident site or at the garage.

### 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.

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, 32 cases were referred to the Insurance Ombudsman. In 12 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, 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.

### Transfer of medical documents in digital 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 greater convenience to customers.

# Management Discussion and Analysis

## Customers - Non Life

### Online claim tracking system (non-motor) with advanced features

This system enables corporate clients and insurance brokers to view the progress of claims online. They could log onto the system via the UA's corporate website. 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 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

### 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 the accident site. UA has strengthened this area by having a panel of 65 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. Outstanding claims are regularly followed up either directly with the customer or via the intermediary, to ensure speedy resolution and settlement.

### MECHANISM TO OBTAIN TIMELY FEEDBACK TO UNDERSTAND EXPECTATIONS

Identifying the expectations of the customer is vital to the business since it is only by this process that UA can ensure that customer loyalty and sustainability can be maintained. Structured and systematic processes have been initiated to

align customer expectations with the company's objectives and this has helped UA to achieve its long term objective of sustainable growth.

### Customer satisfaction survey

A customer satisfaction survey was conducted throughout 2013 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 upto the time taken to receiving the settlement payment. This survey is conducted by an internal research unit attached to the marketing division.

81% of the customers surveyed have rated their satisfaction level as good, while 16% customers recorded an average level of satisfaction while 85% have disclosed intention to renew and 2% deciding against. A summary of the findings is provided below.

Satisfaction level (%)	2013	2012
Good	81	73
Average	16	16
Poor	3	11
<b>Total</b>	<b>100</b>	<b>100</b>

Intention to renew (%)	2013	2012
Yes	85	76
No	2	4
Decide later	13	20
<b>Total</b>	<b>100</b>	<b>100</b>

The emphasis on customer satisfaction has been highlighted and is considered as vital to UA. To achieve this objective of providing a differentiated customer experience UA has implemented a state of the art feedback process enabling customers to lodge their complaints and expect speedy resolutions.

#### CUSTOMER FEEDBACK SYSTEM

Customers are able to send their feedback (including complaints) to us, via a call to the hotline set up to log customer complaints on +94 2428099 or our call centres. All such feedback is uploaded to our on-line customer feedback system to monitor the progress of such complaints. As at December 2013, there were 50 complaints updated on the system and the status of these is summarised below;

Description	No.
Received	50
Resolved	50
In progress	00

#### CUSTOMER RELATIONSHIP MANAGEMENT

##### Safety checklists and safety tips

UA continued with its initiative to develop and distribute safety checklists on various topics among corporate customers. The objective of these checklists is to increase awareness of 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.

# Management Discussion and Analysis

## Segmental Review - Life

### INDUSTRY OVERVIEW

#### Market Conditions

There are 15 life insurance companies currently operating in Sri Lanka. Three of these companies provide only life insurance solutions, while the balance companies provide both life and non life insurance solutions.

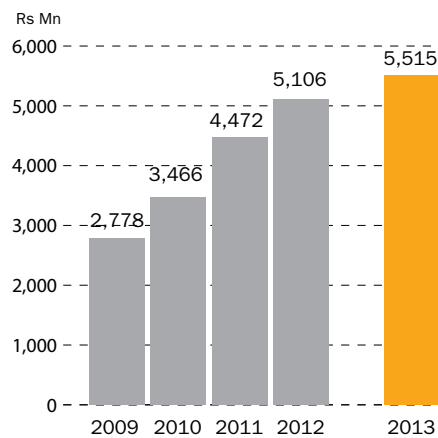
The life insurance industry is expected to report a 9.7% growth in 2013. While this is an improvement from the growth rate generated in 2012 it lags the true potential of the market when compared with the significant under penetration / catch up potential of the local industry vis-à-vis regional players.

As reflected in the graph, Sri Lanka lags the penetration levels achieved by many of its regional neighbours including India.

Data related to the life insurance market, growth rate and UA's growth rate is provided in the table below.

It is expected that the top 5 insurers will account for 83% of the total market in 2013 (2012 – 86%).

Gross Written Premium - Life



**10** %  
Industry Growth

Life Insurance	2009	2010	2011	2012	2013
Market size (Rs. millions)	24,005	31,152	35,181	37,046	40,628
Market growth %	2	30	13	5	10
UA growth %	11	25	29	14	8

Source: IBSL annual report 2012 and industry statistics

### Distribution Channels and Market Segmentation

There are three multi-national life insurers operating in the market. Tied agency continues to be the dominant distribution channel, but there is increased activity in bancassurance, telemarketing and web based direct distribution channels as well. Of the three relatively smaller channels, the bancassurance channel (where insurers sell their products to bank's customers on an exclusive or non exclusive basis) generates the most volumes. At least 4 life insurers are focused on selling micro insurance solutions, but it is likely that these companies may move up the value chain if not already having done so.

Life Insurance Statistics	2006	2007	2008	2009	2010	2011	2012
Number of policies sold	409,933	490,454	567,621	468,317	516,319	587,916	514,472
Number of in force policies	1,740,648	1,867,981	2,082,358	2,068,548	2,214,976	2,408,202	2,461,573
Penetration as a % of the labour force	22.9	24.9	25.8	25.6	27.3	29.2	29.1

Source: IBSL Annual Report 2012 and Industry statistics

### Life Insurance Products

Between the industry participants, customers have a choice of traditional participating and non participating products as well as unit linked life insurance solutions.

Participating products are generally popular among customers who wish to share in the profits or losses incurred by life insurers. Non participating products are sold to customers who prefer a degree of certainty with regard to their investments. More sophisticated customers would opt for unit linked products and choose their own investment options to augment their protection needs. The industry has a variety of products catering to the protection, savings / investment and health needs of customers across all life cycle stages. Basic products are augmented by "riders" to provide additional protection benefits to customers depending on their needs.

### Industry Statistics

As depicted in the table below, 514,472 new life policies were sold in 2012 an increase of 2% compared to 2011. According to available statistics 2.5 million life insurance policies were in force as at December 2012 compared with 2.4 million in 2011. Life insurance penetration as a percentage of the labour force decreased marginally from 29.2% in 2011 to 29.1% in 2012.

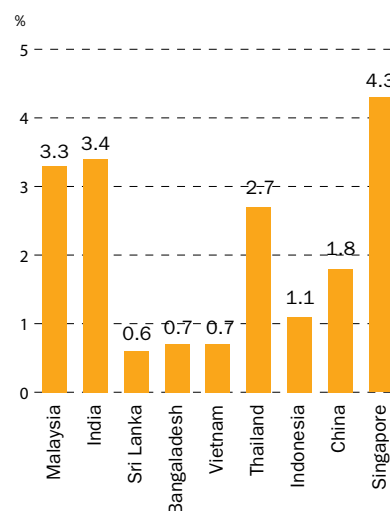
### BUSINESS REVIEW

UA's life insurance premiums increased by 8% from Rs. 5,106 billion in 2012 to Rs. 5,515 billion in 2013. The growth was primarily driven by sales of traditional policies, as sales of unit linked policies were impacted by the sluggish investment climate which prevailed during most of 2013.

The company continued to focus on growing the field sales force in a profitable manner. As a result there was a marked increase in the number of advisors selling UA products, improvement in the average value of policies sold and a consistent productivity ratio (number of policies sold divided by number of advisors)

As in previous years, the life fund was actuarially valued in 2013. Following actuarial advice, Rs. 612 million was transferred to shareholders as profit from the life business. This is a 17% increase over the Rs. 525 million reported in 2012. 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 17% from Rs. 16.5 billion in 2012 to Rs. 19.3 billion including unit linked fund in 2013.

Life Insurance Penetration 2012



# Management Discussion and Analysis

## Segmental Review - Life

### SUMMARY OF THE PROGRESS AGAINST STRATEGIC PRIORITIES OF 2013

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

Priorities	Progress	Achievement
<b>Expand Distribution in Cost Effective Manner</b>		
Restructure distribution network to exploit new business opportunities	<ul style="list-style-type: none"> <li>■ Distribution structure was aligned to capitalise on new business opportunities</li> <li>■ Added 15 new regions and 2 zones to distribution structure</li> <li>■ Enhanced leadership competencies in selected regions</li> <li>■ Set up formal review processes to ensure distribution resources generated results in line with potential</li> </ul>	■
Continue cost effective expansion by opening new distribution points	<ul style="list-style-type: none"> <li>■ Commenced operations in 14 new locations during the year</li> <li>■ Further rationalised capital and operational expenses incurred in new locations</li> </ul>	■
Streamline recruitment process	<ul style="list-style-type: none"> <li>■ Implemented process to screen new recruits to both direct sales and leadership positions</li> <li>■ Further strengthened process to ensure new recruits generate sufficient business volumes within first three months of service</li> <li>■ Strengthened leadership and field coaching support for new recruits</li> </ul>	■
<b>Improve Service Standards</b>		
Implement automated underwriting process for selected risk profiles	<ul style="list-style-type: none"> <li>■ In progress</li> </ul>	■
Implement web portal for customers to access policy details, obtain updates regarding their policies, etc;	<ul style="list-style-type: none"> <li>■ Implemented. To date 881 customers have registered to use this facility.</li> </ul>	■
Enhance initiatives to ensure transparency in sales process	<ul style="list-style-type: none"> <li>■ Process to send copies of completed proposals back to customers being evaluated</li> <li>■ Implemented process to obtain feedback directly from customers regarding UA service standards</li> <li>■ Implemented formal customer engagement process for new policies sold</li> </ul>	■

Priorities	Progress	Achievement
<b>Enhance Learning and Development</b>		
Enhance features / functionality of e-learning solution	<ul style="list-style-type: none"> <li>■ New module and self assessment questions added</li> <li>■ Video based training modules completed</li> <li>■ Several materials translated to all three languages</li> <li>■ e-learning platform further improved</li> </ul>	
Streamline learning and development inputs in line with business performance	<ul style="list-style-type: none"> <li>■ Learning and development inputs aligned with business requirements / promotional opportunities</li> <li>■ Leveraged international training programmes and recognition schemes to motivate and reward high achievers</li> <li>■ Enhanced training and development resources as key differentiator</li> <li>■ Streamlined training to improve pass rate at agency licensing exams conducted by Sri Lanka Insurance Institute</li> </ul>	
Continue to roll out leadership academy for selected sales management staff	<ul style="list-style-type: none"> <li>■ Commenced programme for 3<sup>rd</sup> batch of leaders during 2013</li> <li>■ Streamlined induction programme for non permanent supervisors</li> </ul>	
<b>Expand Alternative Distribution Channel</b>		
Increase volumes from all bancassurance partners	<ul style="list-style-type: none"> <li>■ GWP from all partnerships recorded year on year growth</li> <li>■ Further integrated insurance and banking operations for selected partners</li> </ul>	
Increase productivity of sales force	<ul style="list-style-type: none"> <li>■ Training and development and leadership resources aligned to ensure minimum productivity level is maintained or exceeded</li> </ul>	
Implement strategies to retain key staff	<ul style="list-style-type: none"> <li>■ Streamlined compensation and benefit structure</li> <li>■ Provided career progression opportunities based on performance and business requirements</li> </ul>	
Identify opportunities to target new bancassurance opportunities	<ul style="list-style-type: none"> <li>■ In progress.</li> </ul>	
<b>New Product Development</b>		
Upgrade health insurance products	<ul style="list-style-type: none"> <li>■ Launched Union MediGuard a reimbursement product enabling customers to claim the actual costs of hospitalisation</li> <li>■ Training and development programmes aligned to promote the product among the sales team</li> <li>■ Consistent volumes achieved since 1<sup>st</sup> month of launch</li> <li>■ Product provides medical cover up to 70 years of age</li> </ul>	
Review options to revamp unit linked product range	<ul style="list-style-type: none"> <li>■ Not progressed due to lack of demand for unit linked products</li> </ul>	
<b>Strengthen Underwriting and Claims Management Processes</b>		
Utilise Prophet system to implement actuarial control cycle	<ul style="list-style-type: none"> <li>■ Actuarial control cycle implemented</li> <li>■ Increased actuarial resources to strengthen in house capability</li> <li>■ Continued to work with two independent actuaries to improve governance and enhance knowledge of actuarial team</li> </ul>	
Leverage reinsurance partnerships to update knowledge of internal staff	<ul style="list-style-type: none"> <li>■ UA staff participated in industry and exclusive events organised by reinsurance partners</li> <li>■ Diversified reinsurance partnerships</li> </ul>	
Invest in web based sales process to enhance underwriting controls and productivity of sales force	<ul style="list-style-type: none"> <li>■ Implemented web based sales tools for both traditional and unit linked products</li> </ul>	

# Management Discussion and Analysis

## Segmental Review - Life

### PROGRESS AGAINST STRATEGIC OBJECTIVES

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

#### Expand Distribution

The company leveraged the low cost distribution model, web based sales tools and internal succession programme to increase distribution presence in a sustainable and cost effective manner. This approach enables the company to match revenue with expenditure from inception and create a motivated team, since preference is granted to internal staff to take up leadership positions.

The tied agent distribution channel remains the predominant channel and significant attention is focused on ensuring the right people with the right competencies join and grow with the business. Once selected new recruits are provided with product and sales training to ensure they achieve a predefined volume of business within a short period of time.

#### Improve Service Standards

The company implemented a process to obtain direct customer feedback regarding the services offered and steps have already been taken to address identified gaps in a structured manner. UA also increased customer engagement processes by initiating welcome calls to new policyholders and introducing a competitively priced accident cover to existing customers.

A customer portal was launched during the year, enabling customers to directly raise service requests and receive updates from the comfort of their own home 24 hours of the day.

Service level standards are monitored on a monthly basis to ensure that customer service is maintained at the highest possible level throughout the year. Any deviations are monitored and corrective action taken as appropriate when actual service standards fall below predefined criteria.

#### Enhance Learning and Development

UA continues to use learning and development as a key differentiator. There was a marked increase in the per capita

training hours delivered both in a traditional classroom environment and e-learning platform.

The programme to ensure new recruits are successful in the shortest possible time was further strengthened during the year. In addition, a similar programme was launched to enhance the leadership competencies of newly appointed team leaders as well.

A third batch of business leaders was inducted to the leadership academy programme in 2013. The success of the programme is evident in the internal succession and career development opportunities that have been created as UA continues to expand its distribution presence in a cost effective manner.

#### Develop Alternative Distribution Channels

The bancassurance channel delivered above average growth. Focused training and development initiatives, further integration with bank partners and enhanced leadership and monitoring were the key drivers of this growth.

Several steps were taken to ensure retention of key staff. Recruitment processes were also streamlined to ensure that selected candidates have a fair knowledge of the job and possess the skills and competencies to be successful.

#### New Product Development

The company introduced Union MediGuard, a rider which can be added to a basic life insurance product to provide a reimbursable health insurance solution to customers. Customers who purchase the rider could avail of health insurance benefits up to a maximum of 70 years of age and could enter the scheme at the age of 60 years.

In addition, the policy duration available on Union Advantage, (the flagship life insurance product in UA's portfolio) was made flexible enabling life advisors to exactly match the period of insurance cover with a customer's life cycle needs. Previously the product was available in fixed terms of 10, 15 or 20 years.

The full range of life products and riders offered by UA is available on pages 100 to 103

**Strengthen Underwriting and Claims Management Processes**

UA expanded the inhouse actuarial team in a selective manner, in anticipation of the likely demand for experienced qualified actuarial resources. This enabled the company to conduct the full actuarial control cycle and profit test products and riders.

Training programmes were conducted to enhance the technical skills of the underwriting and claims teams. Regular knowledge sharing with distribution teams was also initiated to update their knowledge and improve risk management practices across the company. UA continues to participate in training programmes organised by reinsurers who provide capacity to the local industry as well.

**Expenditure to Enhance Future Results**

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

Expenditure	Rs. Mn.
Sales staff	48
Support staff	1
Infrastructure	57
Learning and development	40
Brand development	95
Total	240

**Current Performance against Key performance indicator (KPIs)**

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

KPI	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><b>Increase In Gross Written Premium</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>14</td> </tr> <tr> <td>13 Obj</td> <td>20</td> </tr> <tr> <td>13 Act</td> <td>8</td> </tr> <tr> <td>14 Obj</td> <td>10</td> </tr> </tbody> </table>	Year	Value (%)	12 Act	14	13 Obj	20	13 Act	8	14 Obj	10	GWP was 8% higher than 2012, but lower than budget. GWP from traditional policies reported growth but unit linked policy sales were negatively impacted by the sluggish investment climate
Year	Value (%)												
12 Act	14												
13 Obj	20												
13 Act	8												
14 Obj	10												
Increase in new business premium on an annualised basis	The amount of new business we were able to secure	<p><b>Increase in New Business Premium on an Annualised Basis</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>-1</td> </tr> <tr> <td>13 Obj</td> <td>28</td> </tr> <tr> <td>13 Act</td> <td>14</td> </tr> <tr> <td>14 Obj</td> <td>20</td> </tr> </tbody> </table>	Year	Value (%)	12 Act	-1	13 Obj	28	13 Act	14	14 Obj	20	Despite an increase in the number of advisors selling UA products and an increase in the average case size per policy sold, annualised new business premiums were affected by a slowdown in sales of unit linked policies
Year	Value (%)												
12 Act	-1												
13 Obj	28												
13 Act	14												
14 Obj	20												

# Management Discussion and Analysis

## Segmental Review - Life

KPI	What does it show?	Financial result	Comments										
Profit from life insurance	The total bottom line result for the period	<table border="1"> <caption>Profit on Life Insurance (Rs Mn)</caption> <thead> <tr> <th>Period</th> <th>Profit (Rs Mn)</th> </tr> </thead> <tbody> <tr> <td>12 Act</td> <td>533</td> </tr> <tr> <td>13 Obj</td> <td>753</td> </tr> <tr> <td>13 Act</td> <td>791</td> </tr> <tr> <td>14 Obj</td> <td>863</td> </tr> </tbody> </table>	Period	Profit (Rs Mn)	12 Act	533	13 Obj	753	13 Act	791	14 Obj	863	Several initiatives have been taken to ensure the long term sustainability of the business and based on projections, it is likely that life profits will continue to grow
Period	Profit (Rs Mn)												
12 Act	533												
13 Obj	753												
13 Act	791												
14 Obj	863												

### OPPORTUNITIES AND THREATS

The key opportunities and threats identified for the life insurance business are as follows;

Opportunity	UA's Response
Inadequate post retirement medical and pension schemes in the context of an ageing population	Develop innovative investment and financial protection products to fulfill market needs
Growth potential in North and East	Increase distribution, 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
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, equity)
Threat of new entrants	Enhance brand visibility, distribution reach and service standards to maintain / grow position in life insurance market
Lack of skilled staff to manage distribution and technical functions	<ul style="list-style-type: none"> <li>■ Increase learning and development initiatives</li> <li>■ Implement talent management programmes to identify high potential employees</li> <li>■ Develop short / medium term strategies to bridge capability gaps</li> </ul>

***“We have identified our key priorities for next year through an extensive planning process.”***

### SNAPSHOT OF 2014 PRIORITIES

#### Expand distribution in a cost effective manner

In addition to expanding distribution points in a cost effective manner we also pay close attention to select the right people to join our distribution team

- Streamline selection process
- Expand distribution in cost effective manner
- Restructure distribution network to exploit business opportunities
- Roll out suite of e-based sales tools to automate end to end sales process
- Enhance field coaching activities to ensure success of new recruits
- Update web based sales force management system in line with above changes

#### Continuous improvement in service standards

We continuously monitor the service levels we provide our customers as well as field staff, while at the same time ensuring optimal efficiency and effectiveness

- Review options to introduce tele underwriting capability
- Streamline lapse management processes
- Implement auto underwriting capability for non medical cases
- Initiate process to send proposal form back to customer to avoid disputes and enhance transparency
- Upgrade customer portal

#### Improve / enhance training and development initiatives

As life insurance products are not intuitively purchased providing learning and development inputs to our field force is a key focus of our business

- Increase panel of regional trainers
- Revamp initial training for new recruits
- Leverage e-based training capability to increase training interventions
- Develop video based training capability
- Restructure function to devolve responsibility to zonal trainers
- Use medical experts to enhance knowledge regarding health related products to grow volumes

# Management Discussion and Analysis

## Segmental Review - Life

### Expand alternative channels and cross marketing activities

In addition to the field agency distribution model we have invested in bancassurance and telemarketing / direct distribution models as well

- Deepen relationships within existing bank partners
- Actively seek new partnerships
- Enhance training and development resources
- Develop distribution resource to increase average case size per policy sold
- Improve leadership competencies in the channel
- Leverage web based sales tools to enhance productivity

### Strengthen underwriting and claims management processes

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

- Enhance technical knowledge of underwriting and distribution teams
- Utilise Prophet system to implement actuarial control cycle
- Leverage reinsurance partnerships to upgrade knowledge of internal staff

### Develop new products and augment existing products

We constantly review and update our product portfolio considering rapid economic developments, rising per capita income levels and changing consumer tastes

- Review options to develop products specifically catering to education needs
- Review options to further improve health reimbursement rider
- Consider feasibility of launching a product for direct / telemarketing channel

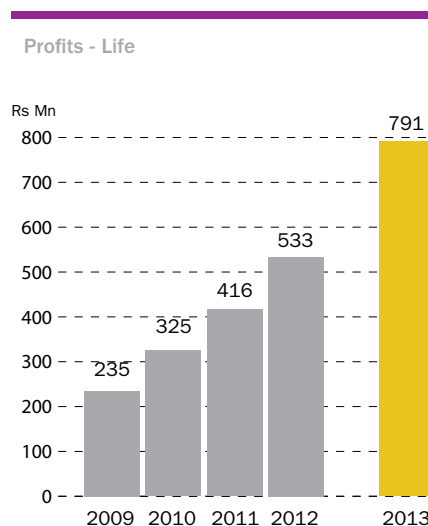
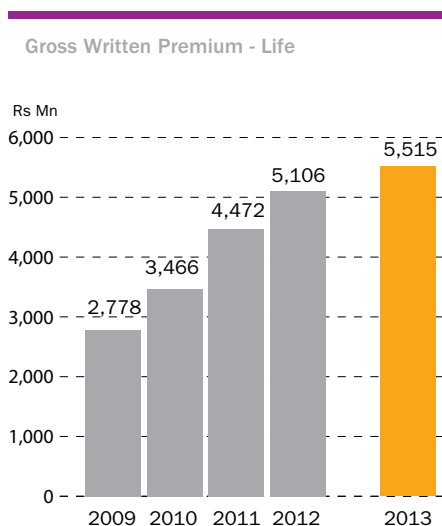
**SEGMENTAL PERFORMANCE - LIFE INSURANCE**

Amidst economic challenges, we were able to sustain our growth by capitalising on our reputation for best in class service backed by a strong well trained professional sales force.

<b>For the year ended 31 December</b> Rs:'000	<b>2013</b>	<b>2012</b>	<b>Change %</b>
Gross written premium	5,515,063	5,106,323	8%
<b>Net written premium</b>	<b>5,234,521</b>	<b>4,856,728</b>	<b>8%</b>
Investment and other operating income	2,017,544	1,722,070	17%
Net benefits and claims	(3,976,248)	(3,572,769)	11%
Underwriting and net acquisition costs (including reinsurance)	(968,181)	(890,536)	9%
Other operating and administrative expenses	(1,695,636)	(1,590,493)	7%
Surplus from life insurance fund	612,000	525,000	17%
Investment and other income not attributable to policyholders	207,074	23,161	794%
Expenses not attributable to policyholders	(28,110)	(15,343)	83%
<b>Profit for the year - life</b>	<b>790,964</b>	<b>532,819</b>	<b>48%</b>

Life insurance premiums generated through sales of individual and group life insurance policies increased by 8% from Rs. 5.1 billion in 2012 to Rs. 5.5 billion in 2013.

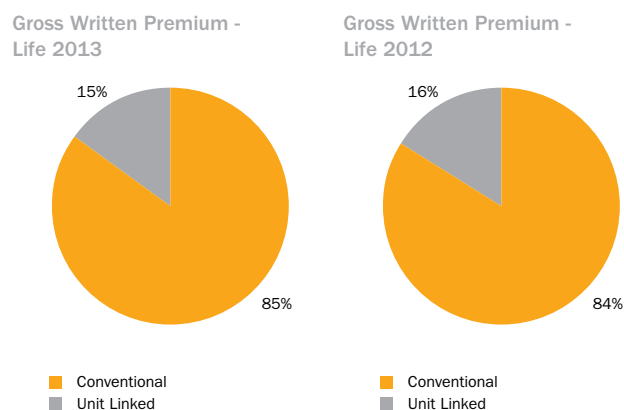
The company continued to maintain the life GWP mix at the same proportion compared to last year indicating less volatility in gross written premium income



Five year compound growth stands at 19% and the year on year growth of the life business was 8% (2012 - 14%)

# Management Discussion and Analysis

## Segmental Review - Life



Total regular premiums grew by 7%, while GWP from bancassurance channel recorded a 50% growth and the GWP from tied agency increased by 10%. As a result, the net written premium (after deducting premium due to reinsurers) increased by 8% from Rs. 4.9 billion in 2012 to Rs. 5.2 billion in 2013.

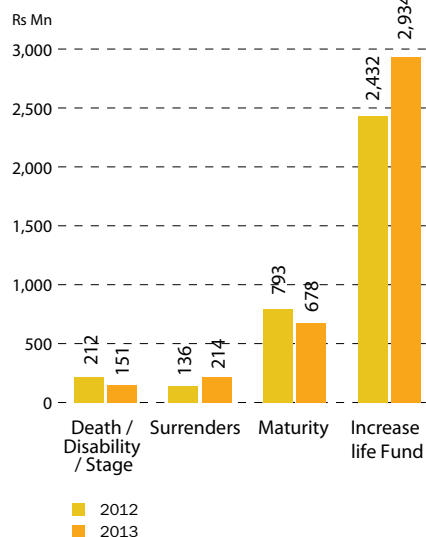
Following actuarial advice, Rs. 2.2 billion was transferred to the life fund (compared with Rs. 1.8 billion transferred in 2012), to reflect the liabilities to our life policyholders. Claims, benefits and maturity payments decreased from Rs. 1.141 billion in 2012 to Rs. 1.042 billion in 2013. This reduction is mainly due to decrease in maturity payments as indicated below.

### Analysis of Net Claims

	2013	2012	Change %
Death / disability	114	168	-32%
Surrenders	214	136	57%
Stage payment	37	44	-16%
Maturities	672	787	-15%
Annuity	5	6	-17%
<b>Total net claims</b>	<b>1,042</b>	<b>1,141</b>	<b>-9%</b>

An analysis of the claims for the current year is shown below

### Movement of Net Claims and Benefits - Life



As per independent actuarial advice, Rs. 612 million was transferred as surplus from the life fund, after providing for bonuses to policyholders. In 2012, Rs. 525 million was transferred as life surplus.

Life shareholders generated investment and other income of Rs. 179 million. Including the life surplus, life shareholders reported a profit after tax of Rs. 791million which is 48% higher than the profit reported in 2012.

### CONTRIBUTION TO NATIONAL ECONOMY - LIFE BUSINESS

The total value generated through the sources of income from life insurance segment for the current year was Rs. 4.6 billion. The income has been distributed among our shareholders, employees, government, intermediaries and policy holders.

The income which has been distributed to the economy has shown an increase compared to the preceding year, as the company has reported a profit under life insurance business.

Statement of Value Addition Rs. millions	2013	2012	2011	2010	2009
<b>Total value added</b>					
Net premium	5,235	4,857	4,269	3,367	2,678
Investment and other income	2,225	1,745	1,202	1,807	1,375
Net claims	(1,758)	(1,767)	(748)	(715)	(561)
Cost of external services	(804)	(690)	(711)	(689)	(677)
	<b>4,898</b>	<b>4,145</b>	<b>4,012</b>	<b>3,770</b>	<b>2,815</b>
<b>Value distributed</b>					
To employees as salaries and other benefits	608	633	539	505	376
To intermediaries as commission	969	891	819	676	504
To life policyholders as increase in life fund	2,218	1,806	2,044	2,123	1,618
To shareholders as dividends	248	224	149	110	66
	<b>4043</b>	<b>3554</b>	<b>3551</b>	<b>3414</b>	<b>2564</b>
<b>Retained with the business</b>					
- as depreciation	64	58	45	31	16
- in reserves	791	533	416	325	235
	<b>855</b>	<b>591</b>	<b>461</b>	<b>356</b>	<b>251</b>

Contribution to the National Economy - Life Insurance



# Management Discussion and Analysis

## Segmental Review - Life

### 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 Rs. billion	2013	2012	Change (%)	Strategic Issues	Action Plans
GWP	5.51	5.11	8%	<ul style="list-style-type: none"> <li>Limited awareness regarding the benefits of life insurance</li> <li>Lack of premium collection mechanisms resulting in high lapsation</li> </ul>	<ul style="list-style-type: none"> <li>Leverage distribution, actuarial, underwriting and marketing resources to grow volumes</li> <li>Lobby regulators and financial institutions to implement mechanisms to facilitate collections e.g. direct debit system</li> </ul>
Premium ceded to reinsurers	0.28	0.25	12%	<ul style="list-style-type: none"> <li>Ensure high quality reinsurance support across business cycle</li> <li>Inadequate transfer of risk</li> </ul>	<ul style="list-style-type: none"> <li>Build relationships with reinsurers of international repute</li> <li>Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>
Reinsurance receivables	0.08	0.04	98%	Inability of reinsurers to meet their commitments due to insufficient financial strength	<ul style="list-style-type: none"> <li>Build relationships only with reinsurers with minimum ratings</li> <li>Monitor ratings on a regular basis</li> </ul>
Net benefits and claims	3.98	3.57	11%	<ul style="list-style-type: none"> <li>Ensure pricing is adequate to cover future claims payments</li> <li>Ensure delivery of guaranteed maturity value</li> <li>Minimise policy surrenders</li> </ul>	<ul style="list-style-type: none"> <li>Implement actuarial control cycle</li> <li>Launch products with annual / minimal guarantees</li> <li>Ensure constant communication with customers to minimise lapsation</li> </ul>
Insurance contract liabilities - life	19.33	16.50	17%	Ensure value covers present and future life policyholder liabilities	<ul style="list-style-type: none"> <li>Conduct independent actuarial valuation at year end</li> <li>Conduct mid year reviews internally</li> <li>Increase internal actuarial resources and IT capability</li> </ul>
Other operating and administrative expenses	1.70	1.59	7%	Manage expenses to ensure sustainability of business	<ul style="list-style-type: none"> <li>Leverage IT and implement cost effective business model</li> <li>Expand alternative distribution channels</li> <li>Develop benchmarks to monitor / manage expenses</li> </ul>

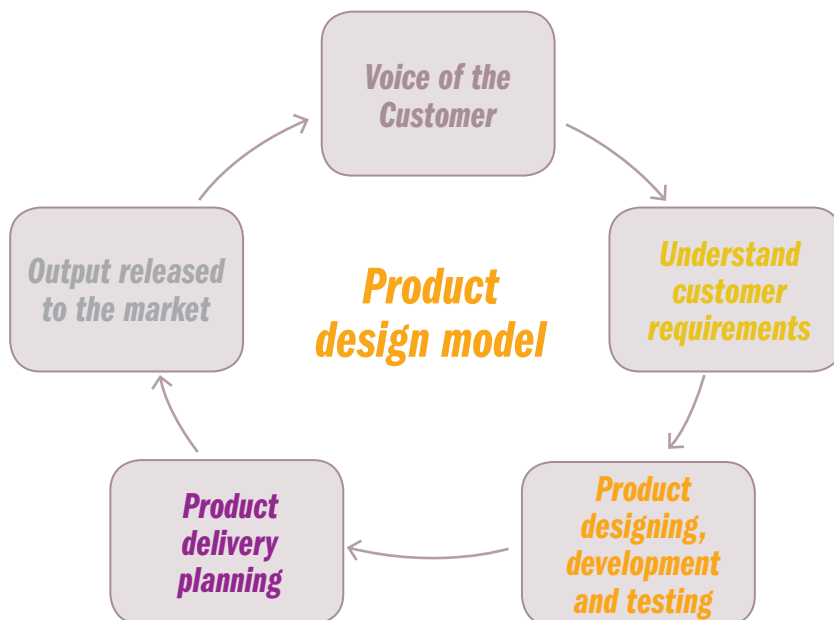
## Products - Life

**“Launched Union MediGuard.”**

Life insurance products offered by UA have been developed to cater to the needs of individuals 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 various stages of a customer’s life; e.g. single and working, married, planning for retirement etc.

A range of additional “riders” such as critical illness could be added on, in order to ensure that customers are sufficiently protected against unforeseen events.

### OUR CUSTOMER CENTRIC PRODUCT DESIGN MODEL



UA’s team of professional insurance advisors conduct fact finding exercises to determine customer needs, evaluate current and future income levels and identify personal assets and liabilities before recommending suitable insurance solutions.

# Management Discussion and Analysis

## Products - Life

### UA LIFE 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 over a period of time	<ul style="list-style-type: none"> <li>■ Unit linked investment solution allowing the customer to choose his / her investment option</li> <li>■ Ability to customise solution to suit individual risk appetite and market conditions</li> <li>■ Linked to three unique investment funds, offering flexibility in terms of investment options and premium payment terms</li> <li>■ Offers selection of packaged benefits namely, life package, health package and waiver package to cater the wide range of protection needs</li> <li>■ Regular premium payments, premium top up and premium escalation benefit options available</li> </ul>
Union Challenger – Booster Plan	For individuals who are between 5 to 10 years away from their retirement and need to build a fund to generate a sufficient income when retired	<ul style="list-style-type: none"> <li>■ Unit linked investment solution allows customer to choose his / her investment option</li> <li>■ Ability to customise solutions to suit individual risk appetite and market conditions</li> <li>■ Premium payment term limited to 3 or 5 years. Premium top up option available</li> </ul>
Union Challenger – Provider Plan	For individuals who are approaching retirement and have a need for a regular income	<ul style="list-style-type: none"> <li>■ A unit linked product with a single premium investment option.</li> <li>■ Ability to generate a regular income for a specified period while providing life protection</li> <li>■ Special options available to invest in additional funds to increase the pension benefit</li> </ul>

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

# Management Discussion and Analysis

## Products - Life

### ADDITIONAL COVERS

Description	Details
Accidental death benefit	A benefit which is paid in the event of an accidental death of the life assured. This benefit is available for policyholders at a nominal premium.
Total and permanent disability benefit due to an accident	This benefit will be paid as an annuity over a five year period in the event of total and permanent disability due to an accident.
Total and permanent disability benefit due to an accident or sickness	This benefit is designed to cover total and permanent disability of the life assured as a result of an accident or sickness. The benefit is paid as an annuity over a five year period.
Waiver of premium 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 due to sickness or accident
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 relatively smaller premium. The sum assured is paid on death of the life assured (in addition to the basic sum assured) whether due to accidental or natural causes during the policy term.
Spouse rider benefit	This benefit provides a life cover for the spouse of the life assured at a nominal premium. The spouse may continue to have the cover throughout the policy term even after the death of the main life assured.
Funeral expenses benefit	Provides relief for the dependents of a deceased policyholder by paying a sum immediately on the death of the life assured.
Family hospital cash benefit	This cover provides a daily benefit for the family in the event of a hospitalisation in a government or a private hospital. 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 to dependents, 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.

Description	Details
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.
Union MediGuard benefit	A comprehensive medical insurance coverage for an insured and his / her family in case of hospitalisation in a paying ward of a hospital. Medical expenses occurring as a result of warded treatments due to various diseases and surgeries will be reimbursed subject to the sub limits applicable. In addition, this benefit provides coverage for 136 day care surgeries.

## PRODUCT RESPONSIBILITY

As strongly defined by top management, UA takes great care to listen to its customers and to ensure that their needs and expectations are fulfilled.

Sales functions act as the primary interface to customers, understanding the needs and transferring them to the right counterpart. Each involved function has the skills and the experience to analyse and translate customer expectations into explicit requirements.

Each UA employee is committed to fully satisfy customers by meeting or exceeding their needs and expectations through his or her attention to workmanship and performance. Sales are responsible to communicate with customers: collect customer expectations, clarify and negotiate, obtain feedback within a framework of highest level of business ethics.

Our product responsibility lies within two main following functions

- Sales
- After Sales

### Sales

All sales staff have access to the Digital Adviser Toolkit (DAT) in order to conduct business transactions in a speedy and efficient manner.

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, preferences and significantly saves time of both customer and the sales personnel.

UA ensures that new customers are greeted with a welcome call to ensure that the customer understands the product purchased, benefits and services available to him / her and the process in case of a claim, surrender etc.

### After Sales

As much as we are committed to generate sales, UA has always established integrity and objectivity in after sales performance. A customer satisfaction survey is conducted to make sure that customer needs are adhered to.

The objective of the customer satisfaction survey is to monitor and resolve any unsatisfactory services provided by UA and to improve service standards. This helps to retain customers and to keep their trust in the organisation.

We facilitate and encourage our customers to lodge complaints if unsatisfied with our products or services through the web portal.

Some examples for UA users would be employees, agents, brokers and web users would be those accessing the UA site via the internet. A complaint maybe lodged on a specific misconduct on policy, business issue or technical issue.

Each and every survey may relate to a category based on the content and subject which will be forwarded to a respective department or branch in order to be resolved immediately

# Management Discussion and Analysis

## Customers - Life

**“We serve more than 226,900 customers across the Island.”**

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.

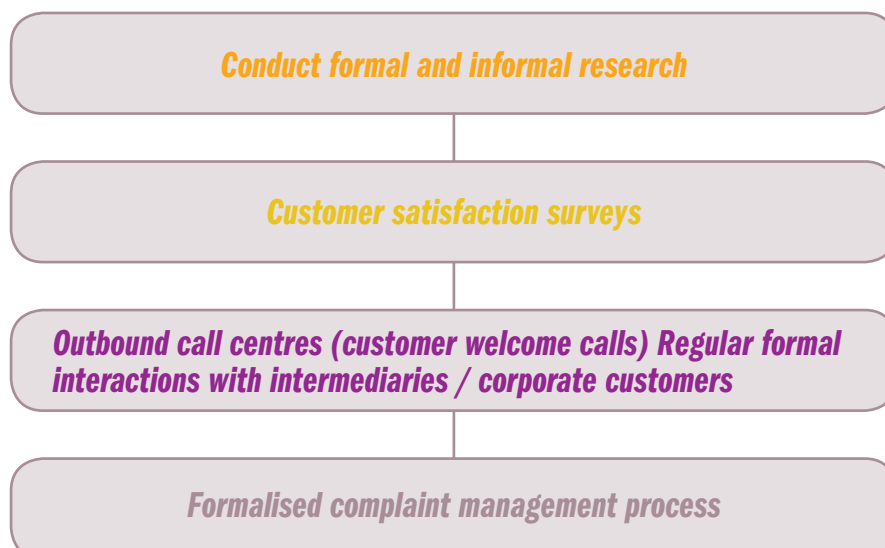
We serve more than 226,900 life customers across the country. The demographic profiles of our customers and the products we offer vary across our operations, but in all our markets, we are committed to listen to our customers and understand their individual needs so that we are able to exceed their expectations by providing high quality products and services with superior customer service.

The customer phase of the life cycle of our products is diverse and evolving. We provide life insurance covers to a wide range of sectors and yet, all of our customers are increasingly interested in a holistic, sustainable solution.

Many of our customers have their own customised needs, which require us to develop close relationship to understand and respond to these needs. Each of these end user markets is experiencing its own market forces that influence both its economic and sustainability drivers. As a result, we need to focus on products with sustainable, positive attributes across the life cycle to meet this growing customer demand.

### OUR PROGRESS AGAINST KEY MATERIAL ISSUES

- 1. Provide affordable quality products and services**
  - Relunched the unit linked product range
  - Mortgage protection policies with competitive rates
  - Launched flexi Advantage to cater to educational needs



## 2. Deliver superior customer service / service enhancements

- Commenced process to digitise the life insurance proposal submission process
- Successfully launched life customer portal
- Expanded “Union Pay Easy” scheme providing convenient premium payment options to customers
- Maintained service standards through customer service units
- Followed up on orphaned policies
- Launched direct marketing campaign for existing life policyholders

## 3. Mechanism to obtain timely feedback to understand expectations

- Effective operation of the customer feedback system
- Increased customer engagement processes and satisfaction surveys.

## 4. Streamline complaint management process

### PROVIDING AFFORDABLE QUALITY PRODUCT SERVICES

#### Relaunched the unit linked product range

The purpose of relaunching the product was to further simplify and align product features with customer needs.

The communication and sales processes were also simplified by introducing need based brochures and digital adviser toolkits for the sales channels to better explain the product features, benefits etc. to targeted customer needs / preferences.

#### Mortgage protection policies with competitive rates

Mortgage protection policies which were relaunched last year with competitive rates have been a success judging by the GWP generated.

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

#### Launched flexi Advantage to cater educational needs

Life Advantage plan was initially designed for three terms, ten, fifteen and twenty years. Responding positively for this concern, this plan was reintroduced with flexible terms allowing selection of any term ranging from ten years, depending on the need of a particular individual.

In addition, the maximum term of the Advantage plan was increased to thirty years from twenty years, allowing for the designing of longer term insurance / investment solutions based on consumer needs.

#### Simplified policy conditions for “Advantage”

In aligning with the transparency initiatives of the company, English version of the advantage policy document was

rephrased into a simplified language which could be easily understood by a layman. Life insurance contracts are worded in technical language with the prime objective of covering the legal interest of same.

Taking a step forward, UA took this as a challenge and introduced a simplified English policy, while safeguarding the legal aspects. This was extended to other policies as well including Sinhala and Tamil translations.

### SERVICE ENHANCEMENTS FOR CUSTOMERS

#### Digitalisation of the life insurance proposal submission process;

The Digital Advisory Toolkit allows life insurance advisors to complete and submit the financial needs analysis, quotation and proposal form digitally which minimises the time taken to issue a new life insurance policy. This can be easily used in a tablet which has provided convenience to the customer as well as the advisor. In addition the advisor does not need to visit the branch office to carry out the proposal registration process and he /she could register the proposal form while being with the customer.

#### Launch of Life customer portal

Launch of life customer portal has proven to offer convenience and transparency by allowing customers to view their policy details online and carry out certain functions such as; premium payments, generation of premium statements and claim intimation.

#### Maintain Service Standards

To ensure that UA continuously provides a service to its customers, which is the 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 products and operations. The recently established customer service unit (CSU) also started its operations in line with the service standards applicable for that operation.

#### Follow up on orphaned policies

With the objective of servicing orphaned policies (when the advisor who introduced the policy is no longer with the company) the process is handled by the respective sales management under the formalised orphaned policy management process.



# Management Discussion and Analysis

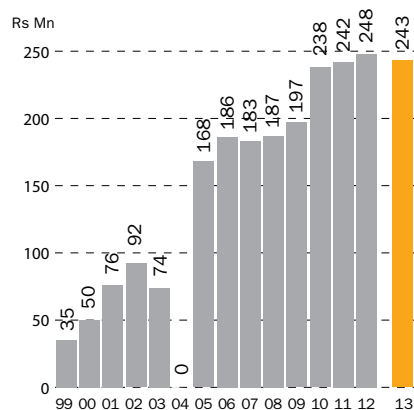
## Customers - Life

A summary of actual versus expected services standard during 2013 is as follows.

Customers	Function	Expected Service Standards	Achievement
New business	Underwriting decision making - new proposals	100% by 2 days	97%
	Policy dispatching	100% by 5 days	71%
Policy holder servicing	Minor alterations	100% by 1 day	99%
	Policy assignment and reassignment	100% by 1 day	93%
	Bank standing orders	100% by 2 days	99%
	Revivals	100% by 2 days	93%
	Major alterations	100% by 2 days	96%
	Responding to customer letters	100% by 2 days	95%
Claims	Maturities and advance payments	100% by 2 days	97%
	Death, disability and hospital cash claims (No further investigation required)	100% by 3 days	93%
	Death, disability and hospital cash claims If further investigation required	100% by 14 days	97%
	Policy loans	100% by 2 day	98%
	Queries on claims	100% by 2 days	94%
Call centre	Handling of inbound calls	95% from presented calls	98%
	Answering calls (within service level)	90% of the inbound calls to be answered within 20 seconds	96%
	Abandoned calls	Total abandoned calls to be below 5%	2%
Customer service unit	Meeting the needs of walk-in customers	15 minutes	95%

Customers	Function	Expected Service Standards	Achievement
Group life	New business quotations - employer / employee groups	Data given in soft format – Same day	100%
		Data given in hard format – 2 days	100%
	New business quotations - affinity and other special groups	4 days 1 month	98%
	Completion of cover for large groups	3 days	76%
	Issue of the policy		92%
	Commission payments to agents / brokers	7 days of receipt of premium	96%
Unit linked operations	Underwriting decision making – new proposals		
	Policy dispatching	100 % by 2 days	99%
	Effecting top-up premium	100 % by 5 days	100%
	Fund switching	100 % by 3 days	100%
	Premium redirection	100% by 3 days	100%
	Benefit changes / inclusions	100 % by 2 days	100%
	Minor alterations	100 % by 2 days	100%
	Bank standing orders	100 % by 2 days	100%
	Responding to customer letters	100 % by 1 day	100%
	Revivals	100 % by 2 days	99%
	Regular withdrawals	100 % by 2 days	100%
	Surrenders	100 % by 4 days	100%
	Partial withdrawals	100 % by 4 days	99%
		100 % by 4 days	100%

History of Bonuses to Life Policyholders



# Management Discussion and Analysis

## Customers - Life

### Multiple payment options for life policyholders

UA has made several options available to customers to settle their insurance premiums.

Payment points	Payment Options							
	Standing Orders	Internet Banking	ATM	Tele Banking	Over the Counter	Credit Card	EZ- Pay	Pay Easy
Sampath Bank	0	0	0	0	0	0		0
Nations Trust Bank	0	0	0	0	0	0		
Hong Kong and Shanghai Banking Corporation	0	0	0	0		0		
Hatton National Bank	0				0			
Bank of Ceylon	0	0			0	0		
People's Bank	0				0			
NDB / Dialog	0				0		0	
Commercial Bank	0	0	0		0			
Keells Super					0	0		
DFCC Vardhana Bank	0				0			
National Savings Bank					0			
Union Bank	0	0		0				
Standard Chartered Bank	0	0						
Abans					0			

### Direct marketing campaign for existing life policyholders

A direct marketing campaign was launched to offer protection against six critical illnesses which could occur in the event of an accident.

The six main critical illnesses are as follows;

1. Blindness (loss of sight)
2. Coma
3. Deafness (loss of hearing)
4. Loss of limbs
5. Major burns
6. Paralysis

### MECHANISM TO OBTAIN TIMELY FEEDBACK TO UNDERSTAND EXPECTATIONS

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 the customers will look to

partner with an insurance company which consistently offers them trust, convenience, respect and transparency.

**Customer Service Units**

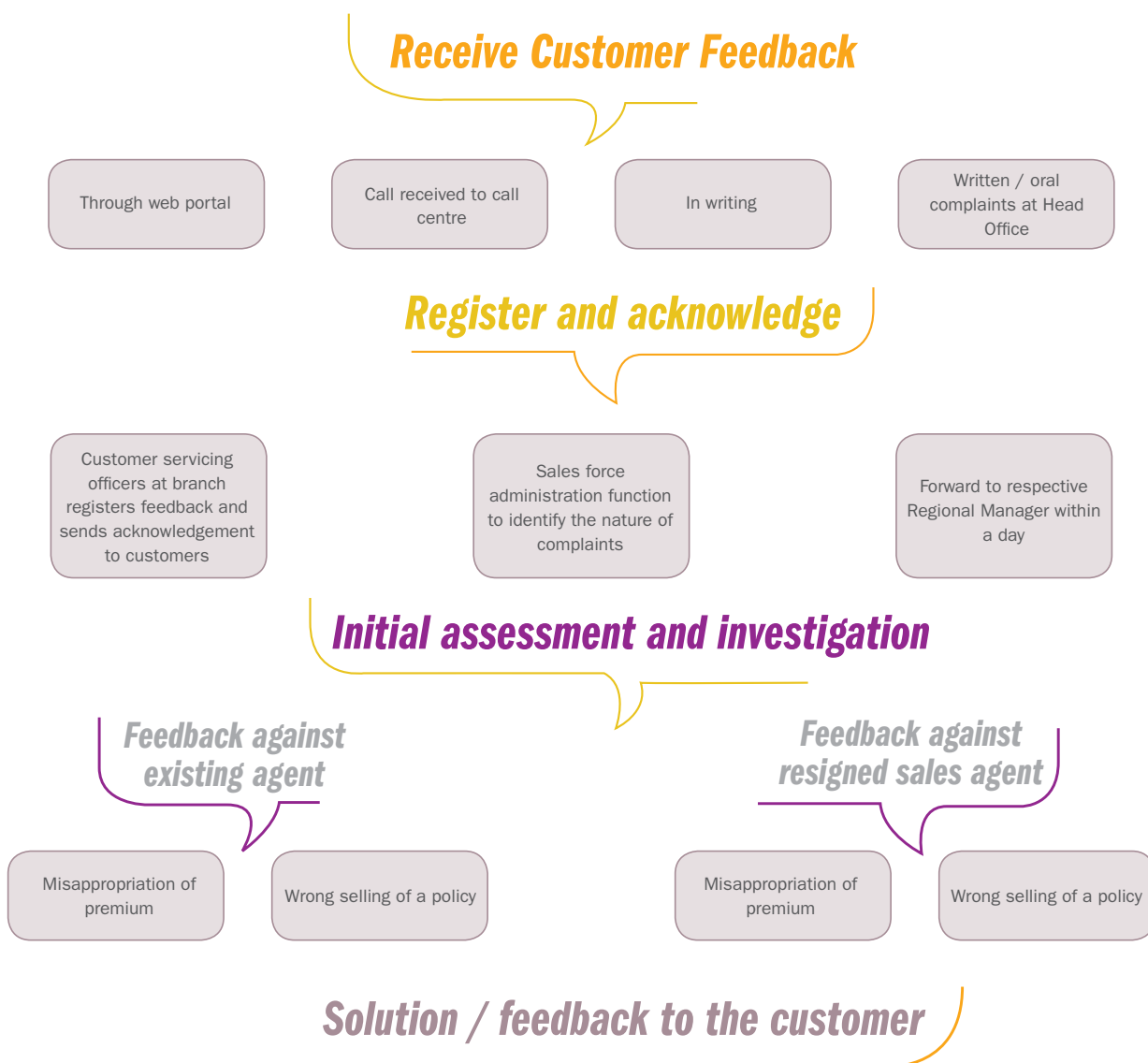
Unveiling a new era of convenience to all UA customers, a customer service unit with state-of-the-art facilities was opened on the ground floor at UA head office.

**Customer Feedback System**

Customers are able to send their feedback to us in writing, via our customer service hotline (0112428099) or our call centres. All such feedback is uploaded to our on-line customer feedback system to monitor and address customers concerns.

The table below depicts the total customer complaints received during 2013 and the progress on resolving the complaints.

Description	No.
Received	763
Resolved	686
In progress	77



# Management Discussion and Analysis

## Shareholders

**“Achieved a combined GWP growth of 12% and PAT growth of 22%. ”**

MANAGEMENT DISCUSSION AND ANALYSIS

Over the last decade, we have experienced a heightened interest in sustainability and corporate social responsibility (CSR). More and more investors are becoming socially responsible, taking companies’ environmental, social and governance standards into account in their investment decisions. In the light of this heightened interest, it is more important for companies to understand the relationship between sustainability and shareholder value.

**OUR INTEGRATED APPROACH TO CREATING A SUSTAINABLE VALUE FOR OUR SHAREHOLDERS**

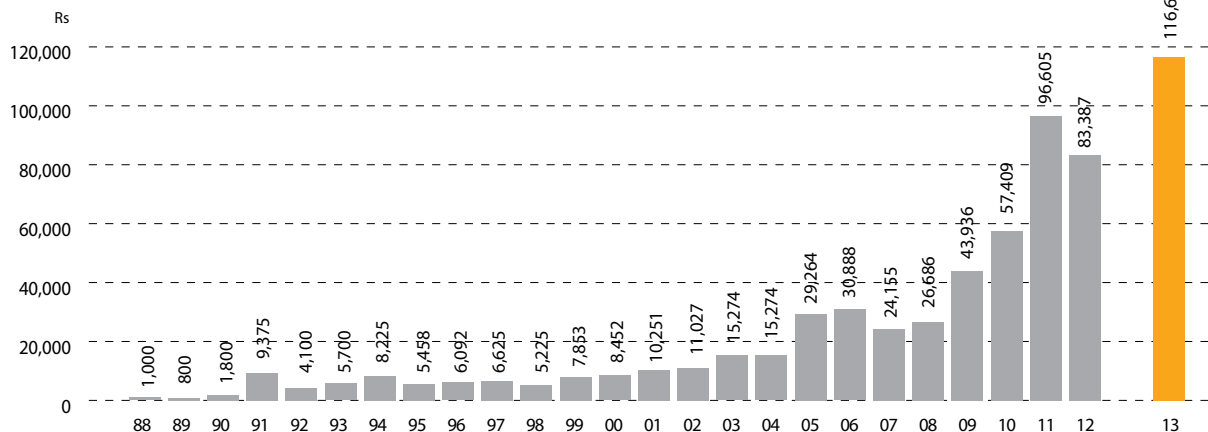
We firmly believe that sustainable value for our shareholders can be created only through a holistic approach which ensures a proper balance between expectations of various stakeholders’. The following diagram represents linkages between our activities and shareholder value.

UA is committed to delivering an enhanced shareholder value which is sustainable, while continuing to meet the company’s sustainable objectives.



Our engagement process with various stakeholders in managing these activities is explained within relevant sections of this report.

Rs. 1,000 Invested in UA IPO



**OUR PROGRESS AGAINST THE KEY MATERIAL ISSUES**

**1. Increase return on investment**

- Achieved a combined GWP growth of 12% and PAT growth of 22%
- Recorded a DPS growth of 20%

**2. Sustainable business performance**

- Reviewed and enhanced the risk management framework
- Implemented a comprehensive business continuity plan
- Continued sound performance management practices

**3. Reliable and timely information to shareholders and public**

- Published comprehensive reliable information
- Timely submission of quarterly and annual financial statements
- Developed a shareholder communication policy

**4. Best in class governance and assurance**

- Strengthened corporate governance practices

**INCREASE RETURN ON INVESTMENT**

**Achieved a combined GWP growth of 12% and PAT growth of 22%**

Total non life and life premiums increased by 12% from Rs. 9.7 billion reported in 2012 to Rs. 10.9 billion in 2013. Profit after tax increased from Rs. 921 million in 2012 to Rs. 1.1 billion in 2013 recording a strong growth of 22%

Recorded an Earnings Per Share (EPS) of Rs. 13.11 giving a price earnings (P/E) ratio of 7.93. An investment of Rs. 1,000 at UA's IPO is now valued at Rs. 116,609

**Recorded a DPS growth of 20%**

The Board of Directors has recommended a dividend of Rs. 6.00 per share for approval by the shareholders at the AGM. The dividend payout from 2013 profits will amount to Rs. 514 million.

**Financial Performance Indicators 2013 2012**

**Gross written premium**

Total amount we receive from life and non life customers as payments for their insurance policies	Rs. 10.9 billion	Rs. 9.7 billion
---	------------------	-----------------

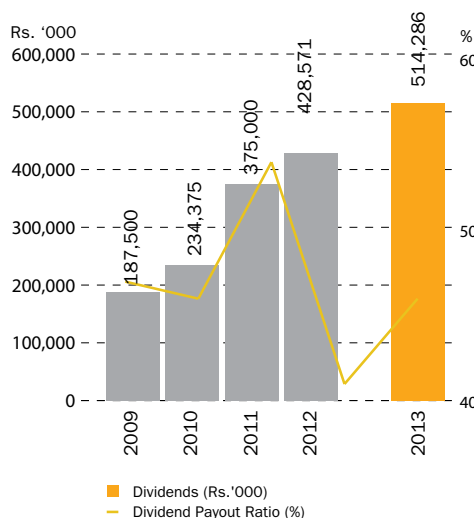
**Net profit**

Profit after tax attributable to our ordinary shareholders from life and non life insurance businesses	Rs. 1,123 million	Rs. 921 million
--	-------------------	-----------------

**Return on net assets**

Net profit attributable to our ordinary shareholders as a percentage of net assets as at year end	22%	21%
---	-----	-----

Dividend vs Dividend Payout



# Management Discussion and Analysis

## Shareholders

Shareholders	2013	2012
Earnings per share	Rs. 13.11	Rs. 12.28
Share price (year end)	Rs. 104	Rs. 83.00
Dividends per share	Rs. 6.00	Rs. 5.00
Market capitalisation	Rs. 8.9 billion	Rs. 7.1 billion
Price earnings ratio	7.93 times	6.76 times

The details of shareholder information are provided on pages 414 to 420 of this report.

### SUSTAINABLE BUSINESS PERFORMANCE

#### 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 respective 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 280 to 292.

#### Business Continuity Planning

The Business Continuity Plan (BCP) is an essential part of any organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time frame.

We are in the process of updating our business continuity plans with the support of an external consultancy firm to ensure that our company is well prepared to respond to any disaster situation, minimising any potential economic, social and environmental impact.

#### Performance Management

The Board has implemented a robust performance management system encompassing a detailed strategic planning process linked to sustainable objectives for the company. These objectives are then distilled into key performance indicators which are monitored on a regular basis at line management, senior management and Board levels. The details of the company's performance governance framework are provided on pages 274 to 279 of corporate governance report.

Union Assurance clinched the Gold Award in the insurance sector and the Gold Award for excellence in Performance Management Practices at the National Business Excellence Awards, conducted by the National Chamber of Commerce of Sri Lanka. This was the 5<sup>th</sup> consecutive year that UA has been recognised by the National Business Excellence Awards.



"National Business Excellence Awards"

## Reliable and timely information to shareholders and public

### Publish comprehensive reliable information to Shareholders

We, as a responsible corporate citizen, make every endeavour to share reliable and comprehensive information to our stakeholders. In recognising our unrelenting commitment for transparency in financial reporting, our 2012 annual report won several accolades at the annual report awards ceremony conducted by the Institute of Chartered Accountants of Sri Lanka, including bronze award for corporate governance disclosures, bronze award for management discussion and analysis disclosures and silver award in the insurance sector for the best annual report.

### Timely submission of quarterly and annual financial statements

During the year company published all its quarterly and annual financial statements with the required disclosures in line with the statutory submission dates. Financial reporting calendar for 2014 is given on page 295.

### Developed a shareholder communication policy

In line with best corporate governance practices, we have developed a policy on communication with our shareholders to ensure they have timely access to all publicly available information. The shareholder communication policy of UA is provided on pages 114 to 115.

## Best in class governance and assurance

### Corporate Governance

The Board of Directors 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.

During the year, the company reviewed its governance structures in the context of the revised 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. We also comply with 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 is 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.



"Annual Report Awards"

- Reviewed and enhanced the internal audit process, scope and frequency of audits to ensure that strategic and key operational risks are given greater focus and attention and any deviations are escalated on a timely basis.
- Formalised and relaunched 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.
- Continued to engage 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 a bottom up sign off process covering all operational processes to be submitted to the Board Audit and Compliance Committee (BACC) confirming that compliance risks have been adequately addressed.

The company has structured three levels of assurance to ensure integrity of its operations.

- Process control at corporate management level
- Internal assurance by the internal audit function
- External assurance by the external auditors

The details of these improvements as well as the overall governance structure are provided on pages 215 to 262 of this report.

# Management Discussion and Analysis

## Shareholders

### SHAREHOLDER COMMUNICATION POLICY

#### 1. Objective

Union Assurance PLC (the “company”) is committed to enhancing long-term shareholder value through regular communication with its shareholders, both individual and institutional (the “shareholders”).

To this end, the company strives to ensure that all shareholders have ready and timely access to all publicly available information of the company. The company sets out in this policy the framework that it has put in place to promote effective communication with shareholders so as to enable them to engage actively with the company and exercise their rights as shareholders in an informed manner.

#### 2. Communication With Shareholders

##### a. Shareholders’ meetings

The annual general meetings and other general meetings of the company are the primary forum for communication with shareholders and for shareholder participation.

The company encourages shareholders to participate in shareholders meetings in person or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend.

The notices of general meetings and the accompanying papers are provided within the prescribed time frames to shareholders by post.

Shareholders’ meetings are held at a convenient location where the Chairman of the company, Chairmen of Board committees, Directors and the external auditor’s would be present and are available to respond to questions from shareholders.

##### b. Financial and other reporting

The company reports operating results on a quarterly basis and produces interim and annual reports in accordance with laws and regulations pertaining to the financial reporting standards of The Institute of Chartered Accountants of Sri Lanka (ICASL) and complies with the laws and regulations of the Companies Act No.7 of 2007, listing rules of the Colombo Stock Exchange (CSE) and subsequent revisions to date and laws and regulations governing the Insurance Industry (the “regulatory requirements”).

From time to time, the company communicates other information to shareholders by way of company announcements and / or circulars, in compliance with the regulatory requirements or otherwise.

##### c. Corporate website

The company’s website ([www.unionassurance.com](http://www.unionassurance.com)) provides information on the company, including shareholder communication.

In addition, the annual report, quarterly financial statements, announcements and circulars of the company are hosted on the website along with relevant press releases to facilitate communication between the company, shareholders and the investment community.

##### d. Investment market communication

In this regard, Directors and employees of the company who maintain contacts in the normal course of business with investors, analysts and the media are aware of the disclosure obligations and requirements under the company’s “Policy on Handling of Confidential and Price-sensitive Information and Securities Dealing”.

### 3. Communication With The Company

Shareholders may, at any time, direct questions, requests for publicly available information and provide comments and suggestions to Directors or management of the company. Such questions, requests and comments can be directed to the,

Company Secretary: 011- 2306245  
Investor relations Hot line number: 011- 2428859  
E mail: investorrelation@ualink.lk  
Postal: Union Assurance PLC, Union Assurance Centre,  
20, St. Michael's Road, Colombo 3, Sri Lanka

#### Responding to shareholders' queries

Queries will be responded to using the same mode the query was directed to the company or through a mode agreed with the shareholder / s.

#### Process to make all Directors aware of major issues and concerns of shareholders

All queries made other than the queries raised directly with the Chairman, will be brought to the notice of the Chairman through the CEO or Company Secretary. Should any query need the attention of the Board of Directors, Chairman will escalate such queries and seek the assistance of the Board.

### 4. Shareholder Privacy

The company recognises the importance of shareholders' privacy and does not disclose shareholders' information without their prior consent unless required by law.

# Management Discussion and Analysis

## Employees

**“We were chosen as one of the best 15 companies to work for in Sri Lanka.”**

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

### DIVERSITY

We believe that diversity is about creating an inclusive corporate culture that embraces the differences of our employees. Diversity contributes to a winning performance culture because it values collective wisdom in business decision making. This ultimately helps us to better connect with our current and potential stakeholders, as well as to each other. This is why at UA we;

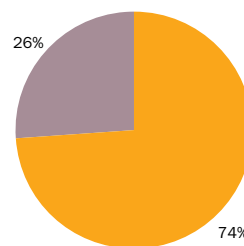
- Treat others the way we want to be treated,
- Promote a workforce in which diverse thinking and the free expression of personal values are genuinely appreciated,
- Stand for equal treatment and work opportunities for everyone at UA and
- Work closely together in the recognition that collaboration leads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

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

### Men and women in the workplace

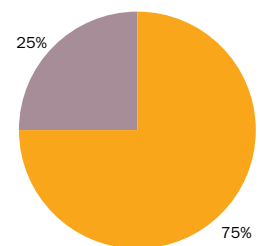
	2013		2012	
	Men	Women	Men	Women
CEO and General Managers	6	3	7	3
Assistant General Managers	9	1	8	0
Senior Managers	31	8	26	8
Managers and Assistant Managers	305	52	298	54
Executives	293	83	306	70
Non Executives	207	159	171	137
<b>Total</b>	<b>851</b>	<b>306</b>	<b>816</b>	<b>272</b>

Employee Diversity - 2013



■ Men  
■ Woman

Employee Diversity - 2012



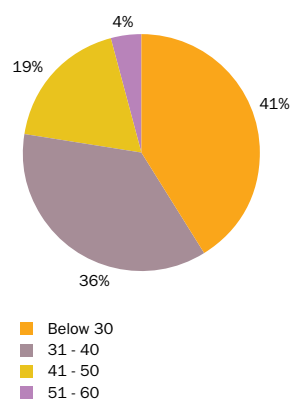
■ Men  
■ Woman

The company has maintained a healthy balance between youth and experience and recognises opportunities for youth.

## ETHICS AND ANTI-CORRUPTION BEHAVIOUR

Age group	Executive Committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2013 total
30 and below	0	0	1	47	155	274	477
31 - 40	2	2	15	196	159	46	420
41 - 50	3	7	20	100	49	33	212
51 - 60	4	1	3	14	13	13	48
<b>Total</b>	<b>9</b>	<b>10</b>	<b>39</b>	<b>357</b>	<b>376</b>	<b>366</b>	<b>1,157</b>

Age Analysis of Staff - 2013



## ETHICS AND ANTI-CORRUPTION BEHAVIOUR

In order to provide a reference point and guide for corporate conduct and behaviour within our company a code of ethics and standards has been defined. These standards have been set to be in line with organisation's that are benchmarked as best in class for 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 in a manner which presents high 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.

Similarly anti-corruption procedures defined by the company contains the following main guidelines

- Each member of the organisation has an individual responsibility to establish and maintain a high standard of business conduct in compliance with anti-corruption practices specified by applicable laws and regulations.
- Each manager has a duty to aid in understanding the content, scope and importance of this policy and to illustrate the policy by his or her own behaviour.
- Each manager must use reasonable efforts to learn of the business behaviour adopted in relation to anti-corruption procedures.

As indicated, our employees are trained on the company's anti-corruption procedures. UA ensures that its business segments are also analysed for risk relating to fraud and corruption. There were no incidents relating to corruption reported during the year under review.

## STRENGTH OF OUR WORKFORCE

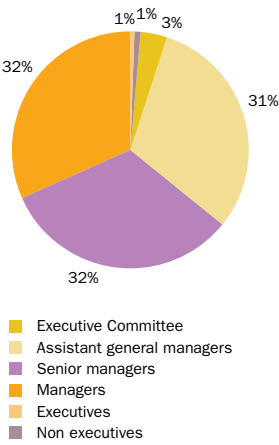
As at 31 December 2013, the company employed 1,157 persons in sales and non-sales related functions both at head office and at our regional offices across the Island. Of this total, 58 percent is non-sales staff and the balance represents the sales staff.

As at 31st December	2013	2012	2011	2010	2009	2008
Executive committee	9	10	9	9	9	10
Assistant general managers	10	8	7	7	8	9
Senior managers	39	34	33	31	29	27
Managers	357	352	338	332	315	264
Executives	376	376	330	340	300	279
Non executives	366	308	292	270	288	313
<b>Total</b>	<b>1,157</b>	<b>1,088</b>	<b>1,009</b>	<b>989</b>	<b>949</b>	<b>902</b>

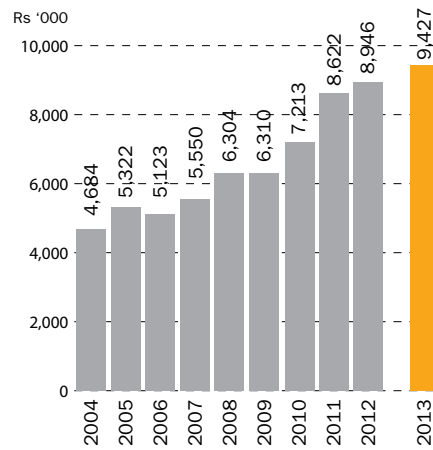
# Management Discussion and Analysis

## Employees

Staff Strength-2013

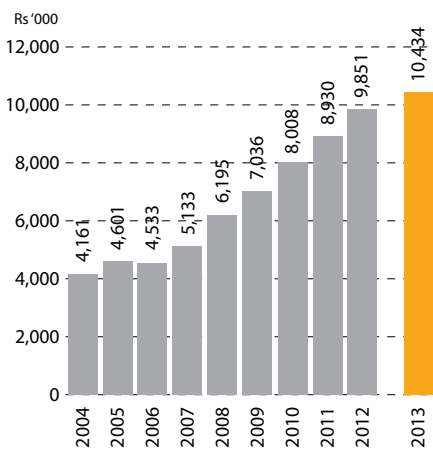


Gross Written Premium per Employee

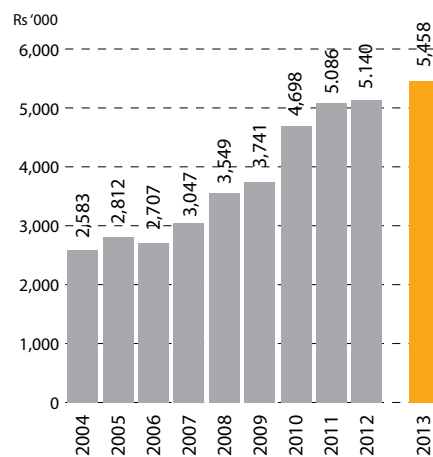


We continue to invest on initiatives to improve the productivity of our people as we firmly believe that enhanced employee productivity is a key ingredient in achieving sustainable objectives of the company.

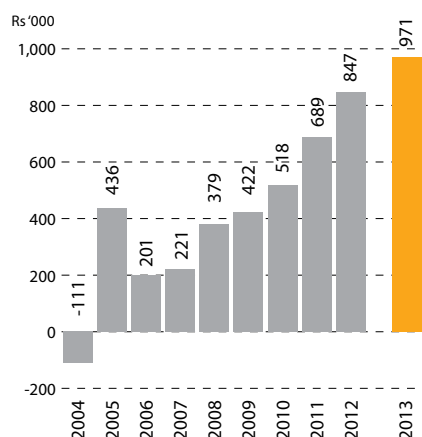
Revenue per Employee



Value Added per Employee



## Profit per Employee



UA is geared to meet varied expectations of its stakeholders, especially complex requirements of customers with a well experienced employee base. More than 34% of employees have multi disciplinary experience having worked for the company for more than 6 years.

Years	Executive committee	Assistant General Managers	Senior Managers	Managers	Executives	Non Executives	2013 Total
5 and below	3	3	18	219	260	266	769
6 – 10	4	3	9	80	70	44	210
11 – 15	1	2	5	24	15	8	55
16 –20	0	1	2	16	13	21	53
Above 20	1	1	5	18	18	27	70
<b>Total</b>	<b>9</b>	<b>10</b>	<b>39</b>	<b>357</b>	<b>376</b>	<b>366</b>	<b>1,157</b>

## EMPLOYEE TURNOVER

UA takes a deep interest in its employee turnover. Employee turnover is the process of replacing one worker with another for any reason. A turnover rate is the percentage of employees that we replace within a given time period. This rate is a concern to us because employee turnover can be a costly expense.

The turnover statistics by gender, age and region in comparison to the preceding year is given below

Employee Turnover by Age	2013	2012
Less than 30	98	79
31-40	88	65
41-50	34	29
51-60	3	6
<b>Total</b>	<b>221</b>	<b>179</b>

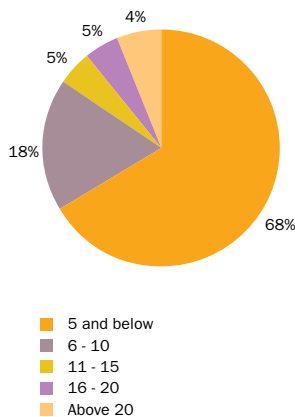
Employee Turnover by Gender	2013	2012
Male	186	144
Female	37	35
<b>Total</b>	<b>223</b>	<b>179</b>

Employee Turnover by Region	2013	2012
North	17	28
East	16	7
South	21	17
West	136	121
Central	12	0
Uva	21	6
<b>Total</b>	<b>223</b>	<b>179</b>

# Management Discussion and Analysis

## Employees

Analysis of Service Period of Staff - 2013



### OUR PROGRESS AGAINST KEY MATERIAL ISSUES

To develop a sustainable business it is important to attract, retain and develop appropriate skills. In doing so, proper understanding of the expectations of our employees and taking every possible effort to satisfy their needs is key to developing a sustainable relationship with them.

The progress that we have made during the year in relation to our commitments to employees is summarised below;

#### 01. Build ownership by engaging employees in our business

- Re-launched the “Intranet” of the company which provides more options for employees to interact
- Conducted an employee satisfaction survey partnering with GPTW institute
- Six management meetings were held during the year.
- Over 500 employees directly participated in the strategic planning process
- Use of social media such as “Facebook” to interact with employees

#### 02. Provide a rewarding career

- Launched the “Cadet Manager” management trainee programme
- Continued to invest in training and development
- Continued with talent management initiatives
- Continued with internal certification programs for employees
- Use of company award schemes to recognise high performers

#### 03. Ensure a healthy work life balance

- Conducted a “BMI” (Body Mass Index) challenge contest for the 3<sup>rd</sup> consecutive year to encourage staff to be mindful of their health
- UA Cricket carnival with the participation of staff members and their families
- Actively participated in the mercantile sport tournaments (cricket, basketball, badminton etc.)
- Regional events of “Bring Your Child to Work” were initiated
- Launched Union hobby and adventure clubs
- Held “Fit for Life” to educate the general public on health related issues

#### 04. Provide a great place to work

- UA was ranked amongst the top 15 companies in Sri Lanka as a great place to work by the GPTW institute.
- Launched “Values Walk Way” to inspire staff on UA values

#### 05. Fair performance management and grievance handling process

- Career committees for performance appraisals of executive and above categories
- Online grievance management system

### ENGAGING EMPLOYEES IN OUR BUSINESS

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 impact them. Regular employee satisfaction surveys are conducted to allow employees to air any grievances in an anonymous fashion and identify any areas which require improvement.

#### Re launched Staff "Intranet"

Our intranet plays a vital role in the engagement process within the company. With the re-launch of the intranet, the interface was transformed into an easy to use system where employees could access the required information in more efficient manner with just a click of a button. All the information required by our employees to effectively discharge their duties are available on the intranet providing more convenience for the staff, e.g. operational process and procedure manuals, HR policies, IT policies, etc;

#### a Great Place to Work (GPTW) Survey

An employee satisfaction survey was conducted during the year providing an opportunity for employees to openly express their views about the company, its management and any open feedback. The survey was conducted by the GPTW institute. More details about this survey are available under the section "Great Place to Work".

#### management meetings

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 and communicate business developments, company activities and progress against plans. This information is then cascaded to every employee by the respective departmental head / 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 ground level issues, if any and treat this as an opportunity to interact with a cross section of staff.

### Participation in strategic planning process

We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas. Planning sessions were initiated for the year 2014 and over 500 employees directly participated in planning discussions. Strategic and tactical action plans arising from these meetings are fine-tuned and deliberated in detail by the Executive Committee and finally presented to the Board of Directors for approval.

Further, this year we engaged four batches of 'Union Transformers', who are essentially staff below 30 years of age, in the strategic planning process to understand their view point on any areas for improvements, new ideas for implementation and any other issues.

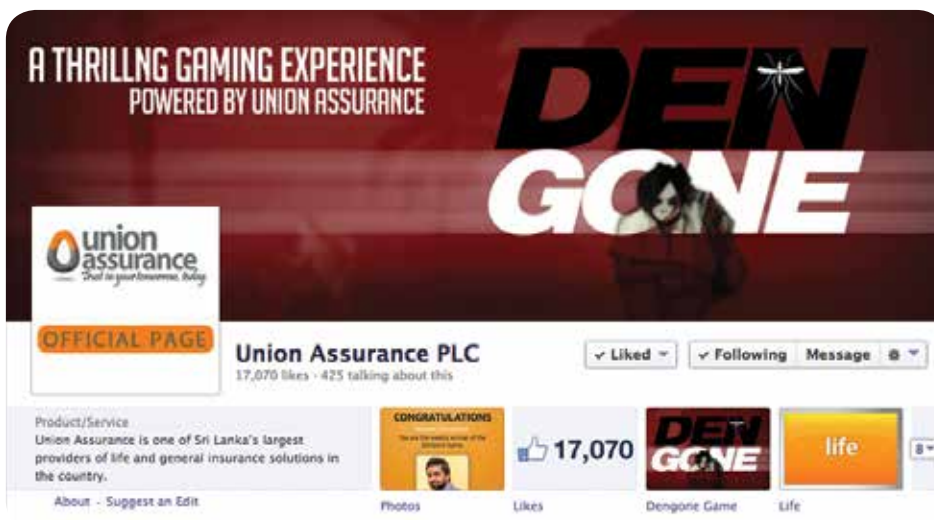
The company also continued the employee suggestion scheme where any employee could forward his or her suggestions on-line via the intranet. All suggestions were addressed by way of either implementation, deferred for an appropriate time or not practical to act upon.

#### use mobile text messaging (sms) to convey important messages

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

#### Use of social media to interact with employees

UA launched its own "Facebook" page and enabled employees to communicate with the company at their leisure through their Facebook accounts. To encourage staff to connect with the company through their Facebook accounts, few competitions were launched during the year. This created an opportunity for employees to share and collaborate with the company and with each other.



"Union Assurance Facebook Page"

# Management Discussion and Analysis

## Employees

MANAGEMENT DISCUSSION AND ANALYSIS

### PROVIDE A REWARDING CAREER

UA provides 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.

### Launched the “Cadet Manager” programme

This novel programme was initiated to attract dynamic graduates where each individual would undergo an extensive training programme over 18 months and once successfully completed would operate as regional managers. The programme is structured in a manner that promotes team work, business analysis and crisis management which are essential in managing dynamic teams to realise business potential of respective areas. The Cadet Managers training programme provides an overview of all functional departments as well.

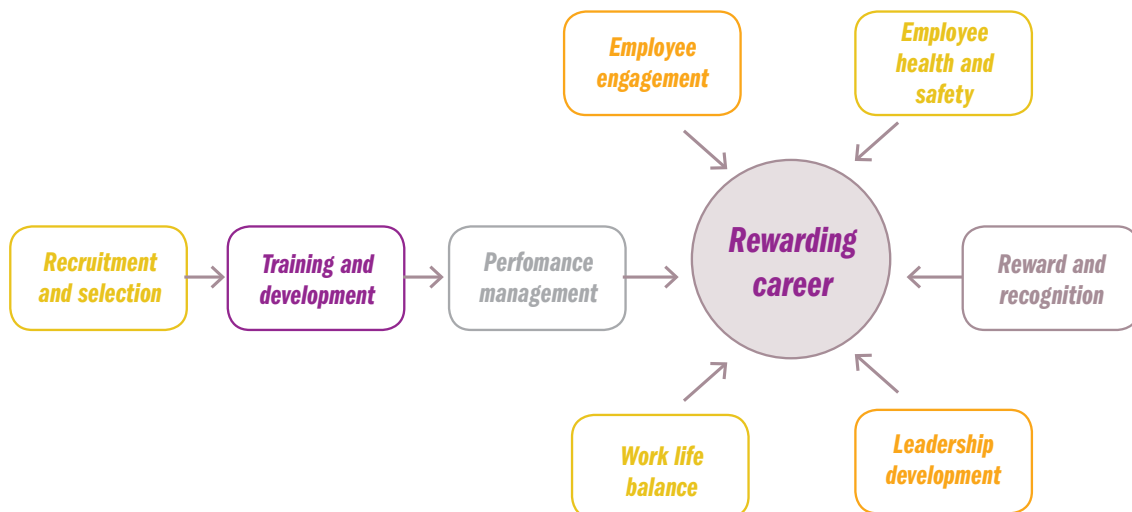
### Training and development

Building a high performing team through training, development and education provides 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, softs skills and information technology. The following provides a summary of the training we provided;

Comparison of Training Programmes and Training Hours	2013	2012
Number of programmes	246	270
Number of training hours	28,166	33,680



### Investment in Training and Development

The total training and development expense for 2013 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

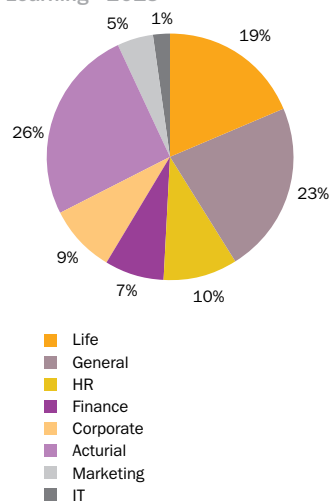
	2013	2012
	Rs. Mn	Rs. Mn
In-house training	26	23
External training	2	4
Conference	3	1
Overseas training	7	13
Insurance and professional education	16	17
Professional membership	1	2
<b>Total</b>	<b>55</b>	<b>60</b>

### Induction and familiarisation programme

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 new recruits acquire the necessary technical knowledge, competencies, skills and most importantly the company's values in order to reach peak performance within a short time period. This enables them to respond rapidly to the needs of the organisation.

New recruits undergo a two day induction programme, which is mandatory. Recruits to senior management levels go through a learning arrangement which is spread over five days. On a

#### Investment in Professional Learning - 2013



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 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. The decrease in the number of hours in 2013 compared with 2012 is due to the contents of some of the programmes being restructured based on the feedback received.

#### Induction Programme

	2013		2012	
	Number of programmes	Number of hours	Number of programmes	Number of hours
Induction	12	5,986	12	8,044

# Management Discussion and Analysis

## Employees

### Overseas Exposure

UA continued to provide overseas exposure to staff members as an essential element of the training and development process. 24 employees attended overseas training programmes during the year.

### International programmes 2013

Life	2
Marketing and Distribution	5
Finance	3
Human Resources	3
Information Technology	2
General Distribution	2
Actuarial	3
General	3
Corporate	1
Total	24

### 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 164 staff members in 2013 (2012 - 127).

### E Learning

“Learn Easy” is a blended learning system made available to all UA field staff and office staff member. This web portal provides access to a wealth of knowledge which will help the employees gain higher skills and competencies through learning at their own pace.

### Learning Benchmarks

A total of 154 in-house training programmes and 111 external programmes (including 19 overseas programmes) were carried out during the year. The total learning days achieved against benchmark for the year in comparison to last year are detailed below;

Category	2013		2012	
	Benchmark	Actual	Benchmark	Actual
Managers	6	14	6	17
Executives	4	7	4	9
Non executives	3	6	3	9

### Effectiveness of Training Programmes

During 2013, the following tools / techniques were used to ascertain the effectiveness of training programmes which were carried out.

- Employee external training report
- Employee action plan
- New programme evaluation sheet
- Post training interviews conducted on a random basis with participants
- Employee personal development plan

### Talent Management

Talent management refers to the process of developing and integrating new employees, developing and retaining existing 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.

#### Comprehensive succession planning

The company initiates 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.

#### Executive development programme

This development programme is exclusively for executive level cadre and was conducted on a voluntary basis where interested staff could apply and enrol 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 the 44 participants who enrolled for this programme, 14 participants successfully completed the final phase.

#### “Union Transformers” personality development programme

A special training programme titled “Union Transformers 2” rolled out for all staff members who are below 30 years of age. This was conducted through external and internal facilitators to create awareness on ethics, morals and etiquette. Unique feature of this programme was “Union Master Chef” culinary session, where every participant experienced the effectiveness of team work from a different dimension.



“Talent Management - Top Gun”

#### “Top Gun”, “Union Warriors” and “Union Braves”

UA continued to invest in its flagship leadership development programme. During the year, 7 staff members completed the “Top Gun” programme and 11 and 18 staff members completed the “Union Warriors” and “Union Braves” programmes respectively.

#### Certification programmes for employees

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

##### Certificate for 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, 23 branch underwriting staff members were certified as CIGIUPs.

##### Advanced Certificate in General Insurance Underwriting Practice (CIGIUP)

This is a certification process launched for the non life insurance technical and underwriting staff, those have been certified as CIGIUPs. The certification is awarded upon completion of specified advanced training modules and field assignments.

##### 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 has to pass a written exam and participate in group assignments.

# Management Discussion and Analysis

## Employees

### REWARDS AND RECOGNITIONS

We understand the importance of our employees knowing that they are viewed as valuable members of the organisation. With an effective reward and recognition system, we create and reinforce a positive self-image in our employees, making them feel like winners.

#### Service Champions

The objective of the “Service Champions” reward scheme is to select and reward the most outstanding employees in support services units and to distinguish high performers so that they are seen as role models. 17 members were recognised under this scheme at the Annual Award ceremony held at the BMICH.

#### 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, 54 non sales staff members (2012 - 36) 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 is deemed “worthy” and “rewardable”. 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 2013 we recognised 62 employees under SPAR.

### 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.

### Defined Benefit and contribution plans

We comply with the Employees Provident Fund Act No 15 of 1958 (EPF) and the Employees Trust Fund Act No 46 of 1980 (ETF). Accordingly UA contributes 12% of an employee's basic salary to the Employees Provident Fund and another 3% on the employee's basic salary to the Employees Trust Fund on a monthly basis as stipulated in both Acts.

UA further ensures that it complies with the Payment of Gratuity Act No 12 of 1983, where all permanent employees who complete 5 years of uninterrupted service are entitled to receive a retirement benefit obligation amounting to half a month's basic salary for each year served.

The defined benefit contribution liability is externally valued by professional valuer Messrs. Actuarial & Management Consultants (Pvt) limited. The total defined benefit contribution liability for the year ending December 2013 is Rs. 186 million (December 2012 Rs. 164 million).

Year ended 31 December	2013 Rs '000	2012 Rs '000
EPF	83,721	71,621
ETF	20,930	17,905
<b>TOTAL</b>	<b>104,651</b>	<b>89,526</b>

**PROVIDE A GREAT PLACE TO WORK**

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.



MANAGEMENT DISCUSSION AND ANALYSIS

**Chosen as one of the best 15 companies to work for in Sri Lanka by GPTW institute**

UA was recognised as a Great Place to Work via a survey amongst more than 5,000 employees, across many banking and financial institutions as well as multinationals, public listed companies and other organisations. The survey was conducted by the Great Place to Work® Institute in partnership with LMD and the Ceylon Chamber of Commerce.

Among the 15 great companies in the study this year, employee pride in the organisation they work for, a feeling of camaraderie among colleagues, management’s ability to run the business and feeling accepted within the company rated high. As per the survey, Union Assurance is comparable with and in some instances better than, many of the best multinational companies in the world. Whether it is investment in training and development of its people, celebrating success and coordinating within the company, or ensuring employees receive a fair share of the profits, employees of great workplaces were as satisfied as employees of other best in class organisations.

Union Assurance strives to be on par with the concept of being a ‘great place to work’ and supports this with a company-wide learning culture and collective vision to be the most sought after provider of insurance solutions operating on the promise of “Trust”.

**Values Walk way**

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



“Values Walk Way”

# Management Discussion and Analysis

## Employees

With the reinforcement of the UA values, a “Values Walkway” was created along the 6<sup>th</sup> floor to the rooftop at UA head office. The main objective of this was to inspire the UA staff with the corporate values, “ExCITE” which depicts;



UA 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.

### “BMI” (Body Mass Index) Challenge

For the 3<sup>rd</sup> 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.



“Mercantile Sporting Event”

### UA Cricket Carnival 2013

A six a side T20 Cricket Carnival 2013 was held successfully. 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 to ensure maximum participation.

### The Great X' Mas Stairway Race

This was yet another unique event initiated by UA at Union Assurance head office premises. The concept of the challenge was to reward the best 3 participants on timing who climb up all 7 floors without holding the railings of the stairway. This was a fitness event where 25 participants took part.



"Hobby and Adventure Club"

**Union Hobby and Adventure Club - UHAC**

The core objective of launching this club was to bring together employees with mutual interests to provide them with an opportunity to engage with each other. The club consists of employees having similar interests on the following categories;

- Fitness and biking
- Glamour
- Dog lovers
- Photography
- Mobile apps
- X-box and gamers

UHAC is an online blog which is hosted on the UA intranet where interested employees can join and update / get updated on latest news on the above categories. UHAC hopes to conduct "live" events in 2014 with the participation of its members.

**UA Recreation Club**

UA's Recreation Club organised several events including a "Talent show" "DJ night" "Kotthu 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 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.

**Fit for Life**

The programme was organised to educate the general public on health related issues. All participants were required to take part in a walk where it was followed up with a free medical checkup that was provided to the participants



"Fit for Life"

**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.



"Dress down day poster"

# Management Discussion and Analysis

## Employees

### 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 2013 UA secured 2<sup>nd</sup> place in the mercantile “A” Division Basketball Tournament.

### Bring Your Child to Work

UA held its regional “Bring Your Child to Work” days in Galle and Kurunegala. This event was attended by more than 75 children of the staff. 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.

### 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.

### Divisional annual staff 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.

### FAIR PERFORMANCE MANAGEMENT AND GRIEVANCE HANDLING PROCESS

As a responsible employer, we firmly believe that UA can only develop a long term partnership with our employees, having a performance management system in place which is governed by the principles of fairness and equality and creating a very conducive atmosphere for employees to freely express their views.

The company has reported zero cases on discriminations in the workplace, as we are an equal opportunity provider and we do not have a policy to encourage any discrimination when making decisions.

### Career committees for performance appraisals of executive and above categories

UA has implemented a systematic performance management system where each employee’s performance is assessed fairly and equally against peers. Employee’s performance is first assessed by his immediate superior and recommendations are provided accordingly. Following this process, recommendations of executive and above category are presented to a career committee which consists of individuals from different departments. Based on the recommendations received, this committee assesses the performance of employees and provides a final rating along with feedback about their performances. Subsequently, individual feedback sessions are held to communicate the final decision and career committee feedback to relevant staff members.

### Online grievance management process

UA has a very effective grievance handling process. The company’s open door policy has become an integral part of UA’s culture and creates a very conducive atmosphere for employees to openly express their concerns. UA acknowledges that as an equal opportunity employer a grievance handling procedure which provides an opportunity to employees who are aggrieved by alleged unfair, unjust or inequitable practices to receive a fair hearing and restores a cordial working environment without prejudice to the complainant.

The company has implemented an online grievance handling system where employees could present their case in an anonymous manner over the portal. This will trigger a notice in the form of a mail to the officers who are in charge of this online process. After careful evaluation of the issue it is communicated to the individuals affected and solutions are provided in an effective and efficient manner.

### Remuneration policy

The objective of the remuneration policy is to attract, motivate and retain qualified and expert individuals that the company needs in order to achieve its strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognising the interests of UA’s stakeholders. 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
- Fire drills: Abrupt fire drills are initiated to educate employees on how such a situation should be handled
- Vitality and work: Various initiatives launched to ensure proper work-life balance as indicated under "Great Place to Work" section
- Working environment: We have provided our employees proper workplace layouts, work posture and other facilities in compliance with accepted health and safety measures.
- Incidents at work: We have a very systematic process in place to record and monitor occupational incidents and to take preventing actions.
- Selective programmes on education and awareness, counselling, prevention and risk treatment regarding serious disease such as HIV / AIDS

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. These are done at mid-year and a more formalised career committee performance evaluation at year end.

### HUMAN RIGHTS IN THE WORKPLACE

We aim to ensure that our people work under conditions that meet all labour standards and laws of the country. We only employ people above the legal working age and our human resources framework aims to provide just and favourable conditions for all. We perform regular reviews, taking into account internal and external comparisons, broader labour and marketplace developments and issues raised by our people or their representatives.

Furthermore we consider certain human rights fundamentals as vital to our workforce including the right to freedom of association, the right to collective bargaining and freedom from national and social origin. UA upholds the elimination of all discrimination based on race, colour, sex, religion, political opinion forms of forced labour and child labour.

The company has adequately trained employees on policies and procedures concerning aspects of human rights which are relevant to the day to day operations of the company. This training programme runs in a cycle so that every new employee who joins the organisation receives adequate training.

### HEALTH AND SAFETY

UA follows various national and international guidelines and workplace health and safety directives. These directives set out general principles for the protection of the workers' occupational safety and health. We have initiated a range of activities related to health, safety, availability and vitality to ensure, UA is a very safe place to work for.

### COMPLIANCE WITH LEGISLATION

Within our sphere of influence and wherever permitted by law, we will support the aims of the Universal Declaration of Human Rights (UDHR), International Labour Organisation (ILO) Core Conventions and of the UN Global Compact. Where the countries local legislation goes further than the principles set out by the UDHR, ILO Core Conventions and / or UN Global Compact, UA will also apply to the additional local legislation. Where local legislation prevents UA from upholding aspects of the UDHR, the ILO Core Conventions, provisions of the UN Global Compact or UA's own human resources policies, UA strives to act in the spirit and nature of these principles while respecting and adhering to applicable local legislation.

Under our Human Rights Statement, we uphold the freedom of association for all our employees and recognise the right to collective bargaining. The way employees are consulted depends on local legislation and culture. With the adherence to such comprehensive legal philosophy UA expects to build a conducive environment for all employees to perform which would in turn benefit the company in the long run.

# Management Discussion and Analysis

## Field Staff

**“477,801 training hours for 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 progress against the key material issues we have made during the year is summarised below.

### OUR PROGRESS AGAINST KEY MATERIAL ISSUES

#### 1. Training & Development

- Achieved 477,801 training hours in total for the current year
- Enhanced use of online examinations
- Enhanced training infrastructure with e-learning
- Completed 79,967 e-learning and distance learning hours during the year
- Training for new products and refresher training for existing products

#### 2. Initiatives to enhance productivity and professionalism

- Relaunched “Brilliant Starter”, “Brilliant Starter Coach” and the new “Brilliant Starter Leader” programmes
- Successful continuation of Leadership Academy, Millionaire Income Table (MIT) and MIT Dream Team Programmes
- Continued to invest in internal certification programmes for all categories and 586 sales force members were certified during the year

#### 3. Rewards and Recognition

- Launched international recognition schemes / overseas tours
- 12 field staff members qualified for the Million Dollar Round Table (MDRT) conference
- 38 advisers received LIMRA quality and productivity awards

### TRAINING AND DEVELOPMENT

UA as per business requirements increased the number of training hours for our field staff and their line management.

Training for Field Staff and Management	2013			2012		
	Average cadre	Total training hours	Per capita training hours	Average cadre	Total training hours	Per capita training hours
Regional and life sales managers	261	16,600	63.6	205	12,325	60.1
General sales staff	294	5,264	17.9	192	1,972	10.2
Bancassurance sales /support staff	243	26,104	107.4	261	9,320	35.7
Unit leaders	627	37,528	59.9	573	54,141	94.4
<b>Sub Total</b>	<b>1,425</b>	<b>85,496</b>	<b>59.9</b>	<b>1,231</b>	<b>77,758</b>	<b>63.1</b>

Training for Field Staff and Management	2013			2012		
	Average cadre	Total training hours	Per capita training hours	Average cadre	Total training hours	Per capita training hours
Advisors - life	3,651	267,733	73.3	3,435	199,206	57.9
Advisors - non life	675	31,147	46.1	530	53,800	101.5
Sub Total	4,326	298,880	69.1	3,965	253,006	63.8
<b>Total</b>	<b>5,751</b>	<b>384,376</b>	<b>66.8</b>	<b>5,196</b>	<b>330,764</b>	<b>63.6</b>
<b>Total Including e-learning and distance learning</b>	<b>5,751</b>	<b>477,801</b>	<b>83.1</b>	<b>5,196</b>	<b>412,584</b>	<b>79.4</b>

The total class room based training hours increased from 330,764 hours to 384,376 hours. In line with our strategy, overall per capita training hours in 2013 increased to 83.1 from 79.4 hours due to the increase in e-based learning.

A minimum of five training days has been achieved across all categories. The life and non life field staff members who require the most amount of training (ranging from technical, soft skills, motivational and professional coaching) were allocated an average of 73 and 46 per capita training days respectively.

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 2013, 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 with a comparison from 2012.

Zone	2013		2012	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
North	107	2,399	67	1,422
North Central	44	1,484	37	1,205
Central	66	2,220	40	1,651
Western 1	21	764	30	932
Western 2	25	680	58	1,740
North Western	15	730	10	461
Uva	57	1,512	60	1,609
Eastern	56	954	44	718
Southern	63	2,315	49	1,697
Metro 1	5	217	27	961
Metro 2	12	466	26	1,370
Metro 3	3	102	-	-
Common	144	5,140	145	4,383
<b>Total</b>	<b>618</b>	<b>18,983</b>	<b>593</b>	<b>18,149</b>

### Product training

#### Union MediGuard

The new rider, Union MediGuard (UMG), was launched in March 2013. As with all new products, a high volume of quality training is required for successful implementation. With this in mind, L&D conducted the product training to 2,365 sales staff as well as special refresher and sales training for 344 sales staff. Additionally, in order to roll out the trainings for the complete cadre, train the trainer programme was conducted and 567 trainers were certified to train on the new rider.

To provide an understanding of the medical aspects two special trainings were conducted for 95 top achievers by a medical practitioner as well.

### 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.

# Management Discussion and Analysis

## Field Staff

### Enhanced use of online examinations

To build knowledge of the technical side of e-learning and to make the process of examinations easy and convenient, promoting of the online examination for “Know Our Life Products programme” was focused with great intensity. As a result of this, 299 sales staff completed the online examination in either Sinhala or Tamil with 219 passing the exam.

### Enhanced training structure through 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 training 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 over 850 laptops and tablet PC users, usage of e-learning is increasing at a considerable pace.

In total, 73,967 training hours have been completed during the year through e-learning and distance learning methodologies.

E-learning and Distance Learning	2013			2012		
	Average cadre	Total training hours	Per capita training hours	Average cadre	Total training hours	Per capita training hours
Advisors - life	2,956	36,266	12	3,333	45,049	14
Field and sales management staff – life insurance	276	2,041	7	789	17,157	22
Branch managers and above	69	2	0	50	901	18
Sales and non sales staff - non life insurance	1,084	35,658	33	998	18,712	19
<b>Total</b>	<b>4,385</b>	<b>73,967</b>	<b>17</b>	<b>5,170</b>	<b>81,819</b>	<b>16</b>

### Brilliant Starter Certification

The “Brilliant Starter” initiative was launched with the intention of enhancing the confidence and competencies of new life advisors. The objectives of this initiative are to develop new advisors 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 31<sup>st</sup> December, 551 new life advisors have been recognised as Brilliant Starters.

### Brilliant Starter Coach Certification

“Brilliant Starter Coach” certification 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, 109 leaders have been recognised as Brilliant Starter Coaches.

### Brilliant Starter Leader Certification

The “Brilliant Starter Leader” was a new initiative to focus Unit Development Officers on quality recruitment and developing new advisors to become Brilliant Starters. The selection criteria states that it is essential to recruit three new advisors during the first four months and develop them to achieve the assigned minimum target.

### Leadership Academy

The Leadership Academy was conducted to develop a pool of sales leaders capable of delivering the company objectives and navigating through the rapid change taking place in the industry. As the second batch a team of 37 leaders were recognised, with the majority representing the sales manager category. Four sessions were conducted in house with a content including a series of practical leadership development sessions in addition to the class room based training by the L&D unit.

### Millionaire Income Table (MIT)

The company formed a “Millionaire Income Table” (MIT) in 2012 for elite advisors who earn an annual income of rupees one million or above. The objective of this initiative was to develop these advisors to be on par with other high achievers in the Industry. Two sessions were conducted, in 2013 as a follow up from the previous year.

### 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 presentations and allows sales persons to customise product offerings to suit customer’s requirements. If the customer requires further time to assess the solution, the DAT allows the

advisor to email a PDF version of the quote to the customer directly. Further development of the proposal to enable online submission enhanced the sales advisers’ productivity and value. During the year 709 advisers and leaders have successfully completed the required training and are now using the DAT in the field.

### 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 (CIA) and Certified Unit Leaders (CUL)

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 1,265 in 2012 to 1,380 in 2013. The number of certified unit leaders also increased from 303 in 2012 to 317 in mid 2013.

#### Certified Investment Planner (CIP)

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 3,370 (during the year 398) CIPs have been certified including sales and regional managers.

#### Certified Sales Professional (CSP)

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 69 sales officers have been certified as CSPs during the first half of the year.

#### Certificate in General Insurance Underwriting Practice(CIGUP)

This is an internal certification process for the non life 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 23 branch underwriting staff members were certified as CIGIUPS

# Management Discussion and Analysis

## Field Staff

MANAGEMENT DISCUSSION AND ANALYSIS

### Adventure Based Training

An adventure based training programme on team building was conducted for 62 top performing non life sales officers and 68 assessors. The goal of this programme was to reward hard work as well as to increase productivity by encouraging a high level of teamwork. They were assigned a goal of increasing their individual targets by 150% in order to participate in a follow-up adventure based training exercise in 2014.

### REWARDS AND RECOGNITION OF SALES FORCE STAFF

UA paid tribute to 101 top achievers In 2013, UA concluded the awards night on a high note. 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 “A Sterling Performance Beyond the Silver Towards Gold,” honoured 101 top performers of 2012. These sales professionals met stringent sales objectives as well as service standards and emerged as the best of the very best.

### Overseas Tours

UA continues to incentivise top performing life and non life sales staff with overseas tour opportunities. Based on the achievement of sales targets, 26 life sales staff members were provided an overseas tour to Dubai and Abu Dhabi. A further 21 life sales staff members and 22 non life sales staff members toured Bangkok.

### International Recognition Schemes

Union Assurance is driven by the theme “Delivering the Promise of Trust” which is extended through three pillars

- Transparency
- Convenience
- Respect

To achieve this objective, maintaining and enhancing the quality of our sales team is of paramount importance.

### Life Insurance Marketing and Research Association (LIMRA) Winners

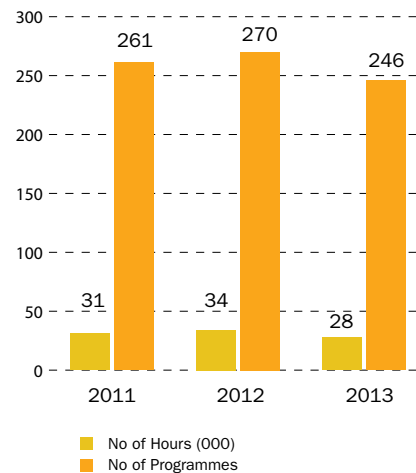
We continue to encourage the field staff to qualify for LIMRA Life Insurance Marketing and Research Association USA Awards. In 2013, 14 advisers were recognized with LIMRA International Awards for Productivity (IAP) while 24 advisers were recognised with the LIMRA International Quality Award (IQA).

### 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 2013, the company was able to produce 12 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 service businesses.

Focus on Training and Development



## Responsible Supply Chain and Reinsurance Partners

**“Fair and unbiased vendor selection process.”**

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.

Our suppliers also 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.

### PROGRESS AGAINST KEY MATERIAL ISSUES

#### 1. Reinsurers

- Deliver a balanced profitable portfolio
- Reliable and timely information
- Effective risk assessments practices and policies

#### 2. Supply chain

- On time settlement of dues
- Fair and unbiased vendor selection process

#### 1. REINSURERS

Reinsurance is insurance for insurers. Reinsurance allows direct insurers to free themselves from part of a risk that exceeds their underwriting capacity, or risks which, for one reason or another, they do not wish to bear alone.

##### Deliver Balanced Profitable Portfolio

To be considered balanced; an insurance portfolio should include many similar and equivalent risks. In this way, losses can be balanced collectively, meaning that the direct insurer will need little or no reinsurance.

The Insurance portfolio of a large direct insurer comes closest to this ideal. If such a portfolio includes enough individual risks the law of large numbers should apply, meaning that the loss ratio to premiums should fluctuate.

UA ensures that the reinsurance panel consists of adequate credit ratings by globally approved agencies. The credit ratings of the reinsurance panel are discussed under risk management in the financial section on page 344.

##### Reliable and Timely Information

Receiving the right information from reinsurers at the right time can help to make better business decisions, whether strategic, tactical or operational for improved business performance. Therefore, corporate agility and the ability to analyse information speedily are being viewed as a core competency and a source of competitive differentiation from our reinsurers.

##### Effective Risk Assessment Practices and Policies

Risk assessment provides a mechanism to identify which risks represent opportunities and which represent potential pitfalls. Done right, risk assessment provides a clear view of variables to which they may be exposed, whether internal or external, retrospective or forward looking.

A good assessment is anchored in the organisation's defined risk appetite and tolerance and provides a basis for determining risk responses.

A robust risk assessment process, applied consistently throughout the organisation, empowers management to better identify, evaluate and exploit the right risks for their business, while maintaining the appropriate controls to ensure effective and efficient operations and regulatory compliance.

# Management Discussion and Analysis

## Responsible Supply Chain and Reinsurance Partners

Please refer pages 343 to 344 for a detailed explanation on how UA manages reinsurance risk.

### 2. SUPPLY CHAIN

Our supply chain is the total flow of materials, information and cash, from suppliers right through our enterprise. A supply chain is dynamic and involves the constant flow of information, product, funds and after sales service to provide an end to end solution.

#### On time settlement for supplies

We ensure that our suppliers are paid on time in order to avoid uninterrupted services. As a result the company does not maintain any long due payments to the suppliers.

#### Fair and unbiased vendor selection process

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

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

#### Supplier Selection Criteria

- Background, service record
- Financial stability
- Sustainable practices adopted
- Environmental and ethical best practices

#### Products /Service selection Criteria

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

# Society

**“Buckle up for safety.”**

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 society that the company serves.

The society centric activities of UA are based on building a trustworthy tomorrow by creating a safe and healthy community. Two strategically thought CSR platforms exist, while projects are closely carried out with the Ministry of Health and the Sri Lanka Police focusing on addressing national concerns.

Our structure of the CSR committee and the level of activities;



MANAGEMENT DISCUSSION AND ANALYSIS

# Management Discussion and Analysis

## Society

### OUR PROGRESS AGAINST KEY MATERIAL ISSUES

#### 1. Provide direct and indirect job opportunities to develop the local economy

- 487 Sales force and 670 Non Sales staff employed as at December 2013

#### 2. Improve the welfare of the community

- Crime prevention hoardings (Island-wide)
- Traffic awareness programs for school children
- Reflector light installation programme
- White cane donations to the visually impaired
- Blood donation campaign
- Awareness on expressway safety
- Awareness for bus drivers on road safety

#### 3. Supporting health and safety in the local community

- Dengue awareness programme conducted island-wide
- Awareness on the prevention of Thalassaemia
- Awareness on diabetes prevention

### PROVIDE DIRECT AND INDIRECT JOB OPPORTUNITIES

Employment is very often the key concern for our host regions and we share this priority. It is due to this fact that we endeavour to do our part to create jobs and stimulate the economic base. We also strive to continually expand the local content of our activities and operations

Although Sri Lanka has a relatively low unemployment rate, we endeavour to do our part to stimulate job creation. This might mean hiring candidates, offering training, purchasing local goods and services or developing the local economic base.

We support and implement social and economic programmes in line with the expectations of local communities. These programmes focus on various issues such as access to

energy, health, education and industrial safety. They are geared to provide neighbouring communities with the capabilities needed to organise and steer their development independently according to their own priorities.

### IMPROVE THE WELFARE OF THE COMMUNITY

Safety is a key aspect when it comes to insurance, since insurance is a mechanism whereby a loss suffered by a few individuals, is settled with nominal premiums collected from a large number of individuals and organisations. Similarly, 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 level of safety within the communities we operate in. This is carried out in partnership with the Sri Lanka Police. Given below are the projects successfully conducted during the year.

#### Crime Prevention Hoardings

One of the key projects on the platform of safety is the crime prevention hoardings displayed island wide. This project is conducted in partnership with the Sri Lanka Police since 2005, in line with the greater goal of safety and building respectful citizens.

The objective of this project is to reduce the crime rates in the country and is achieved by activities such as 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.

As at date, the project has covered the entire island and more than 325 hoardings have been erected. The company invests to maintain the hoardings at the required standard.

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

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

#### Traffic awareness programmes for school children

As per statistics via Sri Lanka Police, a sharp rise in the number of deaths from road accidents was reported. In order to reduce same, UA along with the Sri Lanka Police conduct programmes targeting school children to educate them on general traffic rules and regulations.

Union Assurance also conducts a special programme for school traffic wardens. After the completion of this programme, Union Assurance issues participants a certificate endorsed by the Sri Lanka Police as Certified Traffic Wardens. Union Assurance also provides the school wardens with branded jackets.



"Traffic awareness programme for school children"

Programmes undertaken for the above activity in 2013 is as follows

District	Area	No of Participants	No. of Student Awarded Traffic Warden Jackets and Certificates
Ampara	Ampara	450	60
	Iginiyagala	750	60
Batticaloa	Batticaloa	500	65
	Chenkalady	400	65
Tangalle	Tangalle	600	100
Hambantota	Hambantota	500	100
Vavuniya	Kilinochchi	480	100
	Mankulam	350	80
Colombo	Colombo	500	180
Puttlam	Puttlam	514	93
Dehiwala	Dehiwala	309	150
Kotahena	Kotahena	301	45
Bandarawela	Welimada	744	180
	Bandarawela	1684	518
	Diyathalawa	1909	163
Negombo	Negombo	950	40
Kuliyapitiya	Kuliyapitiya	673	515
Nikaweratiya	Nikaweratiya	671	322
Colombo	Thurstan College	275	30
Kandana	Kandana	336	70
<b>Total</b>		<b>12,896</b>	<b>2,936</b>

# Management Discussion and Analysis

## Society

### Reflector Light Installation Programme

It has been reported that the highest number of fatal accidents are caused by push bicycle accidents. One of the main reasons for this is that push bicycles cannot be seen by motorists in the night.

Hence we commenced a project in 2013 where we install reflector lights on push bicycles so that cyclists can be clearly seen by motorists at night time.

District	Area	No of Participants
Ampara	Ampara	100
	Iginiyagala	100
Batticaloa	Batticaloa	150
	Chenkalady	200
Vauniya	Kilinochchi	210
<b>Total</b>		<b>760</b>

### 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 15<sup>th</sup> consecutive year. It was well attended by UA staff and well wishers which was organised by our Recreation Club.



"Awareness on Expressway Safety"

### Awareness on Expressway Safety

Approximately 8,000 motorists take the expressway on a daily basis. However, due to driver negligence and not following the stipulated rules and regulations many accidents take place on the expressway.

To address this concern UA with the support of the expressway police embarked on a project to create awareness among the motorists on "do's" and "dont's" when using the expressway. This programme was conducted for both the Southern Expressway and the Colombo- Katunayake Expressway.



"Dengue Awareness Campaign"

**Awareness for bus drivers on Road Safety**

A bus driver awareness campaign was launched with the Traffic Head Quarters of Sri Lanka Police to reduce road accidents due to negligence and misconduct by bus drivers. During the period from January 2013 to June 2013 there have been 96 fatalities due to bus driver negligence.

It was important to create awareness among bus drivers to reduce these numbers. This programme was commenced from Western Province and during the next year the programme will be extended to other provinces as well.

**SUPPORTING HEALTH AND SAFETY IN THE LOCAL COMMUNITY**

The "Health awareness" platform for life insurance was selected due to it's direct connection with the business. Union Assurance works together with the Ministry of Health to create awareness on critical issues affecting the nation. As a result three focus areas have been identified to conduct UA Health Awareness programme.

**Dengue Awareness**

The menace of dengue is a pressing issue affecting the entire island. In this light, as a direct CSR initiative of UA under the health awareness platform we have tied up with

During the year the number of programmes carried out are as follows;

District	Area	No. of households/ premises reached
Colombo	Narahenpita/ Colombo 7	117
	Mattakuliya	377
	Colpetty	254
Kandy	Digana	322
	Kandy	121
<b>Total</b>		<b>1,191</b>

the Divisional Ministry of Health (MOH) and the Public Health Department (PHD) of Colombo Municipal Council to conduct dengue awareness programme. UA supports the above mentioned government organisations by means of providing staff and awareness material during house to house visits.

**Awareness on the prevention of Thalassemia**

Thalassemia is a serious national concern, especially in the North Western Province. Therefore we decided to initially focus our awareness programme in the North Western Province. Our awareness programmes are conducted with the Provincial Department of Health – North Western province and the National Thalassemia Centre – Kurunegala.

During the last quarter we have conducted 11 programmes partnering with the National Thalassemia Centre on creating awareness on how to prevent Thalassemia and "Developing Mental Concepts of Children". These programmes are focused on school teachers.

# Management Discussion and Analysis

## Society

Month	Programmes Conducted	Area	Reach
Oct	Thalassemia Awareness with NTC	Ibbagamuwa	67
		Kurunegala	87
		Kuliyapitiya	97
		Wariyapola	71
		Kebitigollawa	77
Nov	Thalassemia Awareness with NTC	Wariyapola - Sri Gnanodaya MV	75
		Kuliyapitiya	200
		Kurunegala - Nissanka MV	60
		Kurunegala	101
		Embilipitiya	91
		Kandulla Dharmaraja MV	51
		Kurunegala - Gattuwana MV	39
Dec	Thalassemia Awareness with NTC	Kavisigama JS	22
<b>Total</b>			<b>1,038</b>



"Thalassemia Awareness"

### Employee Participation

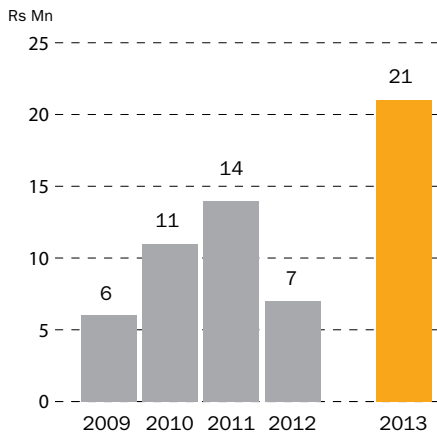
All CSR Programmes conducted by UA are purely for community development and not sales driven. Hence employee contribution to these programmes is on a voluntary basis.

When programmes are scheduled, respective branches are informed and employee participation is encouraged. Employees dedicate their personal time to participate at these programmes and in some instances they go to the extent of doing labour work. For example in several dengue campaigns, UA staff actively participated in cleaning of potential breeding areas as they understood the importance of supporting the Government to eradicate this national menace.

During the year the following programmes were conducted with the support of 231 volunteers contributing 1,055 labour hours.

Programmes	Volunteer hours
Traffic warden programmes	545
Dengue awareness	300
Thalassaemia awareness	210
<b>Total</b>	<b>1,055</b>

Investment on Community Activities



# Management Discussion and Analysis

## Environment

**“Reduced our carbon footprint to 3,939 from 4,555 tonnes of CO<sub>2</sub>e. ”**

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 PROGRESS AGAINST KEY MATERIAL ISSUES

### 1. Minimise waste and environmental impact

- Installation of water stabilisers
- Reuse of waste water
- Move into more energy efficient lighting system
- Conducted energy audits at branch level
- Go green with our branch expansion
- Continued with our strategy to leverage technology to minimise impact on the environment
- Recycling of printer cartridges

### 2. Optimise energy consumption and minimise carbon footprint

- Computed carbon footprint of our operations
- Conducted awareness programmes

## MINIMISE WASTE AND ENVIRONMENTAL IMPACT

We continuously monitor our waste management that makes an impact to the environment. The direct environmental investments in environmental protection consisted of

## 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.

projects for: improving energy efficiency, use and recycling of materials and water, and the management of waste and emissions.

Along with investments in monetary terms, the management and employees have dedicated their time to understand how environmental protection helps the organisation to be a responsible corporate citizen.

### Installation of water stabilisers

A more efficient and effective strategy was initiated to control wastage related to utilities. The water stabiliser project was part of this initiative where a special nozzle was installed in all water outlets within the head office premises. The initiative provided a saving of 240,000 litres in 2013. Due to the success of this project plans have been implemented to expand this process to all branches in the year 2014

### Reuse of waste water

Continued with the initiative of reusing water discharged from the cooling units of air conditioning machines at head office to wash all company vehicles. This initiative has helped UA to save approximately 500 litres of water per day.

Year	Consumption	Employees	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
2013	669,290	500	1,338

# Management Discussion and Analysis

## Environment

MANAGEMENT DISCUSSION AND ANALYSIS

### Move to energy efficient lighting system

A project is in place to convert the lighting system of UA head office to a LED technology based lighting system from the current traditional lighting system. This initiative is expected to bring in significant amount of energy savings with a greater contribution to minimising the carbon footprint of our operations.

### energy audits at branch level

Continued the initiative of analysing energy flows of selected branches, with a view to improve 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 baseline levels at branches where energy wastage have been identified.

### Go green with our branch expansion

When planning layouts for new branches, company ensured that an environmentally friendly approach was adopted by selecting materials that were in line with the green strategy and reusing items such as used furniture to reduce the burden on the environment.

### Recycling printer cartridges

Our agreement with R&G Toners to recycle printer cartridges continued in 2013. The company bought back 371 (2012 - 269) toners manufactured from used cartridges. This is yet another useful initiative which ensures that plastics are re-used and environmentally hazardous chemicals are not disposed of irresponsibly.

### Recycling e-waste

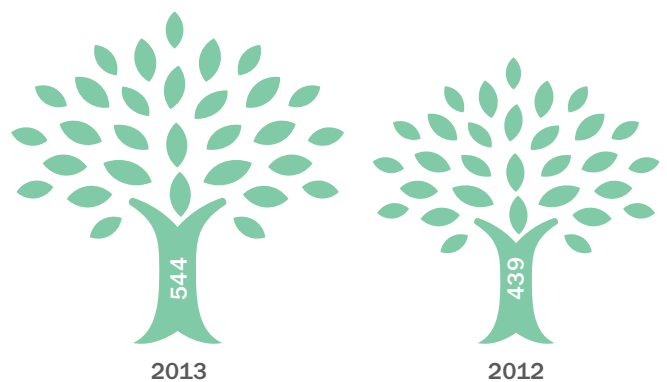
During the year we have decomposed / recycled approximately 980 kilograms of electronic waste through

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 paper

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

Description	Savings (units)	
	2013	2012
Trees	544	439
Water (litres)	366,000	81,986
Electricity (Kilowatts)	127,936	103,192
Oil (litres)	56,132	45,275
Land fill (cubic meters)	95.95	77.39



### Leverage technology to minimise impact on the environment

We continued with our efforts to reduce paper consumption through the use of information technology. The Digital Adviser Toolkit (DAT) and e-motor system significantly reduced the paper based documents required in carrying out sales transactions.

Further, digital image transfer facilities used to finalise 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 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 closer to their areas of operations.

### OPTIMISE ENERGY CONSUMPTION AND MINIMISE CARBON FOOTPRINT

#### Computed carbon footprint of our operations

For the 2<sup>nd</sup> consecutive year, 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 greenhouse gas guidelines.

Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in a partnership with the World Business Council for Sustainable 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.

Scope	2013		2012	
	Tonnes of CO <sub>2</sub> e per year	%	Tonnes of CO <sub>2</sub> e per year	%
Scope 1	237.25	6.0	98.15	2.2
On site fuel - generators	9.30	0.2	3.77	0.1
Company long term leased vehicles	227.95	5.8	94.38	2.1
Scope 2	824.70	20.9	1,119.04	24.6
Grid electricity	824.70	20.9	1,119.04	24.6
Scope 3	2,877.75	73.0	3,338.29	73.2
Grid electricity transmission and distribution loss	132.78	3.4	180.17	4.0
Employee commuting	2,735.40	69.4	3,149.98	69.0
Recycled waste	0.67	0.0	0.2	0.0
Water supply	8.9	0.2	7.94	0.2
<b>Total</b>	<b>3,939.70</b>	<b>100.0</b>	<b>4,555.48</b>	<b>100.0</b>
<b>Emission per employee</b>	<b>3.40 TCO<sub>2</sub>e per year</b>		<b>4.2 TCO<sub>2</sub>e per year</b>	
<b>Carbon footprint (tCO<sub>2</sub>e) per Rs. million of revenue</b>	<b>0.36</b>		<b>0.47</b>	

# Management Discussion and Analysis

## Environment

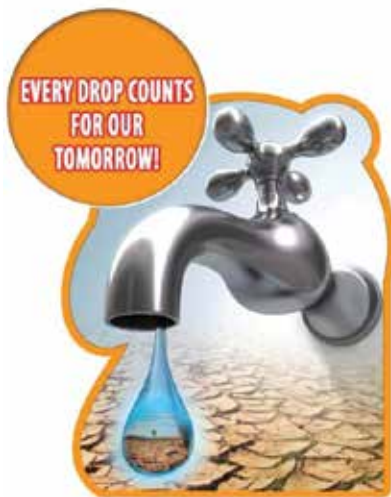
### Awareness programmes

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 the environment.

Relaunched the sticker campaign which included pasting colourful eye-catching notices near electricity switches and water supply units to remind staff about the necessity to conserve energy resources.

### COMPLIANCE WITH ENVIRONMENT REGULATIONS

UA continuously complies with relevant standards illustrated on environmental regulations and confirms that the company does not have any reported incidents on violating environmental regulations.



"Sticker Campaign"



"Sticker Campaign"

## CERTIFICATE OF CARBON FOOTPRINT



**Carbon Consulting Company**  
 104/11 Grandpass Road, Colombo 14, Sri Lanka.  
 Tel: (+94) 114 796 764 / (+94) 117 208 208  
 Fax: (+94) 112 334 748  
 Web: www.carbonconsultingcompany.com

11<sup>th</sup> February 2014

**Greenhouse Gas Assessment Certificate**

This is to certify that The Carbon Consulting Company (CCC) has conducted an Organisational Greenhouse Gas Assessment for the operations of Union Assurance PLC, using data of client selected emission sources as listed below that fall under Scopes 1, 2 & 3.

- Purchased Electricity
- Generator Fuel Consumption
- Long Term Leased Vehicles
- Employee Commute
- Grid Electricity Transmission and Distribution Losses
- Recycled Waste
- Water Supply

CCC can confirm that the Carbon Footprint of Union Assurance PLC's entire operations for the calendar year 2013 is **3940 tCO<sub>2</sub>e** (*data and calculations have not been independently verified*).

Our calculations were carried out in accordance with the **Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol)** developed in partnership with the **World Business Council for Sustainable Development** and the **World Resources Institute**. This standard provides guidelines regarding organisational and operational boundaries, quantification and standard reporting practices.

Our calculations have applied the methodologies stipulated in the GHG Protocol to a limited scope as requested by Union Assurance PLC, and the client is solely responsible for the authenticity, relevancy and accuracy of the data provided for this Greenhouse Gas Assessment.

Yours faithfully,



  
**Sanith De S. Wijeyeratne**  
 Chief Operating Officer  
 The Carbon Consulting Company  
 15 Havelock Place, Colombo 05, Sri Lanka  
 Mobile: +94 777 370 747  
 Email: sanith@carbonconsultco.com

# Management Discussion and Analysis

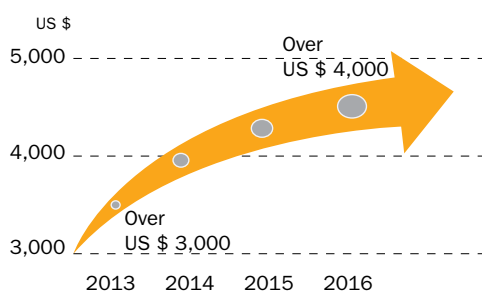
## Future

### Economy

The economic prospects in Sri Lanka appear positive considering the likelihood of a low interest rate environment, single digit inflation and positive momentum in the global economy. A summary of the key economic factors which would impact UA's business is as follows.

Economic Indicator	2013 Data and Trend in 2014	Impact for UA
GDP growth	Headline GDP growth will be similar to 2013 but more sectors are likely to contribute to growth	Improved business confidence and growth across main economic sectors will have positive impact on UA's business results
Interest rates	Likely to remain at relatively low rates	Low interest rates may stimulate private sector credit expansion and drive overall economic activity, which will have a positive impact on UA
Inflation	Reduced during 2013. Expected to remain at same levels in 2014	An increase in real income will be beneficial for UA
External sector	Reported improvements towards the latter part of the year. A trend that would likely continue in 2014	Improved export revenues will improve business opportunities in those sectors for UA
Stock market performance	The stock market is expected to rebound in 2014 driven by improved corporate earnings, positive business sentiment and lower interest rates	Improved stock market performance may result in increased sales of unit linked products

Sri Lanka aims to surpass US \$ 4,000 before 2016...



### Industry overview

The regulatory changes requiring insurance companies to separate their life and non life businesses, subsequently listing these entities on the Colombo Stock Exchange and increasing the minimum share capital in line with risk based capital rules is likely to have a profound impact on the industry.

#### Increased Merger and Acquisition Activity

The rationale for separating the life and non life business is that current industry participants could absorb the additional expenses involved in operating two separate lines of businesses given that there would be much more new business opportunities created by a vibrant economy.

However, an alternative view is that there are already too many insurers in the market and the above change will create an environment for mergers and acquisitions to take place.

#### Consolidation in the Financial Services Sector

The Central Bank has unveiled a road map to consolidate the banks and financial companies operating in Sri Lanka into a smaller number of large players.

While there may be no immediate impact for this change it could result in such financial institutions forming insurance companies (initially) to provide insurance to their in house lease / loan portfolios.

#### Multi-channel Distribution

The life insurance industry is primarily driven by the field agency force distribution channel. Over the medium term, other channels such as bancassurance, telemarketing etc. may emerge and account for a sizeable share of new business.

As in similar markets, this dynamic is likely to be driven by economic development and increasingly sophisticated customers.

#### Increased incentives for savings and protection related products

Considering that Sri Lanka has one of the fastest ageing populations in Asia, it is likely that the state would not be able to meet the pension and long term health needs of the community over the long term. Hence, it is likely that the Government would introduce subsidies or tax incentives in order to ensure that citizens save for their future needs without creating a burden on the state.

#### Enhanced Regulatory Oversight

As Sri Lanka's insurance market develops, the regulatory / compliance aspects of the business would be further strengthened. There will likely be strong pressure by the regulatory authorities to professionalise the sales force and ensure fair and transparent sales processes are developed to avoid customer dissonance.

#### Greater Focus on Technical and Actuarial Resources

As Sri Lanka's economy develops and customer needs become more sophisticated it is likely that corporate clients as well as individuals will require even more complex risk management solutions. Hence, technical pricing, actuarial modelling and adherence to international best practice and standards will increasingly be demanded of insurers.

#### Conclusion

While there are positive and negative implications in the above trends the medium term outlook for the industry is very positive. Economic development will fuel per capita income growth and as wealth and assets of the population grow, so will the appreciation of the value and benefit of insurance.

These factors will create new business opportunities for both life and non life insurers.

# Management Discussion and Analysis

## Future

MANAGEMENT DISCUSSION AND ANALYSIS

### FUTURE OUTLOOK – UNION ASSURANCE

UA has articulated a clear path to achieve market leadership (i.e. achieving a dominant position in terms of market share and share of industry profits). As per the diagram below the starting point of the model is to have the right people with the appropriate competencies working within the company's values framework of excellence, caring, innovation, transparency, ethics and integrity (EXCITE).

The right people, working within the company's values system and possessing the right competencies will drive UA's brand, which is built on the pillars of convenience, transparency and being respectful to all stakeholders.

Consistent delivery of the brand promise at every level and function of the organisation will enable UA to attract and retain profitable customers and achieve the company's mission and vision.



### FUTURE OUTLOOK - NON LIFE

We maintain a very positive outlook for the industry. The regulation to separate life and non life businesses by February 2015 and list the two entities a year later will create a level playing field of transparency and accountability. Combined with a moderate interest rate climate, the new environment will require non life insurers to focus on improving underwriting results to prove the sustainability of their business models.

The regulator is also moving towards implementing a risk based capital framework for insurers to adopt. In some instances this will require more capital to be invested in the business, on which an adequate return would be expected. This would once again focus insurance companies to improve their underwriting performance.

Another factor to consider is the pace of economic development taking place in the country. Large scale infrastructure projects which were initiated mainly by the state are slowly but surely giving way to private sector investors. Improved business sentiments both locally and overseas is driving expansion in existing businesses and creating a conducive environment for new businesses to emerge. Improvements in sectors such as tourism and agriculture are increasing disposal incomes at grass root levels.

**Segregate life and non life businesses by 2015**



UA with its dedicated team of technical and distribution team members, strong reinsurance backing and cost effective processes is well positioned to compete in this new environment and exploit the business opportunities in both the retail and corporate segments of the market.

**FUTURE OUTLOOK - LIFE**

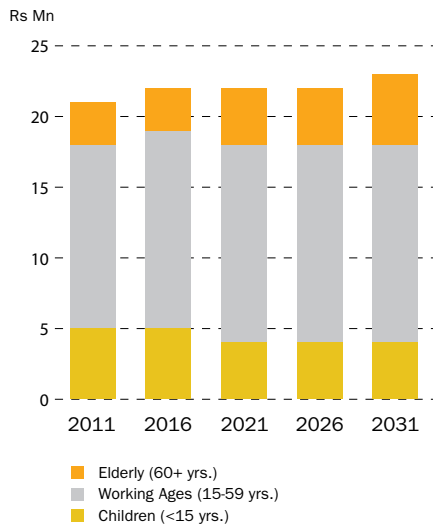
Current penetration levels in terms of premiums as a percentage of GDP and the percentage of the working population with some form of life insurance indicate the vast potential for the industry to report excellent growth in the foreseeable future.

We anticipate that rapid economic development and improvements in key sectors will increase disposable incomes across all segments of society and drive the demand for life insurance products.

In addition to the positive economic factors, Sri Lanka has one of the fastest ageing populations in the Asian region and demand for life insurance will be fuelled by long term health and savings requirements as well.

The combination of the above factors create an ideal platform for the life insurance sector. For their part, insurers will continue to work on increasing awareness regarding the benefits of insurance and professionalising the sales force in order to build trust among existing and potential customers.

Ageing population in Sri Lanka





# SUSTAINABILITY

**|** *What we will  
achieve tomorrow*

# Sustainability

## What Sustainability Means to Us

### OUR SUSTAINABILITY POLICY

- The company will strive to conduct its activities in accordance with the highest standards of corporate best practice and in compliance with all applicable local and international regulatory requirements and conventions.
- The company monitors and assesses the quality and environmental impact of its operations, services and products whilst striving to include its supply chain partners and customers where relevant and to the extent possible.
- The company is committed to transparency and open communication about its environmental and social practices in addition to its economic performance. It seeks dialogue with its stakeholders in order to contribute to the development of global best practice, while promoting the same commitment to transparency and open communication from its partners and customers.
- The company strives to be an employer of choice by providing a safe, secure and non-discriminatory working environment for its employees whose rights are fully safeguarded and who have equal opportunity to realise their full potential. The company will abide by national laws and wherever possible will strive to emulate global best practices, seeking continuous improvement of health and safety in the workplace.
- The company will promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage.

### WHAT SUSTAINABILITY MEANS TO US

Our approach to sustainability reflects our mission and cores values. Sustainability has become an integral part of our overall corporate strategy and an important way for the company to achieve the objectives. In our journey toward achieving our vision and mission we want be the most trusted and respected insurer in the industry delivering what

we have promised through our mission statement. Hence, having an unbroken relationship with all our stakeholders is very crucial for us in this journey.

We at Union Assurance focus on being better on a continuous basis. Something better means something greater in excellence or higher in quality. It also means something more useful, suitable, favourable or healthy. For us, it comes down to improved performance: striving to be an even better company tomorrow than we are today. We aim to achieve this by offering simple, transparent products that are easy to access and fairly priced, thus facilitating a better customer experience. And by continuously embedding environmental, social and ethical considerations in our core activities, we want to build a better business. By supporting and engaging our employees and helping them they develop professionally and personally, by this we aim to create a better workplace.

We take a stand on ethical, social and environmental issues, promote sustainable finance and aim to mitigate the harm that might result from our activities. We believe responsibility also means using our resources, expertise and sphere of influence to promote positive change and make a difference in communities.

Therefore, sustainability to us is more a journey than a destination - a continuous process in which changing circumstances are a given and the expectations, beliefs, values and demands of our stakeholders are of pivotal importance in setting a direction for both today and tomorrow. We will be successful only if we create value both inside and outside our company staying ahead of the curve of technology.

Hence, we will continue to embed sustainability practices into every aspect of our business and stay focused on the key issues that are material to our long term success, with our proactive approach to "Transform Tomorrow Today".

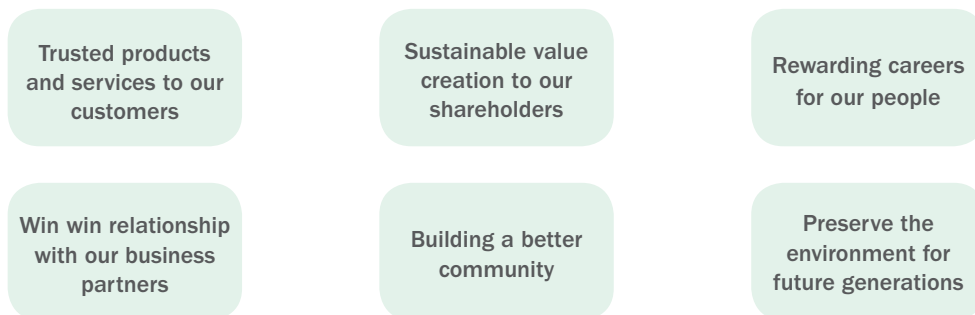
## Vision

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

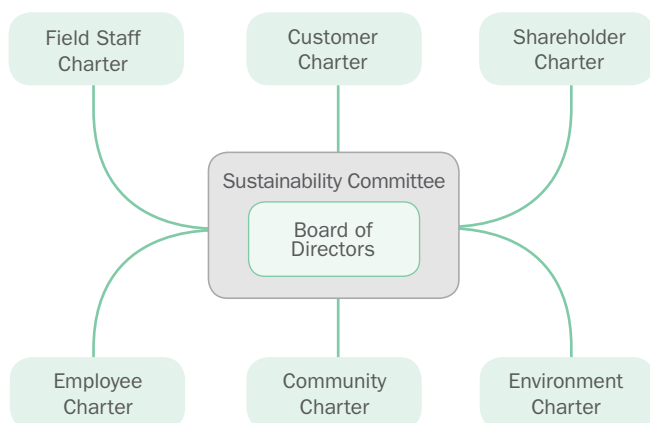
## Our Foundation



SUSTAINABILITY

### SUSTAINABILITY COMMITTEE AND CHARTERS

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



The sustainability performance for the year 2013 has been presented through this first integrated Annual Report for better understanding by all stakeholders. This enables us to

demonstrate to our stakeholders and communicate a single story in our own way, how we create and sustain value and work towards ensuring the long term viability of the business.

Our engagement process with these various stakeholders is explained on pages 26 to 32. In addition we actively participate in public policy development for the betterment of the society as a whole by being active members of,

- Ceylon Chamber of Commerce
- American Chamber of Commerce in Sri Lanka
- National Chamber of Exporters of Sri Lanka
- Insurance Association of Sri Lanka
- Employers' Federation of Ceylon
- Association of Insurers and Reinsurers of Developing Countries
- Sri Lanka Association of Software and Service Companies (SLASSCOM)

### REPORT SCOPE AND BOUNDARY

This report covers the operations of the entire company including branches and has been compiled in accordance with the GRI – G3 guidelines. Sustainability guidelines are embedded into the day to day operations of the company and hence employees including the field staff at the head office and branches are mindful of the sustainability objectives that the company aspires to achieve.

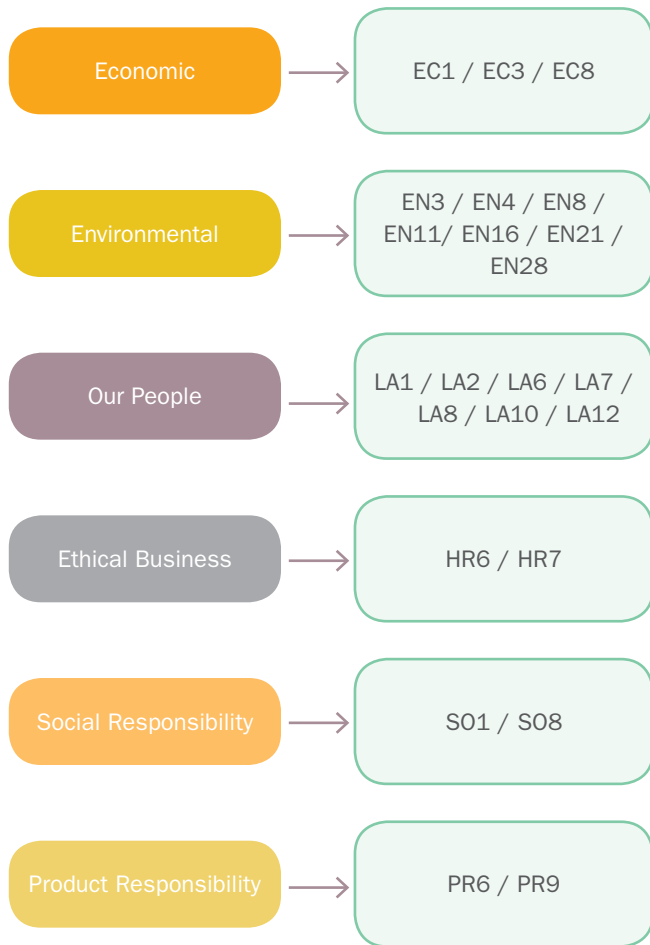
# Sustainability

## What Sustainability Means to Us

SUSTAINABILITY

### MATERIALITY

Materiality levels of the GRI indicators have been decided, considering the impact each GRI indicator has on the company's ability to deliver its promise to various stakeholders. Key GRI indicators based on our material assessment are listed below.



Our performance against these key GRI indicators are depicted on “Sustainability Performance Highlights” on page 161.

### DATA MEASUREMENT TECHNIQUES AND ASSUMPTIONS USED

The company uses actual data to measure performance against the GRI indicators. Assumptions have mainly been used in calculating carbon footprint of our operations. UA has partnered with Carbon Consulting Company (Pvt) Ltd to carry out the computation necessary to arrive at the carbon footprint in accordance with the Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in partnership with the World Business Council for Sustainable Development and the World Resource Institute. Certificate on carbon footprint is on page 151.

Being a subsidiary of John Keells Holding PLC, we use infrastructure developed by the group to capture and monitor sustainability data on a monthly basis with the support of a dedicated sustainability champion.

### BASIS AND EXTERNAL ASSURANCE

We have compiled our 2013 report based on the internationally recognised Global Reporting Initiative (GRI) G3.1 framework for sustainability reporting.

Messrs. KPMG, an independent assurance provider, has reviewed the content of this report and has provided with an assurance report which is given on page 170.

### ACHIEVEMENTS

Our sustainability practices were recognised by the Association of Certified Chartered Accountants, UK (ACCA) at the “ACCA Sustainability Reporting Awards 2013” winning a commendation award in the medium scale category.

## Sustainability Performance Highlights

GRI - Indicator		2013	2012	2011	Progress
<b>ECONOMIC PERFORMANCE</b>					
EC1	Total value added (Rs. million)	6,315	5,593	5,132	
EC3	Employee benefit liability as of 31 December	186	164	154	
EC8	Investment in community and infrastructure projects (Rs million)	21	7	14	
<b>ENVIRONMENTAL IMPACT</b>					
EN3	Direct energy consumption (GJ)	2,568	2,426	2,454	
	Direct energy consumption (GJ) per Rs. million of revenue	0.23	0.25	0.28	
EN4	Indirect energy consumption (GJ)	7,784	7,440	7,490	
	Indirect energy consumption (GJ) per Rs. million of revenue	0.71	0.76	0.86	
EN8	Water withdrawal (m3)	22,967	22,179	19,868	
EN11	Sites near/in high bio-diversity areas	Nil	Nil	Nil	
EN16	Carbon footprint (tCO <sub>2</sub> e)	3,940	4,555	Not tracked	
	Carbon footprint (tCO <sub>2</sub> e) per Rs. million of revenue	0.36	0.47	Not tracked	
	Carbon footprint (tCO <sub>2</sub> e) per Rs. per employee	3.39	4.2	Not tracked	
EN21	Water discharge	22,967	22,179	19,868	
EN28	Environmental fines	Nil	Nil	Nil	
<b>OUR PEOPLE, HEALTH AND SAFETY</b>					
LA1	Total workforce	1,157	1,088	1,009	
	Number of field staff	5,348	4,662	4,442	
LA2	Attrition of new hires (as a percentage of new hires)	5%	11%	Not tracked	
LA6	Percentage of workforce represented in management-worker health and safety committees	5%	1%	1%	
LA7	Number of injuries	49	Nil	Nil	
LA8	No. of people educated on serious diseases	Nil	400	Not tracked	
LA10	Average hours of training per employee	24	31	31	
	Average hours of training per field staff member	83	79	72	
LA12	No. of employees receiving performance reviews	100%	100%	100%	
<b>ETHICAL BUSINESS</b>					
HR6	Incidents of child labour	Nil	Nil	Nil	
HR7	Forced labour	Nil	Nil	Nil	
<b>SOCIAL RESPONSIBILITY</b>					
SO1	Community engagement (no. of persons impacted)	15,885	444,445	Not tracked	
SO8	Significant fines for violation of laws / regulations	Nil	Nil	Nil	
<b>PRODUCT RESPONSIBILITY</b>					
PR 6	Voluntary standards relating to advertising		Internal code of conduct		
PR 9	Significant fines for product / service issues	Nil	Nil	Nil	

# Sustainability

## Our Sustainability Goals

### CUSTOMERS – AT THE FOREFRONT OF EVERYTHING WE DO - NON LIFE INSURANCE

Goals set for 2013	Commentary	Achievement
Continuous improvement in service standards	81% of motor customers surveyed were happy to renew their motor policies with UA	<input checked="" type="checkbox"/>
Ensure optimal use of web based motor and Non motor systems	Usage of e-motor system increased from 64% in 2012 to 78% in 2013. Number of e-based non motor policies increased by 8% in 2013	<input checked="" type="checkbox"/>
Continue value added benefits to customers	Non motor claims tracking system to improve the speed and efficiency of non motor claim settlement process	<input checked="" type="checkbox"/>

#### GOALS FOR 2014

- Continue to deliver high quality products with appropriate service standards
- Expand distribution in a cost effective manner to meet customer requirements for convenience and speedy service
- Enhance value added service for corporate clients

### CUSTOMERS – AT THE FOREFRONT OF EVERYTHING WE DO - LIFE INSURANCE

Goals set for 2013	Commentary	Achievement
Upgrade health insurance products	Introduce health reimbursement product to strengthen the product portfolio and meet customer needs	<input checked="" type="checkbox"/>
Maintain life service standards	Maintained life service standards at satisfactory levels	<input checked="" type="checkbox"/>
Expand the usage of bank standing orders	Streamline standing order process to ensure convenience in premium payments and to improve the productivity of sales staff	<input checked="" type="checkbox"/>

#### GOALS 2014

- Identify customer needs and develop products accordingly
- Review options to use tele-underwriting
- Develop a centrally managed follow up process to identify probable lapses and improve persistency
- Maintain life service standards

## EMPLOYEES – THE SECRET BEHIND OUR SUCCESS

Goals set for 2013	Commentary	Achievement
Implement role clarification across the organisation to clearly define the role of each staff member	Completed	<input checked="" type="checkbox"/>
Upgrade HR system and implement recruitment module to streamline talent attraction process	HR system was upgraded to facilitate the modified performance management process including leave and attendance, succession planning, 9 blocker and individual performance summary	<input checked="" type="checkbox"/>
Continue with talent management initiatives	Introduced the smart manager forum for all staff above assistant manager level and involved over 300 staff members and the “Generation Y” category in a unique programme titled “UA transformers”	<input checked="" type="checkbox"/>

## GOALS FOR 2014

- To effectively split the HR division to cater for the impending split of the company in 2015. The two divisions to function independently from May 2014
- Conduct a special course designed for selected managers titled manager Par – Excellence
- Roll out and implement UA competency framework for senior managers

## FIELD STAFF – ENABLING PROFESSIONALISM AND PRODUCTIVITY

Goals seta for 2013	Commentary	Achievement
Continue to promote IT based learning and development tools	Completed 79,967 e-learning and distance learning hours during the year	<input checked="" type="checkbox"/>
Introduce initiatives to brand field staff members	Relaunched “Brilliant Starter”, “Brilliant Starter Coach” and the new “Brilliant Starter Leader” programmes	<input checked="" type="checkbox"/>

## GOALS 2014

- To implement comprehensive reward and recognition schemes along with benefit schemes for the sales force
- Continuation to digitalised sales process to increase field staff productivity and customer convenience

# Sustainability

## Our Sustainability Goals




### COMMUNITY – EARNING COMMUNITY TRUST

Goals set for 2013	Commentary	Achievement
Enhanced awareness among the general public on road safety	<ul style="list-style-type: none"> <li>■ Crime prevention hoardings (Island-wide)</li> <li>■ Traffic awareness programmes for school children</li> <li>■ Reflector light installation programmes</li> <li>■ Awareness on expressway safety</li> <li>■ Awareness for bus drivers on road safety</li> </ul>	
Continue with the health awareness programmes	<ul style="list-style-type: none"> <li>■ Dengue awareness programmes conducted island-wide</li> <li>■ Awareness on the prevention of Thalassaemia</li> <li>■ Awareness on diabetes prevention</li> </ul>	

#### GOALS FOR 2014

- Continue to enhance awareness among the general public on road safety for non life segment
- Continue with health awareness programmes for life insurance segment



### SHAREHOLDERS – SUSTAINING SHAREHOLDER VALUE

Goals set for 2013	Commentary	Achievement
Grow non life insurance premium by 20%	Non life GWP increased by 17%	
Grow life insurance premium by 20%	Life GWP reported 8% growth	
Grow profit after tax by 15%	Profit after tax increased by 22%	

#### GOALS 2014

- Grow non life insurance premium by 13%
- Grow life insurance premium by 10%
- Grow profit after tax by 3%

## ENVIRONMENT – MANAGING ENVIRONMENTAL IMPACT

Goals set for 2013	Commentary	Achievement
Implement actions to reduce energy usage	Electricity usage at head office has been reduced by 5,910 kwh.	
Enhance awareness among the staff members about the importance of minimising the impact on environment	Initiated awareness programmes throughout the company, to educate staff	

### GOALS 2014

- Implement actions to enhance sustainability credentials
- Initiate programmes to obtain staff support both within and outside the organisation

Achievement	Colour
Achieved Satisfactory	
Partly achieved	
Not achieved	
Not applicable	

# Sustainability

## Performance Snapshot

### Section 1: Customers

Customers	2013	2012	2011
Number of life customers	226,993	224,602	207,220
Number of non life customers	129,834	113,686	82,462
Number of life insurance policies	233,786	250,511	244,343
Number of non life insurance policies	156,352	142,245	131,121
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 6.8 Bn	Rs 5.9 Bn	Rs 5.0 Bn
Number of new products	1	-	2
Number of claims assessors	65	69	58
Number of branches	121	107	102
Number of sales and sales support staff trained in customer care	110	658	438
Number of possible locations to pay life insurance premium	3,229	2,866	2,800
Intention to renew (Motor insurance customers)	84% of customers surveyed	76% of customers surveyed	80% of customers surveyed
Number of disputes referred to the insurance Ombudsman	Referred 32 Settled 12	Referred 23 Settled 5	Referred 35 Settled 16

## Section 2: Employees

Employees - Key Work Place Indicators	2013 Number	%	2012 Number	%	2011 Number	%
Non sales	670	58%	636	58	613	61
Sales	487	42%	452	42	396	39
Total	1,157	100%	1,088	100	1,009	100

Representation of Men and Women	2013		2012		2011	
	Women	Men	Women	Men	Women	Men
Board positions	17%	83%	17%	83%	17%	83%
Management positions	15%	85%	16%	84%	15%	85%
Executives	22%	78%	19%	81%	20%	80%
All levels	26%	74%	25%	75%	25%	75%
Staff turnover	19%		18%		19%	

Age group	2013	2012
20 – 30	41%	39%
31- 40	36%	38%
41 – 50	19%	19%
Above 51	4%	4%
Total	100%	100%

Employees - Employee Engagement	2013	2012
Number of “Shaktiya” magazines	3	2
Number of management meetings	5	6

Employees - Providing a Rewarding Career	2013	2012
<b>Local</b>		
No. of programmes	246	270
No. of hours	28,166	33,680
<b>Foreign</b>		
No. of programmes	19	34

# Sustainability

## Performance Snapshot

### Employees – Providing a Rewarding Career contd.

Number of training days	2013		2012		2011	
	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual
Managers	6	14	6	17	6	6
Executives	4	7	4	9	4	2
Non Executives	3	6	3	9	3	5

Learning and Development	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Number of employees on education support scheme	164	3.5	141	3	130	2.4
Number of employees on support for professional memberships	71	1.4	223	1.4	173	1.1
Other training and development expenditure		50.1		55.6		56.5

Number of employee recognition awards	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Sales	Will be finalised in 2014	Will be finalised in 2014	352	29	343	23.4
Non sales	Will be finalised in 2014	Will be finalised in 2014	36	0.3	54	0.3

### Employees – Providing a Rewarding Career contd.

	2013		2012		2011	
	Number	% of total staff	Number	% of total staff	Number	% of total staff
Performance appraisal conducted VIA PAMS	608	66%	663	61%	665	65%

### Section 3: Field Staff

Field staff	2013	2012	2011
Number of LIMRA International quality awards	14	17	34
Number of LIMRA productivity award winners	26	89	78
Number of international quality management awards	0	2	5
MDRT participants	3	21	2
Pass rate for life insurance technical competency test	71%	75%	73%
Pass rate for general insurance technical competency test	74%	74%	N/A
Number of field staff	5,348	4,662	4,442
Per capita training hours	83.1	79.4	71.5
Commission paid to field staff ( Rs. million)	1,516	1,390	1,284

### Section 4: Society

Society	2013	2012	2011
Dengue awareness programmes	5	69	3
Number of crime prevention hoardings available	332	332	332
Road safety awareness programmes	20	62	-
Number of preschool teacher training / Parent education programmes	16	9	45
Pregnant mother education programmes	0	2	-
Union day events	0	2	1
Blood donation campaigns	1	1	1
Staff Volunteerism (Number of volunteers)	231	37	11
Reflector light installation programme	5	-	-

### Section 5: Environment

Environment	2013	2012	2011
Electricity use at UA centre	669,290kwh	675,200kwh	735,750kwh
Number of toners recycled	371	269	320
Number of trees saved using recycled paper	544	498	418

# Sustainability

## Assurance Report



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : [www.lk.kpmg.com](http://www.lk.kpmg.com)

### TO THE SHAREHOLDERS OF 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 2013 ("Report") for the year ended 31 December 2013:

- Reasonable assurance on Financial Highlights as reported on pages 10 to 11 of this Report 2013;
- Limited assurance on Performance Snap Shot for 2013 as specified on pages 166 to 169 and other information on pages 112 to 150 presented in this 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 160 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 Highlights reported on pages 10 to 11 of this Report involves verification that they were properly derived from the audited financial statements of the Company for the year ended 31 December 2013.

#### Performance Snap Shot and the other information

A limited assurance engagement on Performance Snap Shot and other information in the Report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.

- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Inquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of and experience with, the sustainability performance of the Company

### Our conclusion

Based on the procedures performed, as described above, we conclude that

- The data on Financial Highlights, as reported on pages 10 to 11 of the Report 2013 are properly derived from the financial statements of the Company for the year ended 31 December 2013 for which the independent auditors have issued an unqualified audit opinion dated 25 February 2014 on page 307 of this Annual Report;
- Nothing has come to our attention that causes us to believe that the Performance Snap Shot for 2013 specified on pages 166 to 169 and other information on pages 112 to 150 presented in this Report are not fairly presented, in all material respects, in accordance with the GRI Sustainability Reporting Guidelines as described in page 160 of the Report.

Our assurance report is made solely to Union Assurance PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Company those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Union Assurance PLC for our work, for this assurance report, or for the conclusions we have reached.

**CHARTERED ACCOUNTANTS**  
Colombo

25 February 2014

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

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N Rodrigo ACA  
**Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA**

# Global Reporting Initiative Index

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
--------------------	------------	--------------------	------------------------

### STANDARD DISCLOSURES PART I : PROFILE DISCLOSURES

#### 1. Strategy and Analysis

1.1	Statement from the most senior decision maker of the organisation.	Fully	Page 12
1.2	Description of key impacts, risks and opportunities.	Fully	Page 18-19

#### 2. Organisational Profile

2.1	Name of the organisation.	Fully	Inner back cover
2.2	Primary brands, products and / or services.	Fully	Page 79 Page 100 to 102
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	Fully	Page 37
2.4	Location of organisation's headquarters.	Fully	Inner back cover
2.5	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Not	
2.6	Nature of ownership and legal form.	Fully	Inner back cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers / beneficiaries).	Fully	Page 434 to 437
2.8	Scale of the reporting organisation.	Fully	Page 33
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Fully	No significant changes during the year
2.10	Awards received in the reporting period.	Fully	Page 8 to 9

#### 3. Report Parameters

3.1	Reporting period (e.g. fiscal / calendar year) for information provided.	Fully	31 December
3.2	Date of most recent previous report (if any).	Fully	Dec 12

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>3. Report Parameters Contd.</b>			
3.3	Reporting cycle (annual, biennial etc.)	Fully	Annual
3.4	Contact point for questions regarding the report or its contents.	Fully	Ravi shankar
3.5	Process for defining report content.	Fully	Page 158 to 160
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	Page 158 to 160
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	No limitations
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.	Fully	A single entity
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	Page 158 to 160
3.10	Explanation of the effect of any re-statements of information provided in earlier reports and the reasons for such re-statement (e.g. mergers / acquisitions, change of base years / periods, nature of business, measurement methods).	Fully	No restatements have been done during the year
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Fully	No significant Changes during the year
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	The page numbers are given against each indicator
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully	Independent assurance report provided by Messrs. KPMG

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
--------------------	------------	--------------------	------------------------

## 4. Governance, Commitments and Engagement

4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Fully	Page 216
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	Chairman of the Board is not an executive officer
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and / or Non Executive members.	Fully	The company operates at a two tier structure
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	Page 114 to 121
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements) and the organisation's performance (including social and environmental performance).	Fully	Page 243
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	Page 219
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics.	Fully	Page 224
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.	Fully	Page 6
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles.	Fully	Page 218
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	Fully	Page 243
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	Page 280 to 292
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	Page 159
4.13	Memberships in associations (such as industry associations) and / or national / international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	Fully	Page 159
4.14	List of stakeholder groups engaged by the organisation.	Fully	Page 26

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>4. Governance, Commitments and Engagement</b>			
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	Page 26
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	Page 28 to 32
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting.	Fully	Page 22 to 32
<b>STANDARD DISCLOSURES PART II: DISCLOSURES ON MANAGEMENT APPROACH (DMAS)</b>			
<b>DMA EC</b>	<b>Disclosure on Management Approach EC</b>		
Aspects	Economic Performance	Fully	Page 43 to 47
	Market presence	Partially	Page 22
	Indirect economic impacts	Partially	Page 25
<b>DMA EN</b>	<b>Disclosure on Management Approach EN</b>		
Aspects	Materials	Not	
	Energy	Fully	Page 25
	Water	Fully	Page 25
<b>DMA EC</b>	<b>Disclosure on Management Approach EC</b>		
	Biodiversity	Not	
	Emissions, effluents and waste	Partially	Page 146
	Products and services	Not	
	Compliance	Not	
	Transport	Not	
	Overall	Partially	Page 146

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>DMA LA</b>	<b>Disclosure on Management Approach LA</b>		
Aspects	Employment	Fully	Page 116 to 131
	Labor / management relations	Not	
	Occupational health and safety	Fully	Page 116 to 131
	Training and education	Fully	Page 116 to 131
	Diversity and equal opportunity	Fully	Page 116 to 131
	Equal remuneration for women and men	Not	
<b>DMA HR</b>	<b>Disclosure on Management Approach HR</b>		
Aspects	Investment and procurement practices	Not	
	Non-discrimination	Not	
	Freedom of association and collective bargaining	Not	
<b>DMA HR</b>	<b>Disclosure on Management Approach HR</b>		
	Child labor	Fully	Page 25
	Forced and compulsory labor	Fully	Page 25
	Security practices	Not	
	Indigenous rights	Not	
	Assessment	Not	
	Remediation	Fully	Not reported any grievances in relation to human rights
<b>DMA SO</b>	<b>Disclosure on Management Approach SO</b>		
Aspects	Local communities	Fully	Page 139 to 145
	Corruption	Fully	Page 139 to 145
	Public policy	Partially	Page 139 to 145
	Anti-competitive behavior	Not	
	Compliance	Not	
<b>DMA PR</b>	<b>Disclosure on Management Approach PR</b>		
Aspects	Customer health and safety	Not	
	Product and service labelling	Partially	Page 99 to 103 Page 78 to 80
	Policies for the fair design and sale of financial products and services.	Fully	Page 99 to 103 Page 78 to 80
	Marketing communications	Fully	Page 98
	Customer privacy	Not	
	Compliance	Not	

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
--------------------	------------	--------------------	------------------------

#### STANDARD DISCLOSURES PART III: PERFORMANCE INDICATORS

##### Economic

##### Economic performance

EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.	Fully	Page 76 Page 97
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	Fully	Page 288
EC3	Coverage of the organisation's defined benefit plan obligations.	Fully	Page 336
EC4	Significant financial assistance received from government.	Fully	Company has not received any financial assistance

##### Market presence

EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Not	
EC6	Policy, practices and proportion of spending on locally based suppliers at significant locations of operation.	Partially	Page 137 to 138
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Not	

##### 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.	Partially	Page 139
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Partially	Page 55

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>Environmental</b>			
<b>Materials</b>			
EN1	Materials used by weight or volume.	Not	
EN2	Percentage of materials used that are recycled input materials.	Not	
<b>Energy</b>			
EN3	Direct energy consumption by primary energy source.	Partially	Page 25
EN4	Indirect energy consumption by primary source.	Partially	Page 25
EN5	Energy saved due to conservation and efficiency improvements.	Not	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services and reductions in energy requirements as a result of these initiatives.	Not	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	Page 146
<b>Water</b>			
EN8	Total water withdrawal by source.	Fully	Page 148
EN9	Water sources significantly affected by withdrawal of water.	Not	
EN10	Percentage and total volume of water recycled and reused.	Fully	Page 148
<b>Biodiversity</b>			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	Company does not have any land adjacent to any bio diversified area
<b>Materials</b>			
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	
EN13	Habitats protected or restored.	Not	
EN14	Strategies, current actions and future plans for managing impacts on biodiversity.	Not	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not	
<b>Emissions, effluents and waste</b>			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	Page 149
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	Page 146 to 151
EN19	Emissions of ozone depleting substances by weight.	Not	
EN20	NOx, SOx and other significant air emissions by type and weight.	Not	
EN21	Total water discharge by quality and destination.	Partially	Page 146 to 151
EN22	Total weight of waste by type and disposal method.	Not	
EN23	Total number and volume of significant spills.	Not	

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally.	Not	
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Not	
<b>Products and services</b>			
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation.	Not	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not	
<b>Compliance</b>			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	None
<b>Transport</b>			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce.	Not	
<b>Overall</b>			
EN30	Total environmental protection expenditures and investments by type.	Partially	Page 146 to 151
<b>Social: Labor Practices and Decent Work</b>			
<b>Employment</b>			
LA1	Total workforce by employment type, employment contract and region.	Fully	Page 116 to 132
LA2	Total number and rate of employee turnover by age group, gender and region.	Fully	Page 116 to 132
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Not	
LA15	Return to work and retention rates after parental leave, by gender.	Not	

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>Labor/management relations</b>			
LA4	Percentage of employees covered by collective bargaining agreements.	Not	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Not	
<b>Occupational health and safety</b>			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Fully	Page 116 to 132
LA7	Rates of injury, occupational diseases, lost days and absenteeism and number of work-related fatalities by region.	Not	
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	Page 116 to 132
LA9	Health and safety topics covered in formal agreements with trade unions.	Not	
<b>Training and education</b>			
LA10	Average hours of training per year per employee by employee category.	Fully	Page 116 to 132
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully	Page 116 to 132
LA12	Percentage of employees receiving regular performance and career development reviews.	Fully	Page 116 to 132
<b>Diversity and equal opportunity</b>			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity.	Fully	Page 116 to 132
<b>Equal remuneration for women and men</b>			
LA14	Ratio of basic salary of men to women by employee category.	Not	
<b>Social: Human Rights</b>			
<b>Investment and procurement practices</b>			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	Partially	Page 116 to 132
<b>Non-discrimination</b>			
HR4	Total number of incidents of discrimination and actions taken.	Fully	Zero Incidents reported regarding discriminations

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>Freedom of association and collective bargaining</b>			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk and actions taken to support these rights.	Not	
<b>Child labor</b>			
HR6	Operations identified as having significant risk for incidents of child labor and measures taken to contribute to the elimination of child labor.	Fully	Page 131
<b>Forced and compulsory labor</b>			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor and measures to contribute to the elimination of forced or compulsory labor.	Fully	Page 131
<b>Security practices</b>			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Not	
<b>Indigenous rights</b>			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not	
<b>Assessment</b>			
HR10	Percentage and total number of operations that have been subject to human rights reviews and /or impact assessments.	Not	
<b>Remediation</b>			
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	Fully	Company has not received any grievance against human rights in the work place during the year

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>Social: Society</b>			
<b>Community</b>			
S01	Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Fully	Page 139 to 145
S09	Operations with significant potential or actual negative impacts on local communities.	Fully	We are in the business of providing insurance services and our operations does not have any negative impacts on local communities.
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Fully	We are in the business of providing insurance services and our operations does not have any negative impacts on local communities.
<b>Corruption</b>			
S02	Percentage and total number of business units analysed for risks related to corruption.	Fully	Page 280 to 292
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	Page 116 to 132
S04	Actions taken in response to incidents of corruption.	Fully	No corruptions occurred during the year
<b>Public policy</b>			
S05	Public policy positions and participation in public policy development and lobbying.	Partially	Page 139 to 145
S06	Total value of financial and in kind contributions to political parties, politicians and related institutions by country.	Fully	Company has not made any financial and in kind contributions to political parties, politicians and related institutions.

# Sustainability

## Global Reporting Initiative Index

### G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
<b>Anti-competitive behavior</b>			
S07	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes.	Fully	Company has reported zero non compliances
<b>Compliance</b>			
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	Company has reported zero non compliances
<b>Social: Product Responsibility</b>			
<b>Customer health and safety</b>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures.	Not	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not	
<b>Product and service labelling</b>			
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	Partially	Page 78 Page 99
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Fully	No non compliances reported during the year

## G3.1 Content Index - GRI Application Level B

Profile Disclosure	Disclosure	Level of Reporting	Location of disclosure
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Fully	Page 81 Page 104
<b>Marketing communications</b>			
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Fully	Page 199
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes.	Fully	The company has reported zero non compliances
<b>Customer privacy</b>			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Not	
<b>Compliance</b>			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	No non compliance reported during the year

# Sustainability

## GRI Certificate



### Statement GRI Application Level Check

GRI hereby states that **Union Assurance PLC** has presented its report "Union Assurance PLC Annual Report 2013" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see [www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf](http://www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf)

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 21 February 2014

Nelmara Arbex  
Deputy Chief Executive  
Global Reporting Initiative



The "+" has been added to this Application Level because **Union Assurance PLC** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

*The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. [www.globalreporting.org](http://www.globalreporting.org)*

**Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 12 February 2014. GRI explicitly excludes the statement being applied to any later changes to such material.

## Stakeholder Feedback Form

We would like to receive your comments / queries. If you wish to communicate with us, please fill-in the details given below and return the page to,

General Manager -  
Finance & Planning  
Union Assurance PLC  
20, St Michael's Road,  
Colombo 3.  
e-mail: [investorrelations@ualink.lk](mailto:investorrelations@ualink.lk)

Name	:	<hr/>
Permanent mailing address	:	<hr/>
Contact numbers	:	<hr/>
Comments	:	<hr/>
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		
<hr/>		







# INTELLECTUAL CAPITAL

**|** *Staying ahead  
of the curve*

# Intellectual Capital Report

## OVERVIEW

UA takes great effort to visualise, identify and describe the intellectual assets we possess in order to productively manage them. This stems from the fact that our intellectual assets play a major role in the delivery of our services and the promise to our customers.

Intellectual capital is increasingly recognised as one of the most important strategic assets of organisations in knowledge based economies. In a knowledge based economy, modern and high tech enterprises not only focus on innovation of new products, services, marketing, research and development activities but also pay particular attention to the development and management of intellectual capital.

Intellectual capital is a combination of external, internal and human capital.

***“Our intellectual assets play a major role in the delivery of our promise to our customers.”***

Illustrates the company's focus on its business, customers, partners and its dealings with the public.

### EXTERNAL CAPITAL

Encompasses both the organisational framework and technical infrastructure design to ensure smooth functioning of business operations. It also encompasses the philosophy, culture and the ownership structure of the organisation.

### INTERNAL CAPITAL

### HUMAN CAPITAL

Comprises staff structures as well as the human resource skills applied to business processes.

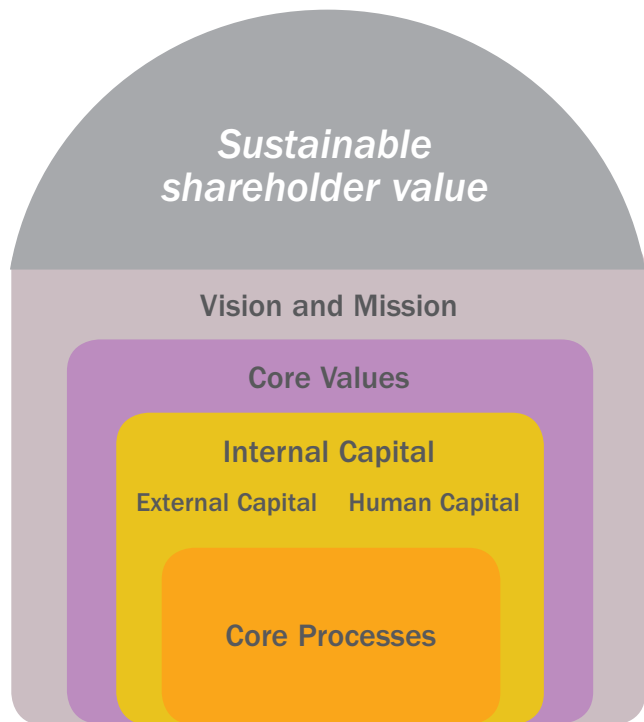
A detailed and more balanced report of UA’s performance would make it easier to value our operations, it also becomes an effective tool to manage and develop our intellectual assets. The more tangible we can make our intellectual assets, the better they can be managed to generate more value to our stakeholders.

For this purpose, we have created a set of indicators that visualise our performance 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**

Starting with UA’s vision, mission and core values UA’s intellectual capital structure defines the value creation in a long term context and sets the tone for our dealings with all stakeholders. The company’s strategic objectives as outlined on pages 38 to 39 and pages 58 to 59 of this report are derived from this perspective.

The company’s strategic objectives are achieved by the external, internal and human capital (described in the previous page) which underpin the core functions of the organisation i.e. underwriting, sales and distribution, learning and development and customer service.



INTELLECTUAL CAPITAL REPORT

**INTERNAL CAPITAL**

**Internal Capital Goals      Commentary**

Update corporate governance practices in line with best practices

- 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.
- Implemented a bottom up compliance sign off process.
- Reviewed the code of best practice on corporate governance issued jointly by the ICASL and SEC (revised in 2013) for any potential gaps.
- Performed a gap analysis of the good governance practices recommended in the corporate Directors hand book, a jointly issued by The Sri Lanka Institute of Directors and The Chartered Institute of Management Accountants.

Constant optimising of business processes

- 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 a larger number of staff in a cost effective manner.
- “Learn Easy,” a blended learning system was 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 to increase their knowledge of job functions.
- Developed of a customer portal which makes it easy for customers to interact with the company.
- 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.

# Intellectual Capital Report

## Internal Capital Indicators

	Indicators	Annual Report Reference
a. Organisational Framework	Strong corporate governance structure	Corporate Governance (page 216)
	Board Committees	Corporate Governance (page 218)
	■ Board Audit and Compliance Committee	
	■ Board Remuneration Committee	
	■ Board Nominations Committee	
	■ Board Investment Committee	
	Separation of corporate management from the Board of Directors	Corporate Governance (page 218)
	Branch network	Distribution network (pages 434 to 437)
b. Technical Infrastructure	<b>Indicators</b>	<b>Value 2013</b> <b>Value 2012</b>
	Number of IT applications	95      83
	Investment in IT infrastructure during the year	Rs. 125 million      Rs. 107 million
c. Philosophy and Culture	<b>Indicators</b>	
	Employee perception of philosophy	<p>Union Assurance was recognised as a Great Place To Work via a survey amongst more than 5,000 employees, from many banking and financing institutions as well as multinationals, public listed companies and organisations.</p> <p>The survey was conducted by the Great Place to Work® Institute in partnership with LMD and the Ceylon Chamber of Commerce.</p>
d. Financial Relations	<b>Indicators</b>	<b>Annual Report Reference</b>
	Company ownership	Shareholder Information (pages 110 to 115)
	Reinsurer ratings	Panel of reinsurers (refer inner back cover) and ratings (page 344)
	Risk management initiatives	Risk Management report (pages 280 to 289)

**Organisational Framework**

In order 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 page 214.

**Technical Infrastructure**

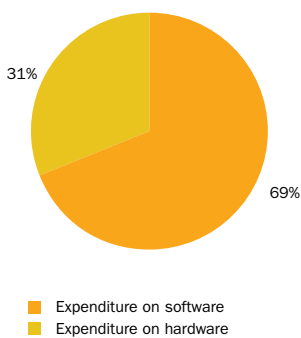
The company operates two separate IT systems for life and non life insurance. All UA locations have access to these IT systems ensuring convenient, speedy, hassle free service to our customers. Both IT systems are maintained in-house. The non life insurance system was an off the shelf package which was purchased and modified to suit the requirements of the local market, while the life system was developed internally. These systems are integrated with SAP as well as several other work flow and e-insurance systems.

UA launched an online portal where customers are able to access most of their insurance needs at a click of a button. The portal is currently accessible to all existing life insurance policy holders for an array of personalised services. Services include, viewing policy details, such as the cover amount, paid premium details, claim history and fund balances. Customers can also pay their premiums online and the portal can be accessed from the company website. Further the company has developed a unique premium notice system as a reminder for premium payments.

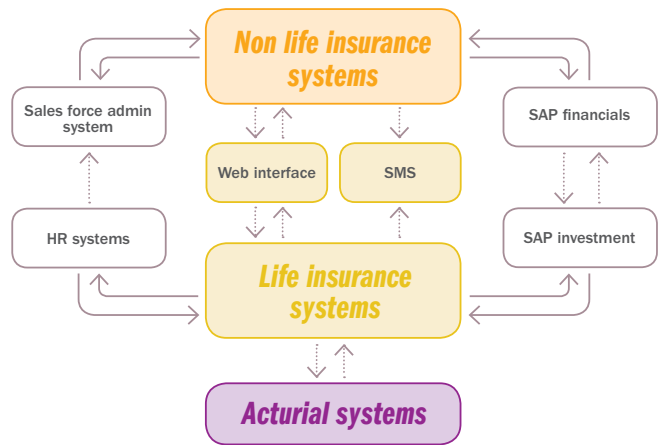
In addition to providing e-mail, internet / intranet facilities to our staff, we have also automated several HR processes, e.g. performance appraisals, attendance, leave applications, etc.

Total IT infrastructure investment during the year 2013 was Rs. 125 million split among software and hardware as depicted below.

IT Expenditure - 2013



UA’s IT network is complex and robust. The following diagram provides a glimpse of the many interdependent systems that enable the smooth operation of the business.



**Philosophy and Culture**

A good indicator of our organisational philosophy and culture is the recognition of Union Assurance as a Great Place to Work. This was derived via a survey amongst more than 5,000 employees, from banking and financial services institutions as well as multinationals and public listed companies. The survey was conducted by the Great Place to Work® Institute in partnership with LMD and the Ceylon Chamber of Commerce.

Among the 15 great companies in the study this year, employee pride in the organisation they work for, a feeling of camaraderie among colleagues, management’s ability to run the business and feeling accepted within the company rated high. Pride in one’s personal job is developed from the sense that one’s specific contributions are special and unique to the organisation. The above attribute is ranked high in Union Assurance which differentiates Union Assurance from the rest. This feeling of pride in one’s contribution can lead to employees making long term commitments to the organisation.

As per the survey, Union Assurance is comparable with and in some instances better than, many of the best multinational companies in the world. Whether it is investment in training and development of its people, celebrating success and coordinating within the company, or ensuring employees receive a fair share of the profits, - employees of great workplaces were as satisfied as employees of some of the best multinational companies in the world.

**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.

# Intellectual Capital Report

## EXTERNAL CAPITAL

External Capital Goals	Commentary
Increase the brand equity of the company	The UA brand was valued in 2013 at Rs. 2.07 billion and the brand rating was AA-
Build customer confidence through ethical business practices and prudent risk management	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	UA has strong relationships with 38 financial institutions.
Constantly improve service standards	Implemented a customer web portal to make it easier for life customers to interact with the company. Continued initiatives to simplify life and non life policy documents. Achieved 81% satisfaction among motor insurance customers who made claims on their policies

## External Capital Indicators

	Indicators	Value 2013	Value 2012
<b>a. Brand Building</b>	Brand value	The UA brand was valued at Rs. 2.07 billion by Brand Finance (UK) in association with Sting Consultants	The UA brand was valued at Rs. 1.9 billion by Brand Finance (UK) in association with Sting Consultants
<b>b. Corporate Image Building</b>	Number of press releases	45	22
	Number of press conferences	2	2
<b>c. Internet Based Communication</b>	Number of visits to the web site	219,245	339,605

## External Capital Indicators

Indicators		Value 2013	Value 2012
<b>d. Business Partnering</b>	Partnering with banks and financial services providers	Strong relationships with 38 financial institutions	Strong relationships with 38 financial institutions
<b>e. Distribution Channels</b>	Field staff	Over 5,348 field staff members	Over 4,662 field staff members
	Brokers	We work with over 59 registered brokers	We work with over 54 registered brokers
<b>f. Market Share</b>	Non life	9.5% (e)	8.9%
	Life	13.7% (e)	13.7%
<b>g. Focus on Customer Satisfaction</b>	Motor insurance claimants satisfaction level	81% (survey conducted by internal R&D division)	73% (survey conducted by internal R&D division)
<b>h. Addressing Customer Complaints</b>	Number of customer complaints received	813	982
	Resolved	736	790
	Resolution in progress	77	192
<b>Service Enhancements</b>	Life	6	5
	Non life	6	6

**Brand Building**

The UA brand was valued at Rs.2.07 billion in 2013 by Brand Finance (UK) in association with Sting Consultants using the “relief of royalty” approach. The brand rating received was AA-

The Union Assurance brand is positioned on the promise of “trust” and strives to deliver this promise by being transparent, convenient and respectful when dealing with all stakeholders.

UA was most recently recognised as one of the best service brand at the SLIM Brand Excellence Awards 2013, being awarded Silver in the Service Brand of the Year category.

A more detailed description of the brand valuation and brand building process is given in pages 197 to 199.

**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](http://www.unionassurance.com).

Non life insurance products are mainly sold through the company’s sales staff, brokers and agents. UA maintains a web based motor insurance system enabling customers to print their own motor certificate from the comfort of their home or office any time of the day, any day of the year.

A user friendly interface allows customers to update their personal profiles and contact details when required. An email based ‘refer a friend’ system is also available for users to share their experiences. More importantly, the new UA customer portal enables the policy owner to intimate a claim and this will help faster claim settlement.

UA strives to stay technologically ahead by initiatives such as equipping its top Personal Financial Advisors (PFA) with laptops and tablet computers. A recently introduced Digital Advisor Toolkit (DAT) system acts as a trilingual application compatible for all devices to make the purchase of insurance services quick and convenient for both the advisor as well as the customer. Such initiatives are developed to assist the field staff who are able to propose different insurance solutions and covers to their customers instantly, while the technology serves as a catalyst to provide a richer customer experience. This also increases productivity, enabling the company to have a footprint in geographies usually untapped. UA consistently benchmarks itself among the best to be on par with modern digital initiatives to improve the efficiency of the organisation as a whole.

# Intellectual Capital Report

## Business Partnering

UA has also entered into arrangements with 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

A robust retail distribution structure in Sri Lanka, comprising advisors and bancassurance personnel, has played a significant role in providing the life insurance solutions to a large underpenetrated population. UA’s distribution efficiency is further empowered with laptop and tablet device enabled advisors providing convenient insurance solutions while in the field. By empowering the sales force with IT, the company hopes to reinforce its promise of convenience in all its dealings with customers. The recently introduced Digital Advisor Toolkit (DAT), a trilingual application compatible for both laptops, tablets and smartphones was developed to assist the field force of UA who are now able to propose different insurance solutions and covers to their valued customers instantly, online.

## Market Share

We have approximately 9.5% of the non life insurance market and 13.7% of the life insurance market. This makes UA the 4<sup>th</sup> largest insurer in each of these segments.

## Focus on Customer Satisfaction

The company has commissioned a monthly process to monitor satisfaction levels of motor insurance claimants. As per the findings of this survey 81% of the motor insurance customers polled were satisfied with the service they received.

## Addressing Customer Complaints

The company has developed an online complaint management system to manage customer dissonance. As at year end, there were 813 customer complaints updated in the system. We have resolved 736 and 77 are being followed up as at year end.

## Service Enhancements

Details of our service enhancements are provided in the Management Discussion and Analysis on pages 182 to 184 and pages 105 to 106.

## HUMAN CAPITAL

### Human Capital Goals

### Commentary

Recruit, develop and retain employees with necessary skills.

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.

## Human Capital Goals Commentary

Foster a conducive working environment

The company has taken many initiatives to ensure that it is a great place to work.

From flexi time, open door policies and elaborate grievance handling methods, it has strived to ensure that employee welfare is put above everything else.

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, along with the introduction of UA Values walkway at head office, which inspires staff to uphold the company's values.

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

The company has implemented an online performance management process. In 2013, 67% of employees completed their performance appraisals online.

The performance management process works on the basis of a career committee comprising of relevant functional supervisors where the supervisor presents the performance of the individual and the rating is finalised based on the KRA's set for the year. This rating is then communicated to the employee by the line manager in the presence of an independent 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.

Provide integrated and strategic training and development programmes that builds technical skills, soft skills and leadership competencies

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 feedback from line management.

During the year UA continued to roll out structured talent management programmes covering all levels of staff.

## Human Capital Indicators

	Indicators	Value 2013	Value 2012
<b>a. Learning and Development Indicators</b>	Average training days per employee	Managers 13.60 Executives 6.63 Non executives 5.84	Managers 17.16 Executives 9.10 Non executives 9.05
	Average training days per field staff member	83.1	79.4
	Cost of training and education	Rs. 55 million	Rs. 60 million
	Number of employees with overseas training	24	37
	<b>b. Employee Relations</b>	Employee satisfaction measures	Great Place to Work survey conducted in mid 2013
	Number of management meetings	5	6
	Number of "Union Shakthiya" magazines published	3	2
<b>c. Employee Welfare Indicators</b>	Number of activities organised by the recreation club	7	9
	Number of staff members entitled to medical and insurance cover	1,157	1,070
	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

# Intellectual Capital Report

	Indicators	Value 2013	Value 2012
<b>d. Employee Know How</b>	Business and financial acumen of the Board of Directors	Refer Corporate Governance - page 238	
	Business and financial acumen of the Executive Committee	Executive Committee - pages 212 to 213	
	Number of years of service analysis	Employee Indicators - page 119	
<b>e. Number of International Award Winners</b>	Number of LIMRA International Quality Award winners	14	17
	Number of participants at the MDRT conference	3	2

## LEARNING AND DEVELOPMENT

UA believes 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. In addition UA has schemes to reimburse professional examinations and related fees to encourage training and development.

## EMPLOYEE RELATIONS

We strive to engage our employees and obtain their feedback by conducting skip level meetings and participating in external surveys such as the Great Place to Work survey by the Great Place to Work® Institute in partnership with LMD and the Ceylon Chamber of Commerce.

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

## EMPLOYEE WELFARE

Staff welfare activities are connected to providing employees with a healthy work life balance. The recreation club 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.

## EMPLOYEE KNOW HOW

The UA Board and Executive Committee comprise of Directors and senior management staff with a wide variety of industry and financial acumen. UA staff consists of 181 graduates and professionally qualified employees. Over 35% of our staff have more than five years' experience and 61 employees completed 25 years of service with UA.

## 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.

## CONCLUSION

In summary 2013 has been a year on which UA has taken continues efforts to enhance its intellectual capital. This has enabled UA to provide superior service to its customers. Furthermore the investments in internal capital has been a scale enabler which has enabled UA to handle increased business volumes efficiently. UA takes pride in its intellectual capital and will strive to measure and improve with the aim of leveraging on intellectual capital to generate value to all stakeholders.

# 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 our customers, delivering “transparent” solutions and being “respectful” to all stakeholders.

UA took the initiative to develop service standards for every department which is aligned with delivering the brand promise of trust through the 3 brand pillars of ‘Transparency’, ‘Respect’ and ‘Convenience’ to ensure that customers experience the delivery of the brand promise.

A comprehensive training programme was carried out for the entire staff on how they should deliver the brand promise in their respective division.

Further, UA ensures adherence with the IBSL direction for all insurance companies to submit a certificate signed by the CEO, confirming that new advertisements are in conformity with Section 99 of RII Act.

### Life Insurance Customers

Life insurance is a long term investment where customers 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 maturity proceeds and other benefits at the end of the policy.

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

Activity	2013 Progress
Identify customer needs and sell products to suit individual needs.	<ul style="list-style-type: none"> <li>■ Products are sold based on a “fact find” of customer requirements where customers needs are clearly identified.</li> <li>■ Products have been made available to suit individual customer needs i.e. Investment protection, child education and retirement plans e.g. Launched Flexi Advantage during the year to cater to educational needs.</li> </ul>
Customers’ money will be invested in a manner that ensures the promise (in terms of death / maturity benefits) will be delivered and sound risk management practices are in place.	<ul style="list-style-type: none"> <li>■ Investments are in accordance with regulatory requirements.</li> <li>■ The company’s solvency position is published on page 293 of this report.</li> <li>■ Investment decisions are delegated by the Board to the Board Investment Committee (BIC), which conducts its activities in accordance with the Investment Policy Statements approved by the Board.</li> <li>■ The following types of risks are monitored by the Board / BIC with regard to investments made. Further details are available on pages 280 to 292                             <ul style="list-style-type: none"> <li>• Concentration risk</li> <li>• Liquidity risk</li> <li>• Credit risk</li> <li>• Market risk</li> </ul> </li> </ul>

# Intellectual Capital Report

## Brand Valuation and Brand Building Process

Activity	2013 Progress
Deliver high quality service	<ul style="list-style-type: none"> <li>Launched customer portal for life policyholders giving instant access to login and view their policy details, claims, payment, adviser and other details</li> <li>More initiatives have been taken to improve service levels as outlined on pages 104 to 105</li> </ul>
Ensure transparency in all business documentation (e.g. training materials, marketing brochures, policy documents, etc;)	<ul style="list-style-type: none"> <li>Unit linked quotations are now issued in all three languages which was limited to only English before</li> <li>Insurance documents are usually complex or are difficult to understand. Therefore, the unit linked product policy documents were simplified to make them more customer friendly</li> <li>An equity video was developed to educate customers on the stock market, investments and unit linked products.</li> </ul>
Train sales / support staff to act with responsibility in a professional manner	<ul style="list-style-type: none"> <li>On going initiative</li> <li>A digital toolkit was introduced enabling sales staff members to identify needs gaps and to present the most appropriate solution when selling traditional and unit linked policies</li> </ul>

### Non Life Insurance Customers

Non life insurance 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 2013 is as follows;

Activity	2013 Progress
Sell products which meet customer needs. i.e. in terms of coverage, value covered etc	<ul style="list-style-type: none"> <li>Details of non life insurance products are available on page 79</li> <li>Re-assessed product portfolio in line with changing customer requirements</li> <li>Aggressively encouraged sales agents to issue policies at the customer's doorstep to further support the brand pillars of transparency and convenience</li> </ul>
Obtain reinsurance support from high quality reinsurers	<ul style="list-style-type: none"> <li>The company's reinsurance panel is summarised on the inner back cover</li> </ul>
Implement sound risk management practices to ensure that UA delivers on its commitments	<ul style="list-style-type: none"> <li>Details of the company's risk management practices are provided on pages 280 to 292 in the annual report</li> </ul>

## Activity

## 2013 Progress

Offer convenience to customers when purchasing policies / lodging claims and delivering high quality service.

- The 'customer welcome call' programme enables motor customers to verify policy details, the claims process, details about their policies / covers purchased and to answer any queries they may have on the services offered.
- Customer satisfaction surveys are carried out for customers who have made claims, in order to gauge their satisfaction levels and to further improve service standards based on customer feedback.
- Launched the mobile compatible corporate website which also enables customers to buy their motor and travel insurance policies via their smart phones.
- Details of service improvements are available on pages 82 to 85

Train sales / support staff to act with responsibility

- On going initiative

## BRAND VALUATION

The UA brand was valued at Rs. 2.07 billion in 2013 (2012 - Rs. 1.9 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 2013, the UA brand was ranked 34 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.

## Brand Attribute Developments in 2013

Market share	It is estimated that UA has increased its market shares in non life insurance segment to 9.5% from 8.9% and has maintained life insurance market share at 13.7%
Sales growth	Non life insurance premium growth rate is 17% whereas industry growth rate is 9%. Life insurance premium grew by 8%
Brand awareness	Based on research conducted as part of the overall brand strategy, awareness regarding the UA brand remains high in chosen market segments
Advertising spend	The company incurred Rs. 134 million in advertising expenses in 2013
Brand loyalty	The company measures brand loyalty by reviewing non life insurance renewal retention rates and life insurance persistency ratios on a monthly basis
Brand outlook	Given the growth potential of the life and non life insurance businesses, the brand outlook remains positive.
Brand Management	UA takes a holistic approach to brand management. This enables UA to focus resources and all its products and related initiatives to deliver the brand of "trust"
Brand accolades	UA received a silver award in the category service brand of the year at the SLIM Brand Excellence awards 2013, which endorses the effectiveness of the brand development and management process adopted by UA
Distribution	Life insurance products are distributed mainly by tied agency force (field sales staff), which numbered over 5,348 (including development officers) as at December 2013. 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 2013, UA sold life and non life insurance products through 121 branches spread throughout the island
Brand heritage	The brand "Union" was derived from the union of strength that was forged by merging the insurance businesses of Aitken Spence, Carsons, ACW and Whittal Boustead. UA continues to enjoy a superior reputation especially among corporate customers who value the company's corporate governance practices and commitment to transparency



# CORPORATE GOVERNANCE

**|** *Taking our  
industry forward*

# Chairman's Statement

***“A high standard of corporate behaviour through an effective governance structure is an essential prerequisite to sustainable business performance. Trust, Ethics and Integrity – our core values, are reinforced at all levels of the organisation. ”***

**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.

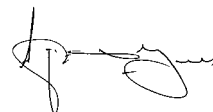
Key priority of the board in the current year was to evaluate options and make preparations for the segregation of the life and non life businesses. The Board will continue to monitor and comply with regulatory requirements in order to ensure a sustainable triple bottom line and meet all stakeholder expectations.

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 keenly monitors progress in this regard through a formal once in two months review of achievements 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 highest standards of corporate governance and compliance within Union Assurance.

I also wish to state that to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions of the code of best practice of corporate governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.



**Ajit D. Gunewardene**

*Chairman*

25 February 2014

# Board of Directors



**Ajit D. Gunewardene**  
Chairman



**Suresh Rajendra**  
Director



**Gerald De Saram**  
Director



**Dilani Alagaratnam**  
*Director*



**Harin De Silva Wijeyeratne**  
*Director*



**Ashan De Zoysa**  
*Director*

## Board of Directors

### Ajit D. Gunewardene

*Chairman, Non Executive Director*

Member of the Board since May 1992

#### Board Committees;

- Chairman, Remuneration Committee
- Chairman, Nominations Committee

#### Skills and experience;

- Member of the John Keells Holdings Board for over 20 years
- He has also served as the Chairman of the Colombo Stock Exchange and Nations Trust Bank PLC
- Has a degree in Economics
- Brings over 30 years of management experience to your Board

#### Other current appointments;

- Deputy Chairman of John Keells Holdings PLC
- Director of many companies in the John Keells Group
- 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
- Advisory Committee Member of COSTI, the coordinating Secretariat for Science, Technology and Innovation under the purview of the Minister (Senior) of Scientific Affairs

### Gerald De Saram

*Independent Non Executive Director*

Member of the Board since April 2009

#### Board Committees;

- Member, Remuneration Committee
- Member, Nominations Committee

#### Skills and experience;

- He joined CIC Paints when it was formed first managing the sales and later the marketing functions of the company. He was appointed the Managing Director in 2001 and has also served on the Paints Asia Executive Team of ICI Paints. Following the global merger of ICI and Akzo Nobel BV, he led the integration of these two large businesses in Sri Lanka
- Holds a BSc. Honours degree from the University of London
- Holds a Post Graduate Diploma in Marketing from The Chartered Institute of Marketing (CIM) of UK
- He was an active member of the Sri Lanka Institute of Marketing and a former Board Member of the IAA (Sri Lanka Chapter)

#### Other current appointments;

- 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

### Suresh Rajendra

*Non Executive Director*

Member of the Board since August 2011

#### Board Committees;

- Member, Audit and Compliance Committee

#### Skills and experience;

- Fellow member of the Chartered Institute of Management Accountants of UK
- He has over 22 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 Manager of Aitken Spence Hotel Managements (Pvt) Ltd and also served on the Boards of the hotel companies of the Aitken Spence Group

**Other current appointments;**

- He is a member of the Group Executive Committee and is the President, Property Group of John Keells Holdings PLC
- Serves as a Director in many companies of the John Keells Group

**Harin De Silva Wijeyeratne***Independent Non Executive Director*

Member of the Board since September 2011.

**Board Committees;**

- Chairman, Audit and Compliance Committee
- Member, Remuneration Committee

**Skills and experience;**

- He is an Associate member of the Institute of Chartered Accountants, Sri Lanka
- Fellow member of the Chartered Institute of Management Accountants of UK
- Brings over 25 years of experience in the fields of general management, financial management and auditing which has been acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka

**Other current appointments;**

- Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited

***“Our business is managed by a dual panel structure, namely the Board of Directors and Chief Executive Officer and Executive Committee.”***

## Board of Directors

### Dilani Alagaratnam

#### *Non Executive Director*

Member of the Board since August 2011

#### **Skills and experience;**

- 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

#### **Other current appointments;**

- Member of the Group Executive Committee of John Keells Holdings PLC and has overall responsibility for the following functions of the Group: Human Resources, Legal & Secretarial, Corporate Communications and Sustainability & Enterprise Risk Management
- Director of several companies of the John Keells Group
- Member of the Steering Committee on Human Resources & Education of the Ceylon Chamber of Commerce
- Member of the National Labour Advisory Committee
- Council member of the Sri Lanka Institute of Directors

### Ashan De Zoysa

#### *Independent Non Executive Director*

Member of the Board since April 2009

#### **Board Committees;**

- Member, Audit and Compliance Committee
- Member, Investment Committee
- Member, Nominations Committee

#### **Skills and experience;**

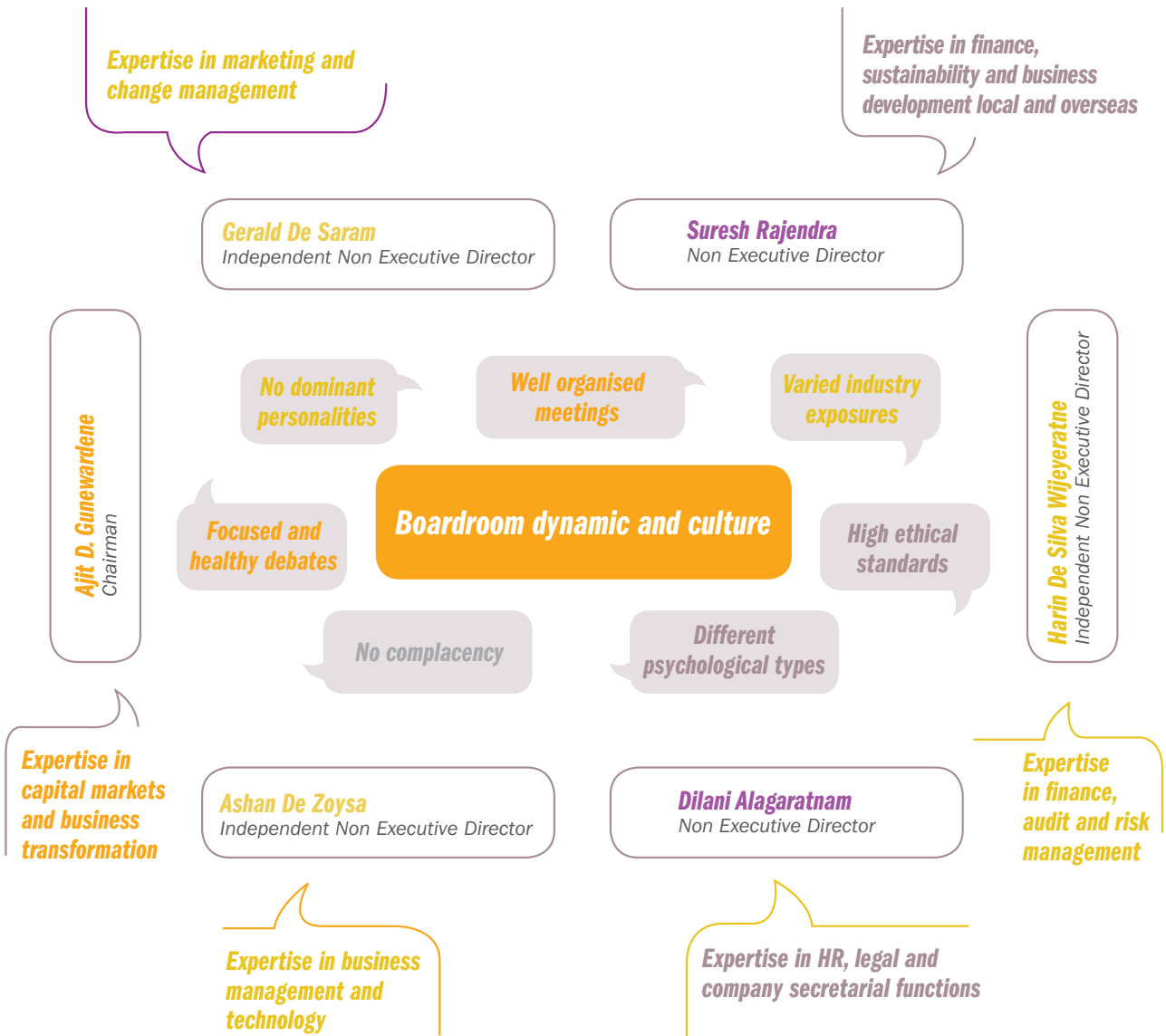
- Holds a Bachelor of Commerce Degree from the University of New South Wales
- Several years of overseas exposure, having worked in the fields of IT and derivative / commodity trading in Australia
- Served on the Board of AMW Group as a working Director

#### **Other current appointments;**

- Serves on the Board of Associated Electrical Corporation Ltd
- Serves on the Board of A. E. C. Properties (Pvt) Ltd

**BOARD DIVERSITY AND COMPOSITION**

Your Board benefits from the diversity of its membership, including gender and strives to maintain the right balance. It comprises individuals with extensive knowledge and experience in core and diverse business sectors within local and international markets bringing a wide range of perspective to your business. Therefore, the Board works as a team with a complementary set of skills, experience and personal characteristics. The following diagram gives a brief snapshot of your board dynamic and culture.



As at 31 December 2013, the Board consisted of three Non Executive Directors and three Independent Non Executive Directors. There was no change to this composition from last year.

# Chief Executive Officer and Executive Committee



**Dirk Pereira**  
*Chief Executive Officer*



**Brigadier Rohan Jayasinghe**  
*General Manager, Human Resources*



**Nihal Handunge**  
*General Manager, General Distribution*



**Jayaseeli Dissanayake**  
*General Manager, Life Insurance*



**Niranjan Nagendra**  
General Manager, Corporate



**Ruwan Bakmedeniya**  
General Manager, Information Technology



**Ruanthi Gooneratne**  
General Manager, Non life Insurance



**Rukman Weeraratne**  
General Manager, Marketing and Life Distribution



**Sherin Cader**  
General Manager, Finance and Planning

# Chief Executive Officer and Executive Committee

Chaired by Dirk Pereira, the Executive Committee focuses on contributing to the company strategy, financial and operational planning and execution of the strategy, financial and competitive performance, succession planning, development and operationalising the company policies. The Executive Committee forms the senior management of the company.

Brief profiles of the Executive Committee are as follows:

## **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 of UK and a Fellow member of the Institute of Chartered Accountants of Sri Lanka. He also holds an MBA from the University of Sri Jayewardenepura

## **Brigadier Rohan Jayasinghe** *General Manager, Human Resources*

Rohan joined Union Assurance in January 2009 as General Manager Human Resources. He was an Executive Group Director (Human Resources) at The Capital Maharaja Organisation Limited before taking up this new assignment. He has had an exceptional career in the Sri Lanka Army where he served the country for 28 years and held many vital appointments in operations, training and in the staff. He also commanded the Armoured Brigade and retired prematurely as a Brigadier in 2006. He was the country's first Defense, Military, Naval and Air 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

## **Jayaseeli Dissanayake** *General Manager, Life Insurance*

Jayaseeli is 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. She had her initial Insurance training from the College of Insurance of India and Swiss Insurance Training Centre 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 of the Chartered Insurance Institute of UK

## **Nihal Handunge** *General Manager, General Distribution*

Nihal joined Union Assurance in January 1987 in the capacity of a Manager, Marketing for life insurance. Subsequently he rose to the position of General Manager, Distribution for non life insurance. Nihal counts over 28 years' experience in sales and marketing and brings a wealth of knowledge to UA. He provides leadership to a dynamic team of Zonal and Regional Managers covering UA's islandwide branch network. Prior to joining UA he was with Mercantile Credit Ltd which was a key promoter of UA

**Niranjan Nagendra***General Manager, Corporate*

Niranjan joined Union Assurance in August 2005. Prior to his appointment he served as General Manager / Head of Non-Life Distribution at Eagle Insurance PLC. Niranjan has over 20 years local and overseas exposure in 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

**Ruanthi Gooneratne***General Manager, Non life Insurance*

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

**Rukman Weeraratne***General Manager, Marketing and Life Distribution*

Rukman joined Union Assurance in January 2005 to head life and non life distribution and marketing. 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 Finlay 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 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

**Ruwan Bakmedeniya***General Manager, Information Technology*

He counts over 20 years of experience in the IT field especially in the areas of banking, finance and insurance. Ruwan joined Union Assurance in August 2010 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. He is also a member of the IT / BPO advisory committee at the Export Development Board in Sri Lanka. Ruwan is a holder of a Masters' Degree in IT from UK

**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 serving in many capacities including as the Financial Controller at John Keells Holdings PLC. She has played diverse roles across finance and operations in financial services, IT enabled service sector and centre functions.

Sherin is a Fellow member of the Chartered Institute of Management Accountants of UK and an Associate member of the Association of Chartered Certified Accountants of UK

# Chief Executive Officer and Executive Committee

## EXECUTIVE COMMITTEE

The Executive Committee met 12 times during the year under the chairmanship of the Chief Executive. General agenda and topics covered by the Committee during the year included;

- Introductory remarks, follow up on minutes and performance update by the Chief Executive
- Short briefings by individual General Managers on respective business areas, update on key initiatives and industry developments
- Substantial business developments and projects
- Talent and related matters

- Presentations from various functional heads, e.g. CFO, Head of internal audit, Brand and Marketing
- Competitor analysis and strategy

Annually the Committee, together with the Chief Executive, conducts a strategy review to identify key strategic issues and any changes to the medium term strategy which are subsequently presented to the Board. The agreed strategy is used as a basis for developing the following year's budget and the three year projections. Details of the process used, are provided in the 'Performance Governance' section of this report.

## ORGANISATIONAL STRUCTURE



# Corporate Governance

## 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 and the Securities and Exchange Commission of Sri Lanka (SEC) as well as the Rules on Corporate Governance published by the Colombo Stock Exchange (CSE). This year UA adopted the good governance practices recommended in the corporate Directors handbook, a joint publication by The Sri Lanka Institute of Directors and The Chartered Institute of Management Accountants.

Key actions taken in 2013 to enhance 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.

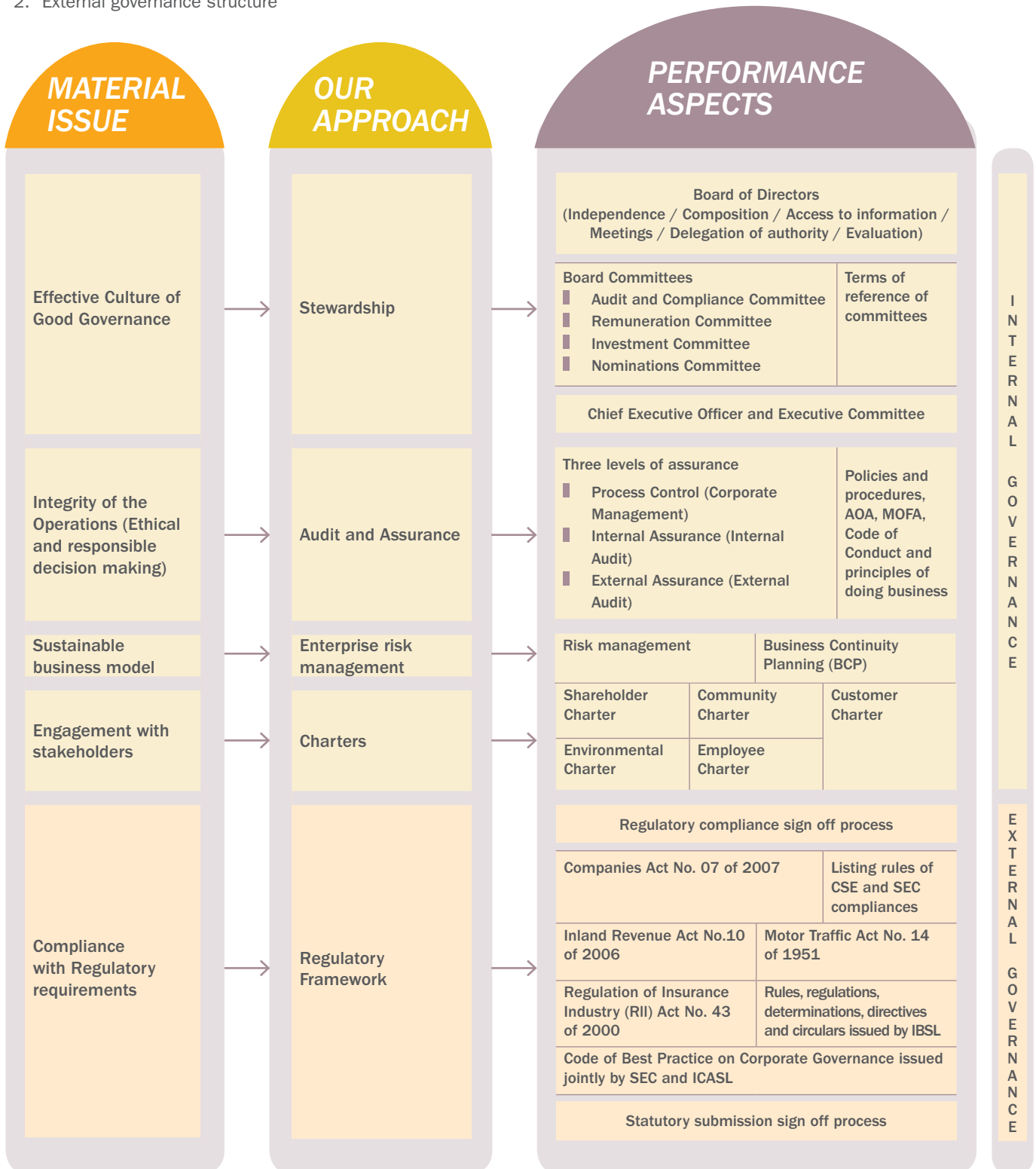
- Reviewed and enhanced the internal audit process, scope and frequency of audits to ensure that strategic and key operational risks are given greater focus and attention and any deviations are escalated on a timely basis.
- Formalised and launched the “company values” across the organisation to reinforce 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.
- Continued to engage external actuarial consultants 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 a bottom up compliance sign off process covering all operational processes to be submitted to the BACC on a quarterly basis confirming that compliance risks have been adequately addressed.
- Updated the company's code of conduct and all IT security policies.
- Enhanced financial statement integrity by performing a comprehensive review of IT systems which is linked to financial numbers.

# Corporate Governance

## OUR INTEGRATED GOVERNANCE FRAMEWORK

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

1. Internal governance structure
2. External governance structure



### INTERNAL GOVERNANCE STRUCTURE

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

#### Internal Governance structure and assurance

- Effective culture of good governance by effective;
  - Board of Directors
  - Board Committees
  - Directors' remuneration
  - Accountability and audit
  - Relations with shareholders
  - Company Secretary
- Integrity of the operations through three levels of assurance;
  - Process control
  - Internal assurance and
  - External assurance
  - Code of conduct
- Sustainability of the business model by;
  - Enterprise risk management
- Engagement with stakeholders by way of a structured;
  - Shareholder charter,
  - Community charter,
  - Environmental charter,
  - Customer charter and
  - Employee charter

As diagrammatically presented, 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.

### EXTERNAL GOVERNANCE STRUCTURE

This forms the relevant laws, regulations and best practices that enable the company to operate within a sound corporate governance framework. The company is governed by the following rules and regulations;

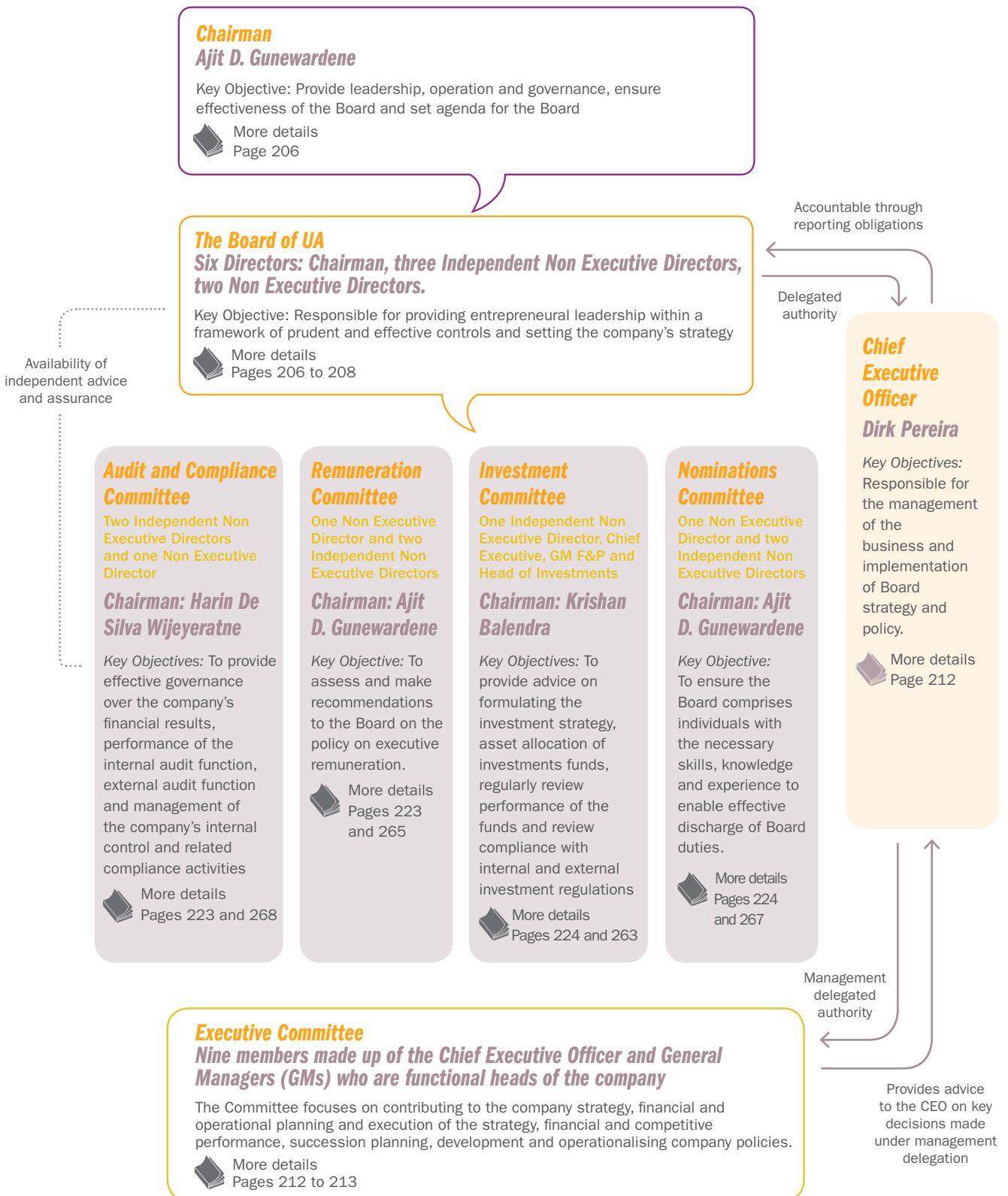
- Company ensures strict compliance with the following regulatory requirements:
  - Companies Act No. 07 of 2007
  - Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments
  - Rules, regulations, determinations, directives and circulars issued by Insurance Board of Sri Lanka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

***“Responsibility for good governance lies with your Board and a strong and effective governance framework is in place at UA.”***

# Corporate Governance

## Internal Governance Structure Effective Culture of Good Governance

CORPORATE GOVERNANCE



Internal governance covers many 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 of Sri Lanka (SEC) in 2013:

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

#### 1. Chairman and the Board of Directors

UA maintains a dual panel structure, namely the Board of Directors and the 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.

##### **Board composition**

As at 31 December 2013, the Board consisted of six Directors all of whom hold office as Non Executive Directors of which three are Independent Non Executive Directors. There was no change to this composition from last year.

Brief profiles of the Board members and the dynamics of the board room are given under Board dynamics and composition in page 209 to this report.

##### **The Chairman**

The Chairman is responsible for the effective operations, leadership and governance of the Board while ensuring the effectiveness of the Board. The Chairman also sets the agenda, style and the tone of the Board discussions and ensures the effective participation of all directors and the Board is in complete control of the company's affairs and alert to its obligations to all stakeholders.

##### **Board of Directors**

The Board meets once every two months to discharge its duties and responsibilities in a timely manner. Additional Board meetings are held as required.

The Board performs its supervisory functions through the Board Audit and Compliance Committee (BACC), Remuneration Committee (RC), Board Investment Committee (BIC) and Nominations Committee (NC), thus ensuring competence and effectiveness.

Members of professional accounting bodies are on the Board ensuring financial acumen and knowledge. A standard set of appropriate, timely and comprehensive documents is provided to the Board in addition to the ad-hoc information requested from time to time.

The Board has set up a process to appraise the CEO's performance and conduct self-appraisals of their performance as well.

Information with respect to each Director has been disclosed together with the other disclosure requirements as per the Code of Best Practice on Corporate Governance in various sections of this report.

##### **Board responsibilities and decision rights**

The Non Executive Directors have collective responsibility for the company's direction. In particular, the Non Executive Directors are 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 and in doing so recognise sustainable business development practices
- Ensuring that the Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy
- Reviewing HR processes with emphasis on CEO and senior management succession planning
- Appointing the CEO and reviewing the performance of the CEO
- Monitoring systems of compliance and governance
- Ensuring all stakeholder interests are considered in corporate decisions
- Reviewing systems of internal control, risk management and integrity of the financial information
- Reviewing and making changes when necessary to authority levels delegated from the Board to the executive levels
- Approving the issue of equity / debt securities

##### **Conflict of interest and independence**

Each Board member has a responsibility to determine whether he / she has a potential or actual conflict of interests 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. Refer note 38 to the financial statements for details on related party transactions.

To avoid potential conflicts or bias, Directors adhere to a process where review takes place prior to appointment, once appointed and during Board meetings.

# Corporate Governance

## Prior to appointment

Nominees declare interests that could potentially conflict with the interests of the company

## Once appointed

Members obtain Board approval prior to accepting new appointments or engaging in any transaction that could potentially lead to a conflict of interest

## During Board meetings

Members who have an interest in a matter under discussion,

- Excuse themselves from deliberations on the subject
- Abstain from voting on the matter (these are duly minuted)

Summary of Independent Non Executive Directors' Interests is given below;

	(a)	(b)	(c)	(d)	(e)	(f)
	Employment in the company	Material business relationship	Close family member is a Director or CEO	Carrying not less than 10% of voting rights	Continuously served for more than nine years	Business connection

G. F. C. De Saram	0	0	0	0	0	0
H. A. J. De Silva Wijeyeratne	0	0	0	0	0	0
A. S. De Zoysa	0	0	0	0	0	0

- (a) Has been employed by the company during the period of two years immediately preceding appointment as a Director
- (b) Currently has / had a material business relationship with the company during the period of two years immediately preceding appointment as a director.
- (c) Close family member who is a Director or CEO or Key management personnel
- (d) Carrying not less than 10% of voting rights of the company
- (e) Has served on the Board continuously for a period exceeding nine years
- (f) Self or close family member is a Director or employee of another company or a trustee in which is materially connected to the company in terms of shareholding or business relationship.

All Directors make a formal declaration of their independence on an annual basis.

0 Compliant    0 Non-Compliant

**Board induction and access to information**

The Company Secretary is responsible for ensuring that each Director receives an induction on joining the Board. 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

On access to information and professional development; it is essential that the Directors are up to date with key business developments to maintain and enhance their effectiveness.

The Directors have access to;

- Information necessary to carry out duties and responsibilities effectively and efficiently
- External and internal auditors
- Updates on regulations, best practices as relevant to the business and other matters which are considered to warrant Board attention
- Financial plans, including budgets and forecasts and Periodic performance reports
- Experts and other external professional services as required
- Company secretaries whose appointment and / or removal is the responsibility of the Board
- Senior management

**Board Meetings**

Matters considered at all Board meetings include;

- The Chief Executives' brief on strategy and business developments based on the latest available management accounts
- An update by the Chief Executive Officer on operational matters including, technology, actuarial valuations, technical updated on product portfolios, re-insurance arrangements, any consultancy support on projects and other operational and compliance matters
- Strategic capital expenditure and update on IT strategy
- Where applicable, review minutes and reports from the Board Audit and Compliance Committee, Board Investment Committee, Remuneration Committee and Nominations Committee

In addition to the standard agenda items, detailed topics covered by the Board during the year included, brand performance, control environment, corporate social responsibility initiatives, talent management, succession planning and regulatory changes covering the segregation of insurance companies.

**Board activities during the financial year**

Board sets the agenda to support, assist and advise executive management to deliver the company's strategy within a transparent governance framework.

The following diagram shows the key areas of focus which appear as items on the Board's agenda during the year at relevant times. Focused discussion on these items at the Board meetings help make right decisions for its stakeholders.



# Corporate Governance

## 2. Board Committees (Board Directors Delegation of Authority)

Certain functions of the Board are delegated through 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 is collectively responsible for the decisions taken by these sub committees.

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

### The calendar for meetings of the Board and its committees

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board	0		0		0		0		0		0	0
Board Audit and Compliance Committee	0		0		0			0	0		0	
Remunerations Committee			0		0							
Investment Committee		0	0	0		0	0	0	0		0	0
Nominations Committee	No meetings were held during 2013											

### Directors' attendance at meetings

The Directors' attendance at meetings of the Board and its committees in the financial year 2013 is outlined below;

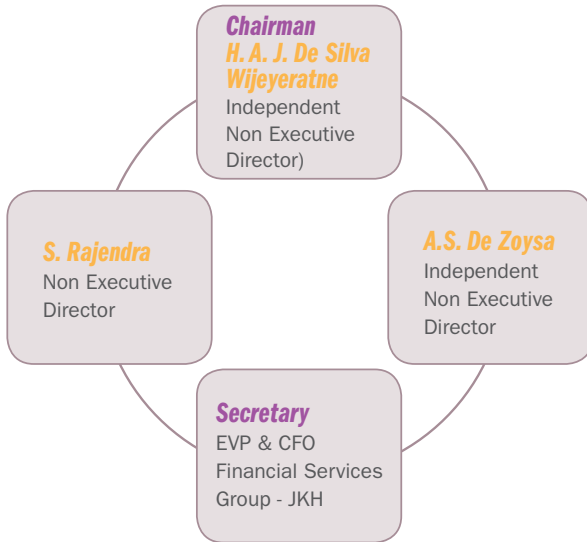
Board and committee composition and attendance	Chairmanship					Membership					Attendance at meetings				
	Main Board	Board Audit and Compliance Committee	Remuneration Committee	Investment Committee	Nominations Committee	Main Board	Board Audit and Compliance Committee	Remuneration Committee	Investment Committee	Nominations Committee	Main Board	Board Audit and Compliance Committee	Remuneration Committee	Investment Committee	
Ajit D. Gunewardene Non Executive Director	0	0	0	0	0	0	0	0	0	0	7/7		2/2		
A. S. De Zoysa Independent Non Executive Director						0	0	0	0	0	7/7	6/6	10/11		
G. F. C. De Saram Independent Non Executive Director						0		0		0	6/7		2/2		
D. C. Alagaratnam Non Executive Director						0					7/7				
S. Rajendra Non Executive Director						0	0				7/7	6/6			
H. A. J. De Silva Wijeyeratne Independent Non Executive Director		0				0	0	0			7/7	6/6	2/2		
K. N. J. Balendra				0					0				11/11		

**Board Committees**

Directors unable to attend meetings because of another engagement are provided with the briefing materials and can discuss issues arising in the meeting with the Chairman or the Chief Executive Officer.

**Board Audit and Compliance Committee**

**Membership**

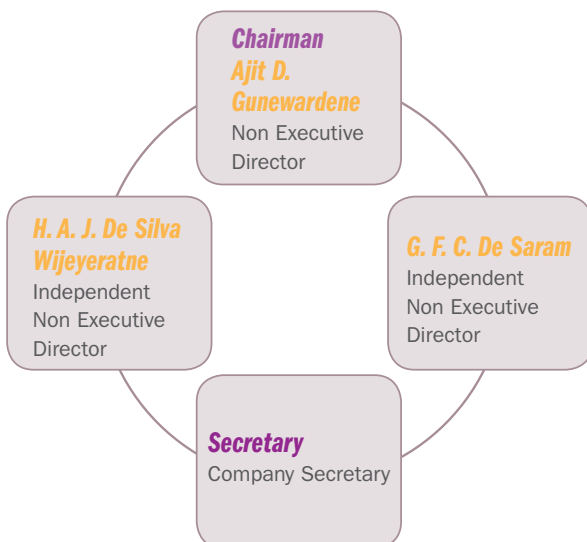


**Invitees**

- CEO
- GM Finance and Planning
- AVP Group Risk and Control Review – JKH
- External auditors
- Internal auditors

**Remuneration Committee**

**Membership**



**Agenda:** Available

**Circulation of the agenda and papers:** One week in advance

**Notice of each meeting:** As per annual calendar agreed in advance

**Planning frequency:** Quarterly

**Availability of terms of reference:** Available

**Professional advice:** Actuarial, technical and legal specialists

**Terms of reference of the committee:** 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.

**Responsibilities:**

- 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’s ability to continue as a going concern in the foreseeable future

Report of the Board Audit and Compliance Committee is provided in page 268 to this report.

**Invitees**

- CEO
- EVP and CFO Financial Services Group - JKH

**Agenda:** Available

**Circulation of the agenda and papers:** One week in advance

**Notice of each meeting:** As per annual calendar agreed in advance

**Planning frequency:** On requirement

**Availability of terms of reference:** Available

**Professional advice:** Chartered Accountants, professional HR firms

**Terms of reference of the committee:** Set the compensation policy for the Company

**Terms of reference of the committee:** Review and develop broad investment policies and guidelines for implementation

**Responsibilities:**

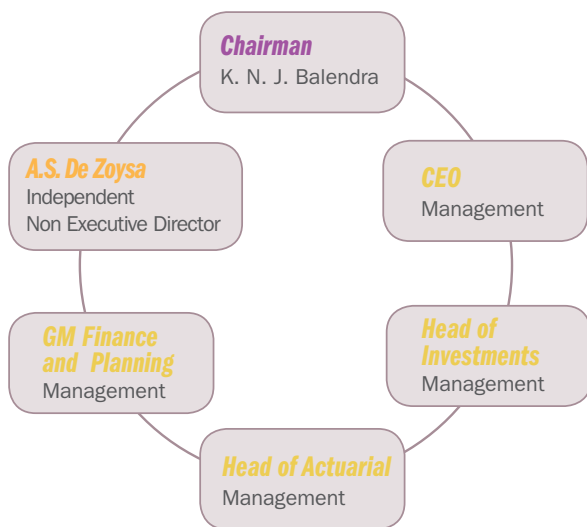
- Maintain a competitive remuneration package linked to performance
- Establish appropriate salary packages and incentives for CEO, management and employees at all levels
- Approve annual increments, bonuses and changes in prerequisites and incentives

Report of the Remuneration Committee is provided on page 265 to this report.

# Corporate Governance

## Investment Committee

### Membership



### Invitees

- EVP and CFO Financial Services Group – JKH
- EVP and Head of Corporate Finance and Strategy - JKH

**Secretary:** Head of Investments

**Agenda:** Available

**Circulation of the agenda and papers:** One week in advance

**Notice of each meeting:** As per annual calendar agreed in advance

**Planning frequency:** Monthly

**Availability of terms of reference:** Available

**Professional advice:** Investment and economic consultants

**Terms of reference of the committee:** Review and develop broad investment policies and guidelines for implementation

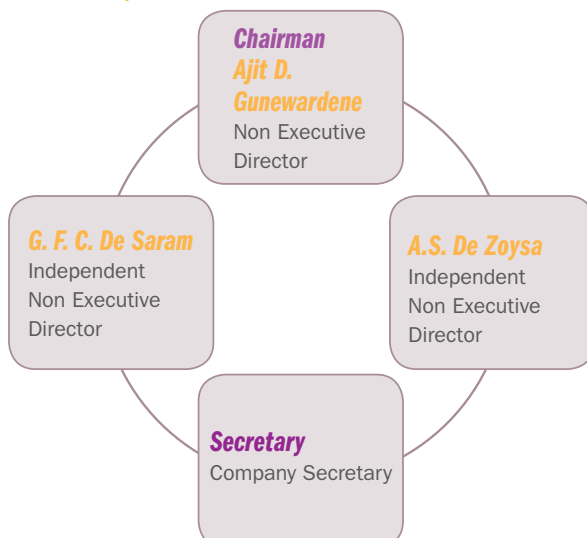
### Responsibilities:

- Monitor performance against agreed benchmarks
- Review risk exposures and ensure compliance with all internal investment procedures and external regulations

Report of the Investment Committee is provided on page 263 to this report.

## Nominations Committee

### Membership



**Invitees:** None

**Agenda:** Available

**Circulation of the agenda and papers:** One week in advance

**Notice of each meeting:** As per annual calendar agreed in advance

**Planning frequency:** On requirement

**Availability of terms of reference:** Available

**Professional advice:** N/A

### Terms of reference of the committee:

- Identify suitable persons for appointment to the Board
- Consider the appointment or reappointment of any Director to the Board

Report of the Nominations Committee is provided on page 267 to this report.

### 3. Director's Remuneration

**Remuneration procedure:** The Company has established a formal and transparent procedure / policy on remuneration for individual Directors. No Director is involved in deciding his or her own remuneration. Accordingly, the Remuneration Committee consisting exclusively of Non Executive Directors has been set up to make recommendations to the Board within agreed terms of reference.

**Level and make up of remuneration:** Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities and in reference to fees paid to other Non Executive Directors of comparable companies.

**Disclosure of remuneration:** The break-up of remuneration paid to Non Executive Directors is disclosed among the other disclosures regarding remuneration on page 364 in the annual report.

### 4. Accountability and audit

**Financial reporting:** A balanced and understandable assessment of the company's financial position, performance and prospects is presented by the company. Various reports including the Chairman's Message, CEO's Review and Management Discussion and Analysis are used in addition to annual financial statements and interim accounts for this purpose.

The Board presents a Directors' Report with this annual report, containing information with regard to declarations by them in accordance with the guidelines of the Code of Best Practice jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

**Internal control:** 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. The organisational risk profile is updated on a regular basis and assesses the independence and evaluates the performance of auditors. The company has issued a Code of Conduct applicable to all Directors and employees and any violation is disclosed. Details of the Code of Conduct and other policies are provided in page 229 to the report.

The company has disclosed the extent to which UA has complied with the Code of Best Practice and rules on Corporate Governance in this report.

**Audit Committee:** The Board has established a formal and transparent process on how the company selects

and applies accounting policies, financial reporting and other internal control principles.

**Disclosure:** Details including the composition, role and responsibilities, attendance and the report of the Board Audit and Compliance Committee are provided in this report.

**Code of business conduct and ethics:** The Company has in place 'code of business conduct & ethics' for Directors, Key management personnel and all its' employees.

### 5. Relations with Shareholders

**Annual General Meeting (AGM) and conduct of general meetings:** 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 Chairmen of the Board Audit and Compliance Committee, Remuneration Committee and Nominations Committee are available to answer questions at the AGM, if required. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.

**Communication with shareholders:** All institutional and other investors are encouraged to participate and cast their votes at the company's AGM. The company uses the AGM as the forum to have structured, objective dialogue with shareholders. Sufficient information is included in the annual report for shareholders to make informed decisions. The corporate governance report sets out the company's governance arrangements.

**Major and material transactions:** Disclosures have been made where required to shareholders on major transactions which materially alter the company's net asset base.

Further details and the policy on shareholder communication is provided in the 'Stakeholder engagement' section of the annual report on page 114

### 6. Company Secretary

The company secretary is responsible for inducting new 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. In addition to the many duties, the company secretary is responsible for making necessary disclosures on related party transactions required by law and regulations and also acts as a channel of communication with shareholders to ensure good

# Corporate Governance

shareholder relations. The shareholders can contact Keells Consultants (Private Limited), the company secretaries on 011 - 2306245 for any company related information requirements.

### Integrity of operations

#### Audit and assurance

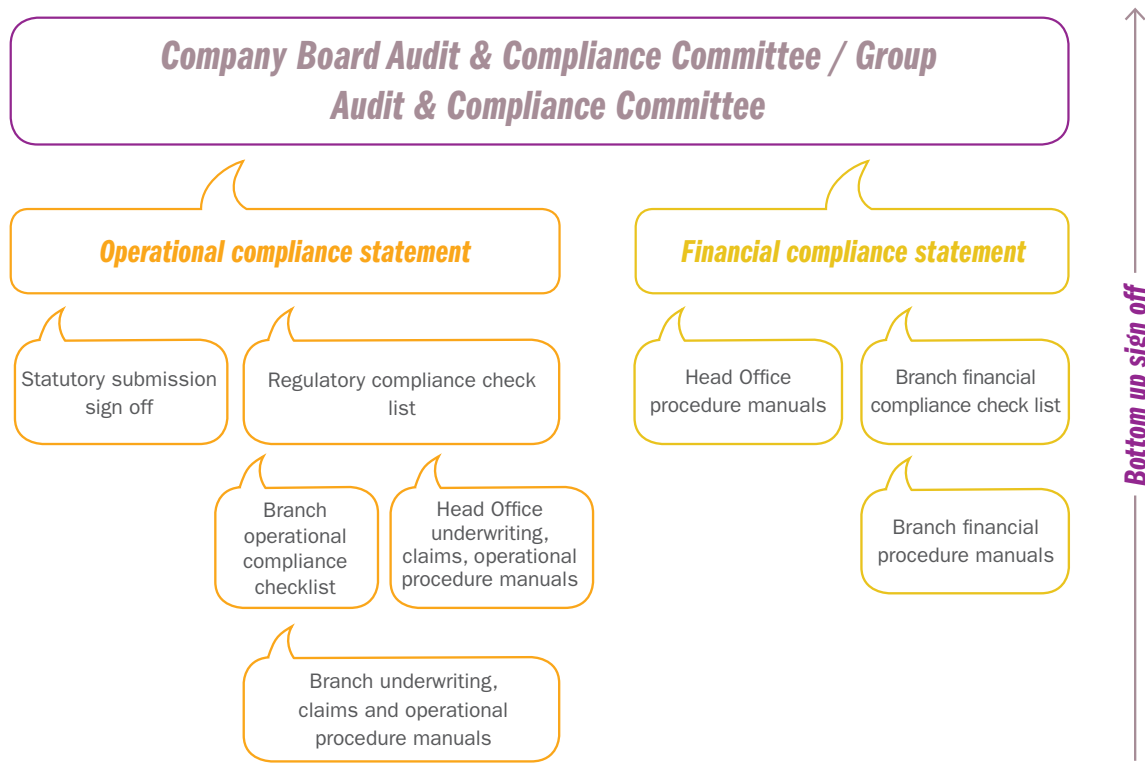
The Company has a three level assurance structure to ensure integrity of its operations.

1. Process control at corporate management level
2. Internal assurance by the internal audit department
3. External assurance by the external auditors

### Process control at Corporate Management level

The corporate management with the guidance of the Board Audit and Compliance Committee periodically reviews the adequacy of the processes and procedures in place to ensure the highest level of internal controls within the organisation. During the year the internal assurance process was reviewed and further strengthened.

Compliance assurance is derived through a bottom up sign off process and sign off checklists are based on the internal policies and procedure manuals. The company obtains assurance on financial controls, regulation compliance as well as operational compliance aspects. The following diagram summarises the process adopted by the company;



The financial compliance statement as well as the operational compliance statement are signed off and submitted to the BACC on a quarterly basis. The regulatory sign off is maintained on a monthly basis. The quarterly statements are reported to the Group Audit and Compliance Committee on a quarterly basis.

**Resource Management**

The Board has delegated certain of its financial authority to the CEO and General Managers within a comprehensively

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

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

**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 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 implements 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 to ensure effectiveness

# Corporate Governance

### IT Controls over Financial Reporting

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

- 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 the Company revalidated the front end system logic of key financial data (eg. re-insurance, commissions, incentives, performance allowances, etc). Also enhanced system controls to strengthen premium payment warranty (PPW) clause.

### 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 31 December 2013. Life insurance liabilities have also been validated by an independent external actuary in accordance with the RII Act. The actuarial certification of IBNR is provided on page 303. The Actuary's Report - life is available on page 304.

### 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.

### Securities Trading Policy

The company's securities trading policy prohibits all Directors, 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.

### Assurance by the Internal Audit department



There are clear processes for monitoring and following up on corrective actions on control weaknesses or failures reported. These audit findings together with the management comments are reviewed by the Board Audit and Compliance Committee and the Board. These are also reported to the Group Finance Director and reviewed by the Group Board Audit Committee.

During the year Head Office processes and 44 branches were audited by the outsourced internal audit function and 11 branches were covered by the internal audit department.

#### Assurance by the External Auditors

The company performs an interim audit in addition to the audit at year end to obtain assurance that the internal controls and processes that are in place in preparation and presentation of the financial statement are effective.

#### Code of Conduct

The company demands impeccable standards of conduct from its Directors and employees in the performance of their official duties and in situations that could affect the company's image. The company has issued a Code of Conduct 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
- Financial authority levels
- 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

#### Sustainable business model

##### Enterprise Risk Management

Stemming from the stewardship commitment towards our stakeholders and to ensure the sustainability of our business operations it is a prerequisite that the company has an effective risk management model across the organisation and a tested business continuity plan.

##### Risk Management

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. A detailed report on risk management initiatives is provided in the Risk Management section of this report on pages 280 to 292.

##### Business Continuity Planning

The Business Continuity Plan (BCP) is an essential part of our organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time. We have an effective business continuity plan developed with the support of an external consultancy firm to ensure that our company is well prepared to respond to any unforeseen disaster situation, minimising any potential economic, social and environmental impact.

##### Engagement with stakeholders

The Board is responsible to ensure that the company has a well structured policy and procedures in place to engage with various stakeholders. To address apparent conflicts between various stakeholder groups, the company has developed several Charters as described in our 'Integrated approach to engaging with our stakeholder' section of the annual report on pages 26 to 32.

Accordingly, key expectations of our shareholders and the progress during 2013 are provided in the 'Shareholder section' on pages 110 to 115 in the annual report.

# Corporate Governance

## EXTERNAL GOVERNANCE STRUCTURE

### Compliance with Regulatory Requirements

The internal assurance process is designed by the Board to provide assurance that the company has checks and controls to ensure that it complies with all the regulatory requirements that govern the company.

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

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

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

### 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 293 for details.

### 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 293, total admissible assets were Rs. 26 billion in

2013 (Rs. 22 billion - 2012) compared with total liabilities (including solvency margin) of Rs. 22 billion, resulting in a positive solvency position of Rs. 4 billion as at 31 December 2013.

### 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 352, 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.

### Capital Structure

The company’s stated capital of Rs. 1,138 million meets the share capital requirements set by the Insurance Board of Sri Lanka (IBSL) for a composite insurance company. The IBSL has proposed to increase the minimum share capital of existing insurance companies to Rs. 500 million for each class of insurance business and as a further / concurrent step to introduce a risk based capital regime. 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 in 2012.

### Compliance Framework and Self-Regulation

The Board recognises its responsibility of ensuring that business is conducted in accordance with relevant laws, rules and regulations.

### Statutory Submission Sign off

A statutory submission checklist is signed off on a monthly basis by persons responsible for ensuring compliance with such requirements. Changes to regulations are updated in the checklist on a regular basis with relevant evidence of compliance. This is a proactive measure to ensure that no violations take place. Any violations are reported to the BACC with the quarterly compliance sign-off. The company is in compliance with the statutory and regulatory requirements as summarised in the table below.

Requirement 2013	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 2013	314
Non Compliances 2013	Nil

#### Regulatory Compliance Sign off

A regulatory compliance checklist is signed off on a quarterly basis by the respective head of department ensuring compliance with the applicable laws and regulations governing the Insurance business. Changes to regulations are updated in the checklist as and when changes occur. This is a proactive measure to ensure that no violations take place. Any deviations are reported to the BACC with the quarterly submission of the summary of the sign-off.

#### Code of Best Practice on Corporate Governance

Company's adherence with the Code of Best Practice on Corporate Governance 2013 issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission (SEC) of Sri Lanka and Rules as per Section 7.10 of the listing rules of the Colombo Stock Exchange.

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

Section	Principle	UA Action for compliance	2013 Update
<b>A</b>	<b>DIRECTORS</b>		
<b>A.1</b>	<b>Board</b>		
<b>A.1</b>	Need for an effective Board, which should direct, lead and control the company	<p>The Board comprises six Directors, all of whom, including the Chairman, function in a Non Executive capacity.</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 206 to 209.</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 2014 - 2016.</p>

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
A.1.1	Frequency of Board meetings	<p>The Board meets once every two months. Additional meetings are held if required. The following Board sub committees also meet on a regular basis / or as required</p> <ul style="list-style-type: none"> <li>■ Investment Committee</li> <li>■ Board Audit and Compliance Committee</li> <li>■ Remuneration Committee</li> <li>■ Nominations Committee</li> </ul>	<p>During 2013 the Board met on 7 occasions as detailed on page 222.</p> <p>The meetings convened by the Board sub committees during 2013 are also provided on page 222.</p>
A.1.2	<b>Responsibilities of the Board to ensure:</b>		
	The formulation and implementation of a sound business strategy	Refer comments above.	The Board reviewed the business strategies of the life and non life 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 212 to 213.
	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.	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.

Section	Principle	UA Action for compliance	2013 Update
---------	-----------	--------------------------	-------------

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).	The role and responsibilities together with the activities performed by the BACC are disclosed in the Board Audit and Compliance Committee Report.  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.  In addition, the BACC commissioned a bottom up compliance sign off process to be adopted across the company
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 Conduct applicable to all Directors and employees.	Details of compliance with applicable laws and regulations in 2013 are provided on page 231.  Further, the company implemented a bottom up compliance sign off process covering head office and branches to ensure compliance at ground level.  Details of the Code of Conduct are provided on page 229.
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 Sustainability practices at the Association of Chartered Certified Accountants (UK) Sustainability Awards ceremony.
Sustainable business development in corporate strategy, decisions and activities	The company takes into consideration the sustainable aspects of business in the corporate strategy, decisions and activities	Sustainability of the medium term strategies and key corporate decisions and activities are monitored and discussed at Executive Committee level as well as at Board level.
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.	The company continues to keep up to date with all current developments in relation to changes in accounting standards and have reviewed the accounting policies in place during the year under review.
Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation.	The Board makes every endeavour to fulfill its stewardship obligations on behalf of all stakeholders.	During the year, the Board made every endeavour to fulfill its stewardship obligations on behalf of all stakeholders.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
A.1.3	The Board collectively and the Directors individually need to act in accordance with laws of the country relevant to the organisation. A 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 on various matters including the following;</p> <ul style="list-style-type: none"> <li>■ Actuarial valuation of the life and non-life liabilities and retirement benefits</li> <li>■ Product development, process development and technology enhancement support</li> <li>■ Market research services and branding</li> <li>■ Review of business continuity plan (BCP)</li> <li>■ Information technology consultancy services pertaining to infrastructure and network security</li> <li>■ Legal, tax and accounting aspects.</li> </ul>
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 2013.
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.

Section	Principle	UA Action for compliance	2013 Update
---------	-----------	--------------------------	-------------

**A.1.6** Dedication of adequate time and effort to matters of the Board and the company

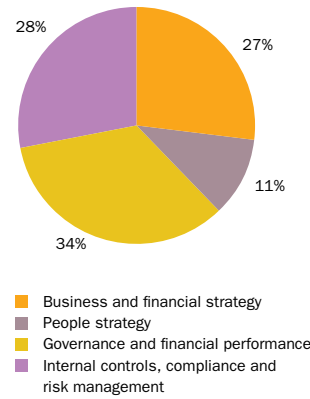
Every member of the Board has dedicated adequate time and effort for the affairs of the company by attending Board meetings, Board sub-committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required.

The Board met on seven occasions during the year. The Chairman attended all meetings and the attendance of the other Directors is detailed on page 222.

The Board is satisfied that the Chairman and the Non Executive directors committed sufficient time during the year 2013 to fulfill their duties.

Following diagram illustrates how the Board spent its time during 2013.

Corporate Governance



Summary of the agenda and key items discussed at the Board meeting is given on page 221

**A.1.7** Training for Directors

The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.

The Directors are constantly updated on the latest trends and issues facing the company and the insurance industry in general.

During the year, the Board obtained advice from external consultants on economic scenarios, investment strategies, new product development, actuarial practices and brand development.

In addition, several knowledge sharing initiatives were conducted to inform the Board on such subjects as industry trends, solvency, Risk Based Capital (RBC) framework, risk management practices and impact of regulatory changes.

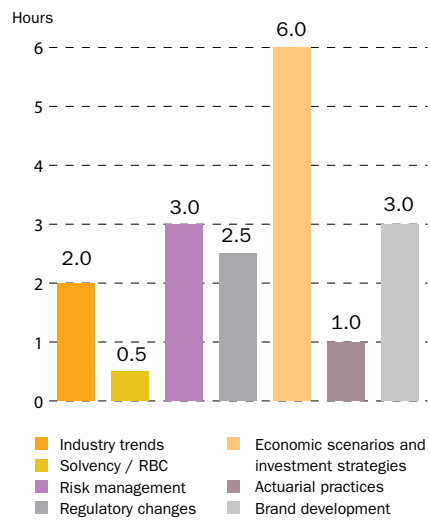
# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
---------	-----------	--------------------------	-------------

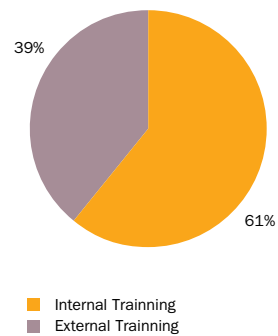
A.1.7  
Contd.

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.

Training for Directors



Composition of Directors training



Section	Principle	UA Action for compliance	2013 Update
<b>A.2</b>	<b>Chairman and CEO</b>		
<b>A.2</b>	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.
<b>A.2.1</b>	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.	The roles of Chairman and CEO have not been combined.
<b>A.3</b>	<b>Chairman's Role</b>		
<b>A.3</b>	Preserving order and facilitating the effective discharge of Board functions	The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supports the Chief Executive Officer in managing the day to day running of the company. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.	The Board continued to have three independent Non Executive Directors during 2013 in accordance with best practice.
<b>A.3.1</b>	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 its 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 2013 the range of subjects discussed included:</p> <ul style="list-style-type: none"> <li>■ Development and implementation of strategy including the company's people strategy</li> <li>■ UA's financial results</li> <li>■ Key business areas including underwriting, sales and distribution, customer service, etc.</li> <li>■ IT infrastructure and platforms</li> <li>■ Regulatory and governance issues</li> <li>■ Market positions and branding</li> <li>■ Capital requirements</li> <li>■ Corporate sustainability and CSR initiatives</li> <li>■ More details are provided in 'Board activities during the financial year' section on page 221 in this report.</li> </ul>

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
<b>A.4</b>	<b>Financial Acumen</b>		
<b>A.4</b>	Availability of sufficient financial acumen and knowledge	There are two Chartered / Management Accountants on the Board. In addition, all members of the Board have extensive experience in various aspects of financial management.	The following Directors provide the Board with the necessary degree of financial acumen and knowledge: <ul style="list-style-type: none"> <li>■ Mr. H. A. J. De Silva Wijeyeratne</li> <li>■ Mr. S. Rajendra</li> <li>■ Mr. A. S. De Zoysa</li> </ul>
<b>A.5</b>	<b>Board Balance</b>		
<b>A.5</b>	Balance of Executive and Non Executive Directors	All Directors on the Board hold office in a Non Executive capacity and are therefore independent of the management.	The current Board comprises only Non Executive Directors, three of whom are independent Non Executives.
<b>A.5.1</b>	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.
<b>A.5.2</b>	"Independence" of Non Executive Directors	UA is compliant with the rules which require a minimum of two independent Non Executive Directors on the Board.	Mr. H. A. J. De Silva Wijeyeratne, Mr. A. S. De Zoysa and Mr. G. F. C. De Saram continued to be Independent Non Executive Directors during 2013.  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.
<b>A.5.3</b>	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 his / her 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.

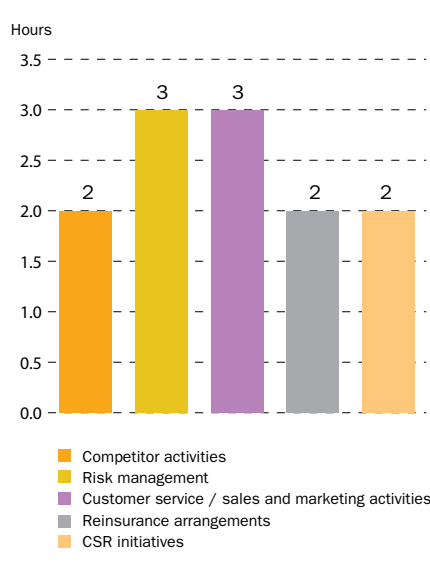
Section	Principle	UA Action for compliance	2013 Update
A.5.4	Submission of an annual declaration by each Non Executive Director regarding independence / non-independence against specified criteria in Schedule H	The Board considers on an annual basis the independence or non-independence of the Non Executive Directors, based on the declaration made and other information available to the Board.	Declarations of independence or non-independence in respect of 2013 as per the Code of Best Practices on Corporate Governance were obtained from all Non Executive Directors.  Summary of Non Executive / Independent Directors' interests is given on page 220 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 pages 206 to 209 for a summary of Non Executive / Independent Directors' profiles
A.5.6	Appointment of alternate director	If an alternate Director is appointed by a Non Executive Director such alternate director should not be an executive of the company. If an alternate Director is appointed by an independent Director, the person who is appointed also should meet the criteria of independence and the provision on minimum number of independent Directors also should be satisfied.	No alternate directors were appointed during the year.
A.5.7	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.5.8	Availability of SID for confidential discussions with other Directors	Not applicable.	Not applicable.
A.5.9	Chairman to hold meetings with Non- Executive Directors, without Executive Directors being present	The Board of Directors comprises only Non- Executive Directors.	Not applicable.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
A.5.10	Recording of Directors' concerns in the Board minutes	<p>The Board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding the running of the company or of a proposed action.</p> <p>If a Director resigns over an unresolved issue, the Chairman will bring the issue to the attention of the Board. The Director concerned is also required to provide a written statement to the Chairman for circulation to the Board.</p>	<p>Minutes of the Board meetings are circulated to all Directors and formally approved at the subsequent Board meeting.</p> <p>No Director resigned over an unresolved issue.</p>

A.6	Supply of Information		
A.6	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.	<p>During the year, several Executive Committee members made presentations to the Board regarding competitor activities, risk management initiatives, customer service initiatives, reinsurance arrangements, sales and marketing activities and CSR initiatives.</p>

Mangement presentations to the Board



Section	Principle	UA Action for compliance	2013 Update
A.6.1	Chairman to ensure that all Directors are adequately briefed on issues arising at Board meetings	All Directors are adequately briefed on matters arising at Board meetings.	Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through; <ul style="list-style-type: none"> <li>■ Formally documented minutes of discussions and</li> <li>■ Separate discussions at start of meeting regarding matters arising from the previous meeting.</li> </ul>
A.6.2	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.
<b>A.7</b>	<b>Appointments to the Board</b>		
A.7	Formal and transparent procedure for new appointments	The Board decides on the appointment of new Directors and 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 2013.
A.7.1	Establishment of a Nominations Committee	A Nominations Committee comprising three Non Executive Directors has been established.	Details and composition of the Nominations Committee are provided on page 224.
A.7.2	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.
A.7.3	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 2013.  The details of the current Board of Directors are provided on pages 206 to 208.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
<b>A.8</b>	<b>Re-election</b>		
<b>A.8</b>	Re-election of Directors at regular intervals	<p>In accordance with the Articles of Association, two of the Directors retire from office at each Annual General Meeting. A retiring Director is eligible for re-election by the shareholders.</p> <p>Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders.</p>	<p>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"> <li>■ Mr. S. Rajendra</li> <li>■ Ms. D. C. Alagaratnam</li> </ul>
<b>A.8.1</b>	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.
<b>A.8.2</b>	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	<p>All Directors, excluding the Chairman, are subject to election by shareholders at the first opportunity after their appointment and to re-election as stated above. A brief resume of the Director/s standing for election or re-election is provided in the annual report, enabling shareholders to make an informed decision.</p> <p>As per the Articles of Association the Chairman is not subject to retirement by rotation.</p>	The details of the current Board of Directors are provided on pages 206 to 208.

Section	Principle	UA Action for compliance	2013 Update
<b>A.9</b>	<b>Appraisal of Board Performance</b>	<p>The Board commenced a process to evaluate its performance and effectiveness in 2008. The process is led by the Chairman.</p>	<p>As done in previous years, the Board evaluated its performance and effectiveness during 2013.</p>
<b>A.9</b>	<p>Board to periodically appraise its own performance</p>	<p>All Directors are required to complete a detailed questionnaire comprising the;</p> <ul style="list-style-type: none"> <li>■ Effectiveness of the Board as a whole</li> <li>■ Perception of the Board</li> <li>■ Perception of their own contributions</li> <li>■ Areas for improvement and</li> <li>■ Effectiveness of the committees on which they serve</li> <li>■ Any other suggestions</li> </ul>	<p>The performance evaluation checklist was revised for the 2013 evaluation.</p>
<b>A.9.1</b>	<p>Annual appraisal of Board performance in discharging its key responsibilities</p>	<p>All submissions are collated by the Chairman and discussed with the Board. Specific actions to improve performance and effectiveness are implemented following this review.</p> <p>The Board regularly evaluates its performance based on the following set of guidelines:</p> <ul style="list-style-type: none"> <li>■ Development and implementation of strategy</li> <li>■ Competency and succession planning for the CEO and members of the Executive Committee</li> <li>■ Effectiveness of systems to ensure integrity of information, internal controls and risk management</li> <li>■ Compliance with laws, regulations and ethical standards and</li> <li>■ Balancing the needs of all stakeholders</li> </ul>	<p>The Board evaluated its performance and effectiveness during 2013.</p>

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
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 2013.
A.9.3	Disclose methodology of such evaluations	Refer above.	There was no change to the methodology adopted in 2013, however the checklist used was revised during the year.
<b>A.10</b>	<b>Disclosure of Information in Respect of Directors</b>		
<b>A.10</b>	Shareholders to be advised of relevant details in respect of Directors	The annual report contains relevant details pertaining to all Board members.	The details of the current Board of Directors are provided on pages 206 to 208.
<b>A.10.1</b>	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 including expertise, experience and directorships of all Board members are provided on pages 206 to 209.</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, Board sub-committee meetings and status of independence are provided on pages 223,224,222 and 220 respectively.</p>

Section	Principle	UA Action for compliance	2013 Update
<b>A.11</b>	<b>Appraisal of the Chief Executive Officer (CEO)</b>		
<b>A.11.1</b>	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"> <li>■ Achievement of turnover and profitability targets</li> <li>■ Implementation of cost effective distribution models</li> <li>■ Implementation of IT systems to improve underwriting and claims functions</li> <li>■ Management of debtors</li> <li>■ Brand development initiatives</li> <li>■ Learning and development / talent management initiatives</li> <li>■ New product development targeting mass affluent segments</li> <li>■ Sustainability aspects and CSR initiatives</li> </ul>
<b>A.11.2</b>	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>B</b>	<b>DIRECTORS' REMUNERATION</b>		
<b>B.1</b>	<b>Remuneration Procedure</b>		
<b>B.1</b>	Formal and transparent procedure for developing policy on remuneration for executives and Directors	The Remuneration Committee is responsible for developing policy on executive remuneration. No Director is involved in deciding his / her own remuneration.	There is a formal process for approving remuneration for executives and Directors.  No Director is involved in deciding his / her own remuneration.
<b>B.1.1</b>	Appointment of a Remuneration Committee	A Remuneration Committee has been appointed and functions within agreed terms of reference.	Refer 'Remuneration committee report' for terms of reference of the committee.
<b>B.1.2</b>	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.	As prescribed, the Remuneration committee consists exclusively of Non Executive directors. Please refer Remuneration Committee composition in the 'Board Directors Delegation of Authority - Board Committees' section of this report.
<b>B.1.3</b>	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 in the 'Board Directors Delegation of Authority - Board Committees' section of this report on page 223.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
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.
B.1.5	Access to professional advice	The Remuneration Committee has access to professional advice from within and outside the company.	<p>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.</p> <p>A formal position evaluation was also conducted for all managers and above roles by an independent HR consultancy company.</p>
<b>B.2</b>	<b>Level and make up of Remuneration</b>		
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 appointed during 2013.
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.

Section	Principle	UA Action for compliance	2013 Update
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 objectives as outlined in A.11.1 above. It is believed that these measures 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 appointed during 2013.
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.
B.2.6	Designing schemes of performance related remuneration	The CEO is eligible for annual bonuses based on the company achieving life and non life business profitability on a stand alone 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.
B.2.7	Compensation commitments in the event of early termination	Non Executive Directors are not eligible to performance based remuneration schemes.	No change from previous year.
		There are no terminal compensation commitments other than gratuity in the company's contracts of service.	No change from previous year.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
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>B.3</b>	<b>Disclosure of Remuneration</b>		
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 16 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 page 223.  The information in note 16 to the financial statements provides a break up of remuneration paid to Non Executive Directors.  There were no Executive Directors during 2013.
<b>C</b>	<b>RELATIONS WITH SHAREHOLDERS</b>		
<b>C.1</b>	<b>Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings</b>		
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 26th AGM was held on 28th March 2013. 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.

Section	Principle	UA Action for compliance	2013 Update
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 subcommittee 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 28th March 2013. 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 is circulated to the shareholders 15 working days prior to the AGM.	The notice of meeting and related documents was circulated to the shareholders 15 working days prior to the AGM held in 2013.
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.
<b>C.2</b>	<b>Communication with Shareholders</b>		
C.2.1	Channel to reach shareholders	The company has many channels to reach all shareholders of the company in order to disseminate timely information.	The company used the following channels to disseminate timely information; <ul style="list-style-type: none"> <li>■ Shareholders meetings</li> <li>■ Financial and other notices as and when required through the Colombo Stock Exchange</li> <li>■ Corporate website</li> <li>■ Press notices</li> </ul>
C.2.2	Disclosure on communication channel to reach shareholders	The company discloses the policy and methodology for communication with shareholders.	Please refer 'Shareholder communication policy' provided on pages 114 to 115 for details of the policy and methodology adopted for communication.
C.2.3	Company's communication policy and methodology	The company has disclosed how they implement the above policy and methodology.	Refer above
C.2.4	Contact person for the communication	The company has disclosed the contact person for such communication.	Details of the contact personnel are provided in the 'Shareholder communication policy' section on pages 114 to 115 of the annual report.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
C.2.5	Process to make Directors aware of major issues and concerns of shareholders	A process has been adopted to ensure that all Directors are aware of the major issues and concerns raised by shareholders.	The process is explained in the 'Shareholder communication policy' provided on pages 114 to 115.
C.2.6	Person to be contacted on shareholder matters	The relevant person with statutory responsibilities to contact in relation to shareholders' matters is the Company Secretary.	Shareholders can contact the following in relation to matters; Keells Consultants (Private) Limited, the Company Secretary on, 011- 2306245 (phone) Or use the; <ul style="list-style-type: none"> <li>■ Investor relations hot line number; 011- 2428502</li> <li>■ E mail address: investorrelation@ualink.lk</li> <li>■ Postal address: Union Assurance Centre, 20, St. Michael's Road, Colombo 3, Sri Lanka</li> </ul>
C.2.7	Formulation of a process for responding to shareholders and disclosure on them	The Board has formulated a process of responding to shareholder matters.	The process is explained in the 'Shareholder communication policy' provided on pages 114 to 115.
<b>C.3</b>	<b>Major Transactions</b>		
C.3	Disclosure of major and material transactions	All proposed material transactions, which if entered into, alter the company's net assets base, are disclosed to shareholders.	There were no major transactions as prescribed by the code during the year that required communication with shareholders.  The company's future strategies and their potential impact have been disclosed in the following sections of this annual report. <ul style="list-style-type: none"> <li>■ Chairman's Message on pages 12 to 15.</li> <li>■ CEO's Review on pages 16 to 19.</li> <li>■ Management Discussion and Analysis on pages 21 to 155.</li> </ul>

Section	Principle	UA Action for compliance	2013 Update
C.3.1	Disclosure of all facts of transactions which have a material impact on net assets in an event of major transactions with related parties	All proposed material related party transactions, which if entered into, alter the company's net assets base, are disclosed to shareholders.	There were no major transactions as prescribed by the code that took place during the year that required communication with the shareholders.
<b>D</b>	<b>ACCOUNTABILITY AND AUDIT</b>		
<b>D.1</b>	<b>Financial Reporting</b>		
D.1	Balanced, understandable assessment of the company's financial position and prospects	The company's financial position and prospects are disclosed in the annual report.	<p>The company's financial position and prospects have been discussed in detail in the following sections of this annual report.</p> <ul style="list-style-type: none"> <li>■ Chairman's Message on pages 12 to 15.</li> <li>■ CEO's Review on pages 16 to 19.</li> <li>■ Management Discussion and Analysis on pages 21 to 155.</li> </ul>
D.1.1	Interim accounts, price sensitive public reports, reports to regulators and information required by statute	<p>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.</p> <p>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>	<p>The interim accounts and annual financial statements were published on a timely basis during 2013. 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 421 to 422.</p> <p>A section on "Understanding our Financials" is provided on pages 426 to 428.</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 pages 296 to 301 in the 'Annual report of the Board of Directors on the affairs of the Company'.
D.1.3	Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors	The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided in the annual report.	The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 305, 271 and 307 respectively in the annual report.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
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:
		<b>Information required</b>	<b>Pages</b>
		Industry structure and developments	33
		Opportunities and threats	40 to 42
		Risks and concerns	40 to 42
		Internal control systems and their adequacy	112 to 113
		Social and environmental protection activities carried out by the company	139 to 150
		Financial performance	48 to 55
		Material developments in human resources / industrial relations	116 to 131
		Prospects for the future	152 to 155
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 ‘Annual report of the Board of Directors on the affairs of the Company’ on pages 296 to 301.
D.1.6	EGM if the net assets of the company fall below half of the shareholders’ funds	The situation has not arisen.	The situation has not arisen.

Section	Principle	UA Action for compliance	2013 Update
D.1.7	Disclosure of related party transaction	<ul style="list-style-type: none"> <li>■ Each related party to submit signed and dated quarterly declarations mentioning whether they have related party transactions with the company as defined in this Code;</li> <li>■ The Company Secretary keeps a record on related party transactions and make necessary disclosures accordingly;</li> <li>■ A record / register in hard form on related party and related party transactions are kept by the company;</li> <li>■ The company captures information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.</li> </ul>	Each related party has submitted signed and dated declarations mentioning whether they had related party transactions with the company during 2013.
D.2	<b>Internal Control</b>	<p>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).</p>	No change from previous year.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
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"> <li>■ Internal audit plans are followed up to ensure that audits are concluded on time,</li> <li>■ Internal and external audit reports are reviewed by management on a timely basis and control weaknesses are corrected</li> <li>■ External auditors review the key reconciliations and report on any irregularities</li> <li>■ Risks associated with all key processes are identified and control systems to mitigate such risks are reviewed to ensure that they are functioning smoothly</li> </ul>	<ul style="list-style-type: none"> <li>■ During the year, the scope and resourcing of the internal audit function was enhanced to increase frequency of audit coverage and escalate any control issues on a timely basis.</li> <li>■ Internal audits were carried out to cover operations performed at head office and selected branches in accordance with the internal audit programme approved by the BACC.</li> <li>■ Additional spot audits were carried out as per operational requirements.</li> <li>■ Reports of both internal and external auditors were reviewed by the BACC and measures taken to correct control weaknesses.</li> <li>■ All reconciliations connected with the financial statements were independently reviewed by the external auditors. Internal audit programmes were designed to test adequacy of control systems to mitigate operational risks.</li> <li>■ Procedure manuals covering life and general insurance related underwriting and claims functions were updated to cover new products / process changes etc.</li> <li>■ Employees made use of the whistle blowing procedure.</li> <li>■ An IT audit was carried out to ensure adequate IT controls over operations</li> </ul>

Section	Principle	UA Action for compliance	2013 Update
D.2.1 Contd.		<ul style="list-style-type: none"> <li>■ A formal delegation of financial authority from the CEO to the relevant management staff is available and adhered to in respect of all transactions</li> <li>■ Procedure manuals for underwriting and claims are available for all staff and updated regularly.</li> <li>■ A structured loss reporting process covering fraud or suspected fraud involving staff, damage or loss to company property, theft, agent misappropriations resulting in financial impact and losses due to inadequate financial / operational controls have been implemented</li> <li>■ A comprehensive compliance checklist and exception reporting procedure is in place.</li> <li>■ The company's business continuity plan is regularly updated and tested.</li> <li>■ A whistle blowing procedure is available to any employee who suspects wrongdoing at work</li> </ul>	<ul style="list-style-type: none"> <li>■ Quarterly compliance sign off process was enhanced with a bottom up financial and operational compliance sign off process being implemented during the year covering head office and all branches</li> <li>■ The company business continuity plan (BCP) was reviewed with the help of an external consultancy firm</li> <li>■ As per best practice the BACC had closed door meetings with the Internal and the external auditors without the management team being present.</li> </ul>
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 and independence from management.</p> <p>The BACC reviews the internal audit plan and monitors progress on a regular basis.</p> <p>The internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p>	<p>Messrs. PricewaterhouseCoopers – a leading firm of Chartered Accountants who was appointed as the internal auditors in September 2010 continued to be internal auditors in 2013.</p>

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
<b>D.3</b>	<b>Audit Committee</b>		
<b>D.3</b>	Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles	The Board has delegated its 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.	The accounting policies have been applied consistently and are provided in note 3 to the financial statements.
<b>D.3.1</b>	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 is 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 respectively during 2013.
<b>D.3.2</b>	Ensure the objectivity and independence of the external auditors	As per its charter, the BACC is responsible for reviewing the scope and results of the audit and its effectiveness.  In addition to audit services, the company auditors Messrs. KPMG provide tax advice and related services.	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.  The BACC also reviewed the non-audit services provided by KPMG.

Section	Principle	UA Action for compliance	2013 Update
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 in the ‘Board Directors Delegation of Authority - Board Committees’ section of this 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 2013 is available on pages 268 to 270.
D.4	<b>Code of Business Conduct and Ethics</b>		
D.4	Adoption of a code of business conduct and ethics for Directors and senior management	<p>The company has issued a Code of Conduct requiring all Directors and employees to:</p> <ul style="list-style-type: none"> <li>■ Exercise honesty, objectivity and diligence when performing their duties</li> <li>■ Avoid situations where their personal interest might conflict with the interest of the company and disclose any such transactions; e.g. trading in UA shares</li> <li>■ Maintain confidentiality of commercial and price sensitive information</li> <li>■ Work within applicable laws and regulations</li> <li>■ Safeguard the company’s assets</li> <li>■ Avoid conduct that will reflect badly on them or on the company’s image.</li> </ul> <p>The company also has a Code of Conduct for the field staff which covers their responsibility, commitment and level of service to clients.</p>	No change from previous year.

# Corporate Governance

Section	Principle	UA Action for compliance	2013 Update
D.4.1	All Companies must disclose whether they have a Code of Business Conduct & Ethics for Directors and Key Management Personnel and make an affirmative declaration in the Annual Report that all Directors and Key Management Personnel have declared compliance with such Code.	The Company has implemented a Code of Conduct to address and comply with the Code of Governance.	There have been no violations of the Code of Ethics during 2013 by any of the Directors or any member of the Executive Committee.  A summary of the Company's 'Code of Conduct' is provided in page 229 of this report.
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	<b>Corporate Governance Disclosures</b>		
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 the 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 for compliance	2013 Update
<b>E</b>	<b>INSTITUTIONAL INVESTORS</b>		
<b>E.1</b>	<b>Shareholder Voting</b>		
<b>E.1</b>	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.
<b>E.1.1</b>	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.  Also refer 'Shareholder Communication Policy' on pages 114 to 115 of the annual report.
<b>E.2</b>	<b>Evaluation of Governance Disclosures</b>		
<b>E.2</b>	Encourage institutional investors to give due weight to relevant governance arrangements	The corporate governance report in the annual report sets out the company's governance arrangements.	This report sets out the company's governance arrangements.
<b>F</b>	<b>OTHER INVESTORS</b>		
<b>F.1</b>	<b>Investing / Divesting Decisions</b>		
<b>F.1.1</b>	Encourage other investors to seek independent advice in investing or divesting decisions	The annual report contains sufficient information to help make an informed decision.	The following reports aim to provide a balanced overall assessment of the company's activities, performance and prospects. <ul style="list-style-type: none"> <li>■ Chairman's Message pages 12 to 15.</li> <li>■ CEO's Review pages 16 to 19.</li> <li>■ Management Discussion and Analysis pages 21 to 155.</li> <li>■ Annual financial statements pages 308 to 322.</li> </ul>
<b>F.2</b>	<b>Shareholder Voting</b>		
<b>F.2</b>	Encourage shareholders to participate in general meetings and exercise voting rights	All shareholders are encouraged to participate at general meetings and cast their votes.	No change from previous year.

# Corporate Governance

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 (a)	Two or one third of the Directors, whichever is higher, should be Non Executive Directors	Compliant	All six Directors on UA's Board are Non Executive Directors
	7.10.1 (b)	The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	Compliant	No change to the Board from the immediately preceding AGM
	7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Compliant	No change occurred during the year
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 required declarations.
Disclosures relating to Directors	7.10.3 (a)	Names of independent Directors should be disclosed in the annual report	Compliant	The company's Independent Non Executive directors are; <ul style="list-style-type: none"> <li>■ Mr. H.A.J. De Silva Wijeyeratne</li> <li>■ Mr. A.S.De Zoysa</li> <li>■ Mr. G.F.C. De Saram</li> </ul>
	7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report	N/A	No such determination was required to be made by the Board.
	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 Board of Directors section of this report on pages 206 to 209.
	7.10.3 (d)	Provide a brief resume of any new Director appointed to the Board	N/A	No new Directors were appointed in 2013.

Section	Rule No.	Requirement	Compliance status	Details
Criteria for defining 'independence'	7.10.4 (a-h)	Requirements for meeting criteria to be independent	Compliant	Please refer note 38 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 265.
	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. Please refer 'Board Directors Delegation of Authority - Board Committees' section of this report for details.
		One Non Executive Director shall be appointed as Chairman of the committee by the Board	Compliant	Mr. Ajit D. Gunewardene who is a Non Executive Director 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 265
	7.10.5 (c)	The annual report shall set out:		
		<ul style="list-style-type: none"> <li>■ The names of the Directors that comprise the Remuneration Committee</li> </ul>	Compliant	Please refer 'Board Directors Delegation of Authority - Board Committees' section of this report for details.
		<ul style="list-style-type: none"> <li>■ A statement of remuneration policy</li> </ul>	Compliant	Please refer the Remuneration Committee report on page 265.
	<ul style="list-style-type: none"> <li>■ Aggregate remuneration paid to Executive and Non Executive Directors</li> </ul>	Compliant	Please refer page 364	
Audit Committee	7.10.6	A listed company shall have an Audit Committee	Compliant	Please refer the BACC report on page 268.
	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. Please refer 'Board Directors Delegation of Authority - Board Committees' section of this report for details.
		One Non Executive Director shall be appointed as Chairman of the Audit Committee by the Board	Compliant	Mr. H. A. J. De Silva Wijeyeratne an, Independent Non Executive Director, 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

Section	Rule No.	Requirement	Compliance status	Details			
Audit Committee Contd.	7.10.6 (b)	The functions of the Audit Committee shall include; <ul style="list-style-type: none"> <li>■ Overseeing of the preparation and presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards</li> <li>■ Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations</li> <li>■ Ensuring the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards</li> <li>■ Assessing of the independence and performance of the external auditors</li> <li>■ Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors</li> </ul>	Compliant	Please refer BACC report on page 268			
		7.10.6 (c)			The annual report shall set out; <ul style="list-style-type: none"> <li>■ The names of the Directors who comprise the Audit Committee</li> </ul>	Compliant	Please refer 'Board Directors Delegation of Authority - Board Committees' section of this report for details.
					<ul style="list-style-type: none"> <li>■ The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination</li> </ul>	Compliant	Please refer BACC report on page 268
					<ul style="list-style-type: none"> <li>■ 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</li> </ul>	Compliant	Please refer BACC report on page 268

Compliance report on the content of the annual report as per section 7.6 of the listing rules of The Colombo Stock Exchange is provided on page 419 of the annual report.

Company has decided on voluntary adoption of the SEC directive on Code of Best Practices on related party transactions, from January 2014.

# Board Sub Committee Reports

## Investment Committee Report

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 (Independent Non Executive Director)
- Dirk Pereira (Chief Executive Officer)
- Sherin Cader (General Manager Finance and Planning)
- Pushpakumar Gunasekera (General Manager Actuarial - upto 31 December 2013)
- Kumudu Jayawardana (Head of Investments)

### 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.
- Review and develop broad investment policies and guidelines for implementation.
- Provide guidance on the asset allocation of investment funds.
- Review fund performance for the month and on a cumulative basis.
- Manage risk exposure.
- Ensure compliance with internal investment policy and procedures and external investment regulations.

The minutes of the 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 nonlife and life funds is performed to the highest standards 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.

### MEETINGS

The Committee met 11 times during the year and as done in the past, independent professionals in the fields of economics, risk and investment management attended the meetings to provide technical input and facilitate decision making when relevant.

### SUMMARY OF ACTIVITIES

- The Committee obtained independent advice on macroeconomic forecasts, yield curve predictions and other factors, discussed and agreed on the Committee's view with regard to key macro-economic indicators such as inflation, interest rates, exchange rates and their impact on performance of capital markets.
- At the beginning of the year the Committee considered the profit plan together with the budgeted investment income for nonlife 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 nonlife 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.

# Board Sub Committee Reports

## Investment Committee Report

- 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.

### CONCLUSION

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



**Krishan Balendra**

*Chairman - Board Investment Committee*

25 February 2014

## Remuneration Committee Report

***“The Remuneration Committee operates within agreed terms of reference with commitment to principles of accountability and transparency ensuring remuneration arrangements align rewards with performance.”***

The Remuneration Committee comprises of the following members including two Independent Non Executive Directors.

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

By Invitation;

- Chief Executive Officer
- Executive Vice President & CFO Financial Services Group – JKH

The Chief Executive Officer (CEO) who is responsible for the overall management of the company assists the Committee by providing relevant information and participating in its analysis and deliberations, except when matters relating to the CEO are discussed.

The responsibilities of the Remuneration Committee include:

- Formulating, on behalf of the Board, formal and transparent procedures for developing policy on remuneration for Directors, CEO and senior management team.
- Recommending to the Board, corporate management appointments and advising on succession planning.
- Setting the total compensation packages for the CEO and senior management.
- Review of objectives and key performance indicators of CEO & Senior management, their management development and succession planning.

- 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. The Committee forwards minutes of its meetings to the Board.

### 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.

# Board Sub Committee Reports

## Remuneration Committee Report

- 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 POLICY

#### 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 364. This includes fees for all the committees of the company that they serve on. The Directors' business interests with the company are disclosed in note 38.

#### Share Option for Directors

The company does not have a share option scheme for Directors.

#### Directors' Shareholding

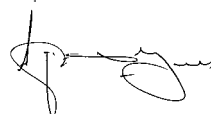
The shareholdings of Directors are provided in note 38.

#### 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 - Board Remuneration Committee*

25 February 2014

## Nominations Committee Report

**“The Nominations Committee continues its work of ensuring that the Board composition is right.”**

### COMPOSITION OF THE NOMINATIONS COMMITTEE

The committee, as of 31 December 2013, consisted of three Non Executive Directors.

- Ajit D.Gunewardene (Chairman)
- A.S.De Zoysa
- G.F.C.De Saram

### TERMS OF REFERENCE OF THE BOARD NOMINATIONS COMMITTEE

The Nomination Committee was established to ensure Board’s oversight and control over the selection of Directors. The committee has the authority to discuss the issues under its purview and report back to the Board of Directors with recommendations, enabling the Board to take a decision on the matter. The Committee focuses on the following objectives in discharging its responsibilities;

- To Implement a procedure to select Directors to the Board,
- Provide advice and recommendations to the Board or the Chairman on any such appointment
- To ensure that the Directors are fit and proper persons to hold office
- To consider and recommend the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board’s responsibilities.
- A member of Nominations Committee opts out in decisions relating to his own appointment.

### BOARD NOMINATION COMMITTEE MEETINGS

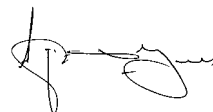
The Committee meets as and when required. There was no requirement for the committee to meet during the year under review.

### PROFESSIONAL ADVICE

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

### CONCLUSION

The Committee continues to work closely with the Board of Directors in relation to the structure, size and composition of the Board ensuring the diversity and balance of skills, knowledge and experience. The Committee is satisfied that the representation of skills, knowledge and experience on the Board is appropriate for the company’s current needs at Board level.



**Ajit D. Gunewardene**  
Chairman – Board Nominations Committee

25 February 2014

## Board Sub Committee Reports

### Report Of The Board Audit And Compliance Committee

***“Board Audit and Compliance Committee ensures the existence of adequate controls systems for proper financial reporting, risk management and compliance with applicable laws and regulations.”***

#### ROLE OF THE COMMITTEE

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 certifications of the financial statements by the CEO and CFO.

#### COMPOSITION OF THE COMMITTEE

The Board Audit and Compliance Committee (BACC) comprises of the following Non Executive 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

The Chairman and Mr. A. S. De Zoysa function as independent Non Executive directors and the composition is in compliance with the requirement to have a minimum of two Independent Non Executive 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 the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants of UK. He has over 25 years experience in the fields of general management, financial management and auditing.

Mr. A. S. De Zoysa holds a Bachelor of Commerce Degree from the University of New South Wales and has overseas and local exposure in a wide variety of disciplines and industries.

Mr. S. Rajendra is a Fellow Member of the Chartered Institute of Management Accountants of UK. He has over 22 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 six meetings during the year under review which were attended by the external auditors and internal auditors as required. All the meetings were attended by Executive Committee members including the CEO, CFO and General Managers responsible for underwriting, marketing, distribution and IT 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.

#### 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 54 internal audit reports covering the operations of 44 branch locations and several head office functions including underwriting, claims, reinsurance, credit control, finance, investments, 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 presence of the management during the year.

#### 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 it does not have any relationship or interest in the company, which may have a bearing on its independence within the meaning of the Code of Conduct and Ethics of The Institute of Chartered Accountants of Sri Lanka.

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 31 December 2014, 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.

## Board Sub Committee Reports

### Report Of The Board Audit And Compliance Committee

#### 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 general insurance incurred but not reported claims.

#### WHISTLE BLOWING

The company encourages any employee who suspects wrong doing at work - whether by his management, peer, or another employee - to raise his concern through an internal whistle blowing procedure directly to the BACC. Concerns raised are investigated and the identity of the person raising the concern is kept confidential. The BACC may use management resources to conduct necessary investigations.

#### COMPLIANCE WITH THE CODE OF BEST PRACTICE ON AUDIT COMMITTEES

The BACC's scope and functions are in compliance with the requirements of the above code.

#### COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

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

#### COMPLIANCE WITH CORPORATE GOVERNANCE RULES AS PER SECTION 7.10 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE

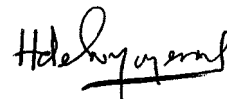
The BACC has conducted its affairs in compliance with the requirements of the above code.

#### EVALUATION OF COMMITTEE

The BACC 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 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*

25 February 2014

## Directors' Statement on Internal Controls

The following statement fulfills the requirement to publish the Director's statement on internal controls as per the Code of Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and company assets. The Board has structured an enterprise risk management process to identify the principal risks impacting the business and mitigating actions taken by management.

The company's management implements policies on risk and control set by the Board and are accountable to the Board for monitoring and providing assurance as to their effectiveness. The company has commissioned PricewaterhouseCoopers as independent internal auditors to ensure the effectiveness of the internal control systems. In addition the company's internal audit function carries out regular reviews of critical processes. As a result of their activities, several processes have been enhanced during the year under review.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

- Instituted an effective Board Audit and Compliance Committee (BACC), independent internal auditors and an in-house audit team to review and report on the internal control environment in the company
  - The minutes of the BACC meetings are tabled at the regular Board meetings. The report of the Board Audit and Compliance Committee is provided on page 263 of the annual report.
  - The BACC reviews and approves the internal audit plan for the year. The audit plan is structured on a matrix based on key risk areas and delivery dates which is regularly monitored and any delays highlighted and rectified.
  - During the year under review the audit committee reviewed 54 audit reports covering 44 branches and

several head office processes. The reports covered key findings, management comments and action taken to rectify any control weaknesses. Control weaknesses identified in previous reviews were also tracked to ensure that management action has been taken to eliminate or minimise any risks.

- Initiated regular IT system audits to ensure the integrity of financial information, data security and adequate access controls are in place with regard to processing of data.
  - In addition to the year end system review, the external auditors also conduct an IT audit of all critical applications / systems.
  - The internal auditors also conducted an IT system review during the year. Their findings were presented and a regular update was provided to the BACC who ensured that all identified control weaknesses were corrected.
- Implemented a robust bottom up enterprise risk management process
  - An ongoing, bottom up process is in place for identifying, evaluating and managing the risks faced by the company.
  - A summary of the key risks are updated on a risk grid and reported to the BACC on a quarterly basis.
  - New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately.
  - The process continued to be effective during the year under review.
- Initiated regular reviews to ensure the effective design and implementation of internal controls
  - The effectiveness of the internal controls are measured based on the repetition of the control weaknesses or improvement areas that have been highlighted in the audit reports.
  - Improvements in line with industry and / or non

## Board Sub Committee Reports

### Directors' Statement on Internal Controls

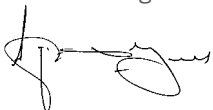
industry best practices are also implemented on an on going basis.

- During the year the BACC commissioned a bottom up compliance sign off process to strengthen the control environment and give comfort to the senior management and Board that staff at all functions are aware and conducting business transactions as per laid down rules and procedures.

#### CONCLUSION

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and financial statements have been prepared in accordance with applicable accounting standards, requirements of the Company's Act No. 7 of 2007, Regulations of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.



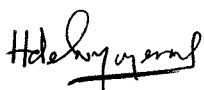
**Ajit D. Gunewardene**

Chairman



**A. S. De Zoysa**

Director



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

Chairman, Audit and Compliance Committee

25 February 2014

# Information Technology Committee Report

## COMPOSITION OF THE TECHNOLOGY COMMITTEE

The Committee comprises of the following members:

- Dirk Pereira – Chairman
- Sherin Cader – General Manager, Finance and Planning
- Ruwan Bakmedeniya – General Manger, Information Technology
- Clement Fernandopulle – Assistant General Manager, Information Technology
- Ruanthi Gooneratne – General Manger, Non life Insurance
- Jayaseeli Dissanayake - General Manger, Life Insurance

## TERMS OF REFERENCE OF THE TECHNOLOGY COMMITTEE

The Technology Committee is established to ensure that IT strategies align with the overall business operations and effective implementation of the Board approved IT strategies.

The Committee is responsible for;

- Developing and reviewing on an ongoing basis the IT strategic plan
- Approve and review the progress of new IT projects / initiatives
- Provide guidance and approval of IT related capital expenditure
- Ensuring post implementation system reviews
- Review vendors for major IT supplies
- Ensure proper IT governance

## TECHNOLOGY COMMITTEE MEETINGS

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

## CONCLUSION

The Committee confirms that during the year, company has made satisfactory progress with the implementation of IT strategic plan of 2013-15 and has operated within the IT governance framework of the company.



**Dirk Pereira**  
*Chairman, Information Technology Committee*

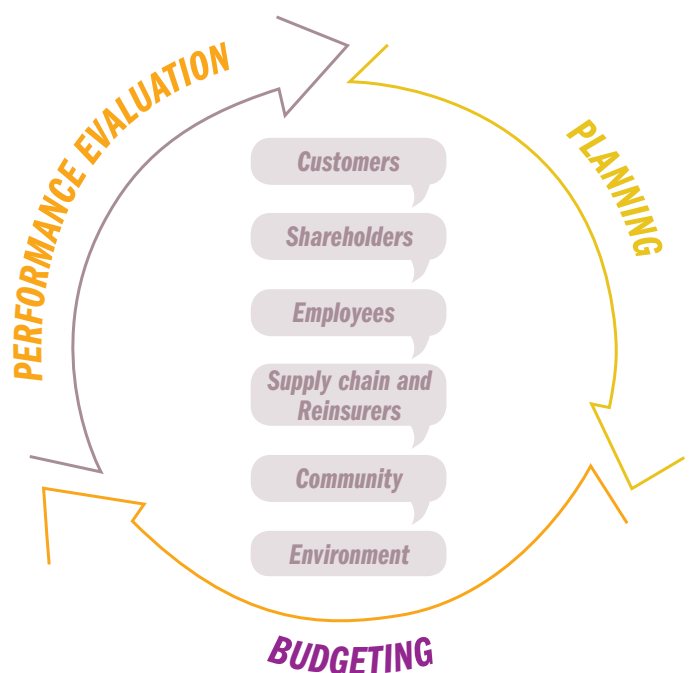
25 February 2014

# Performance Governance

## OUR INTEGRATED APPROACH TO PERFORMANCE GOVERNANCE

***“For us performance governance creates a structure which enables management and employees to work independently under the control of the Board to achieve sustainable objectives taking into account the expectations of all stakeholders.”***

*A robust performance management system encompassing a detailed strategic planning process to set organisational direction and objectives taking in to account anticipations of all stakeholders and effective tools to monitor performance while managing the risks associated with the business operations.*



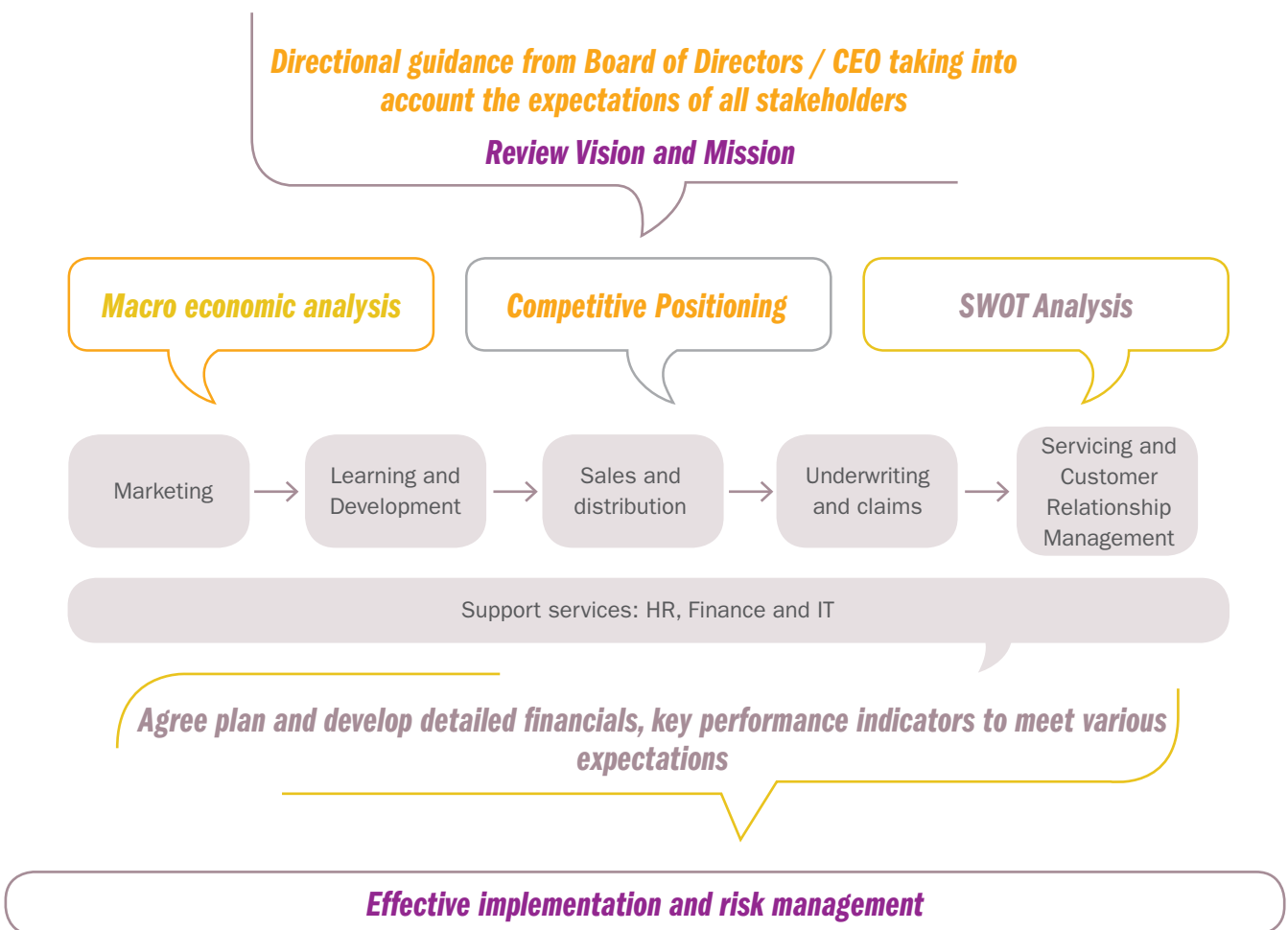
**STRATEGIC DIRECTION AND CORPORATE OBJECTIVES**

At UA, 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 all stakeholders’ perspective. Based on these requirements, the Executive Committee reviews the company’s vision, mission and analyses the market position, competitive and macro environment, competitor positioning, 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.

An overview of the process is provided below.



**FINANCIALS AND KEY PERFORMANCE INDICATORS**

It is of paramount importance to ensure that the budgeting and strategic planning processes are inter linked. A budget indicates at very detailed level, company’s commitments to implement various initiatives to meet expectations of various stakeholders.

**EFFECTIVE IMPLEMENTATION**

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

# Performance Governance

## NON LIFE INSURANCE STRATEGIC OBJECTIVES AND KEY PERFORMANCE INDICATORS

Strategic objectives	Key performance indicator	Relevance	2013 Update
Expand distribution capability especially in retail segment	<ul style="list-style-type: none"> <li>Channel wise GWP</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from specific channels in line with expectations and investments made</li> </ul>	<ul style="list-style-type: none"> <li>Achieved increase in non permanent cadre</li> <li>Generated 43% of zonal GWP from non permanent cadre</li> <li>Streamlined processes, technology and training to enhance productivity and enabled the sales force to provide better customer service</li> <li>Implemented a grading system to monitor and manage performance</li> <li>Synergised underwriting and distribution resources to ensure adequate training on sales techniques and operational processes provided to new recruits</li> </ul>
Continuous improvements in service standards	<ul style="list-style-type: none"> <li>Customer satisfaction results with regard to motor claims settlement process</li> <li>Number and value of claims outstanding over agreed time frames</li> </ul>	<ul style="list-style-type: none"> <li>Direct feedback from customers regarding end to end service delivery</li> <li>Claims settlement time is key indicator of our service delivery</li> </ul>	<ul style="list-style-type: none"> <li>Launched garage on the spot solution enabling motor assessors to approve garage estimates on the spot</li> <li>Certified 70% of motor claims assessors to provide above service to customers</li> <li>Satisfaction rate increased to 81% from 73% among motor insurance customers who made claims against their policies</li> <li>Paperless work flow systems for all non motor claims other than health insurance claims launched during the year</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>GWP generated from alternative channels</li> </ul>	<ul style="list-style-type: none"> <li>Measures GWP generated from specific initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Recorded increased sales from all alternate channels</li> <li>Entered into partnership with an established local bank to sell traditional products to their customers</li> <li>Restructured the sales process and assigned dedicated resources to selected outlets to build relationships and develop markets in the vicinity</li> <li>Continued to invest in IT infrastructure to facilitate pre-under written policies</li> </ul>

Strategic objectives	Key performance indicator	Relevance	2013 Update
New product development	■ GWP generated from new products	■ Ultimate measure of success of a new product	<ul style="list-style-type: none"> <li>■ Usage of e-motor solution increased to 78% from 64% by the year end</li> <li>■ Recorded increased volumes and premiums from web based non motor products</li> </ul>
Strengthen underwriting processes	<ul style="list-style-type: none"> <li>■ GWP mix</li> <li>■ Combined ratio</li> <li>■ Non life insurance underwriting profits</li> </ul>	<ul style="list-style-type: none"> <li>■ Measures GWP generated from various classes of business, as risk / pricing / claims experience vary by class of business</li> <li>■ Reflects the total margin generated by the business</li> <li>■ Measures profits generated from the core function of the business</li> </ul>	<ul style="list-style-type: none"> <li>■ Revamped risk based pricing methodology</li> <li>■ Motor claims ratios for the year in line with budget</li> <li>■ Regular review of pricing and terms and conditions on large risks</li> <li>■ Claim ratios for property portfolio reported a year on year decline</li> </ul>
Strengthen claim 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"> <li>■ Reported improvement in claims ratios</li> <li>■ Continuous certification of underwriting staff on going</li> <li>■ Regular training provided to claims management staff to identify potential leakage</li> <li>■ Implemented a structured process to build relationships with selected repair shops</li> <li>■ Implemented non motor claims work flow system</li> </ul>

#### LIFE INSURANCE STRATEGIC OBJECTIVES AND KEY PERFORMANCE INDICATORS

Strategic objectives	Key performance indicator	Relevance	2013 Update
Expand distribution network in cost effective manner	<ul style="list-style-type: none"> <li>■ GWP generated from regular business</li> <li>■ Location wise expense ratios / benchmarks</li> <li>■ Lapse information</li> </ul>	<ul style="list-style-type: none"> <li>■ Investments to expand distribution are mainly to drive growth in regular premium business</li> <li>■ Manage expenses</li> <li>■ Manage GWP growth by ensuring renewal premiums are consistently paid</li> </ul>	<ul style="list-style-type: none"> <li>■ Distribution structure was aligned to capitalise on new business opportunities</li> <li>■ Added 15 new regions and 2 zones to distribution structure</li> <li>■ Enhanced leadership competencies in selected regions</li> <li>■ Set up formal review processes to ensure distribution resources generated results in line with potential</li> <li>■ Commenced operations in 14 new locations during the year</li> <li>■ Further rationalised capital and operational expenses incurred in new locations</li> </ul>

# Performance Governance

Strategic objectives	Key performance indicator	Relevance	2013 Update
Continuous improvements in service standards	<ul style="list-style-type: none"> <li>■ Review actual versus benchmark for selected services</li> <li>■ Number and value of claims outstanding over agreed time frames</li> </ul>	<ul style="list-style-type: none"> <li>■ Ensure service delivery is in line with pre-agreed standards</li> <li>■ Claims settlement time is a key indicator of our service delivery</li> </ul>	<ul style="list-style-type: none"> <li>■ Implemented web portal for customers to access policy details, obtain updates regarding their policies, etc;</li> <li>■ Process to send copies of completed proposals back to customers being evaluated</li> <li>■ Implemented process to obtain feedback directly from customers regarding UA service standards</li> <li>■ Implemented formal customer engagement process for new policies sold</li> </ul>
Improve and enhance learning and development	<ul style="list-style-type: none"> <li>■ Training hours by staff category</li> <li>■ GWP achieved vs. plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Measures training inputs received</li> <li>■ Ultimate measure of success for investment in training and development</li> </ul>	<ul style="list-style-type: none"> <li>■ Achieved 477,801 training hours in total during the year</li> <li>■ Completed 79,967 e-learning and distance learning hours during the year</li> <li>■ 710 advisors certified as CIA, CUL and CIPs.</li> <li>■ New module and self assessment questions added to the e-learning solution</li> <li>■ Implemented a video based training module</li> <li>■ Several training materials translated to all three languages</li> <li>■ e-learning platform was further improved</li> <li>■ Learning and development inputs aligned with business requirements / promotional opportunities</li> <li>■ Leveraged international training programmes and recognition schemes to motivate and reward high achievers</li> <li>■ Streamlined training to improve success rate at agency licensing exams conducted by Sri Lanka Insurance Institute</li> <li>■ Commenced programme for 3<sup>rd</sup> batch of leaders during the year</li> </ul>

Strategic objectives	Key performance indicator	Relevance	2013 Update
Develop alternative distribution channels	■ GWP generated from alternative channels	■ Measures GWP generated from specific initiatives	<ul style="list-style-type: none"> <li>■ GWP from all partnerships recorded year on year growth</li> <li>■ Further integrated insurance and banking operations for selected partners</li> <li>■ Training and development and leadership resources aligned to ensure minimum productivity level is maintained or exceeded across all bancassurance operations</li> <li>■ Streamlined compensation and benefit structure of bancassurance staff</li> </ul>
New product development	■ GWP generated from new products	■ Ultimate measure of success of a new product update	<ul style="list-style-type: none"> <li>■ Consistent volumes achieved since 1<sup>st</sup> month of launch of the Union MediGuard, a reimbursement product enabling customers actual costs of hospitalisation</li> </ul>
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"> <li>■ Introduced a regular follow up mechanism for all pending claims</li> <li>■ Continued to certify sales support staff members as 'Certificate in Life Insurance Practice' (CILIP), providing required technical training to enhance their knowledge of life insurance practices</li> </ul>

Financial, marketing and underwriting performance reviews are also conducted at monthly management meetings. The discussion point 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
Non life and life insurance gross written premium	<ul style="list-style-type: none"> <li>■ Review market share</li> <li>■ Identify new business opportunities</li> <li>■ Growth potential in industry</li> <li>■ Comparison versus competitors in identified segments</li> </ul>
Claims and expense margins	<ul style="list-style-type: none"> <li>■ Benchmark company in terms of efficiency and effectiveness</li> <li>■ Identify profitability trends</li> <li>■ Identify profitable business segments</li> </ul>
Balance sheet structure	<ul style="list-style-type: none"> <li>■ Review investment positions</li> <li>■ Composition of net assets</li> <li>■ Management of debtors</li> <li>■ Financing strategies</li> </ul>

### STRATEGIC RISK MANAGEMENT

Risk management is an integral part of the planning process. Prior to preparation and subsequently, the planning team reviews the associated risks and formulates appropriate mitigation action plans to face any eventually. With our bottom up risk management system, heads of department conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions in meeting expectations of the stakeholders 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 briefed regarding this initiative. An overview of the risk management process is provided on pages 280 to 292.

# Integrated Risk Management

## OVERVIEW

Following the events of recent years, risk and its mitigation have become a priority in the insurance service industry. It has become increasingly important to understand and manage risks to create sustainable returns for our stakeholders.

In this light, we continue to uphold and strengthen our commitment to manage risks. Consequently, proactive risk management is a key pillar of our strategy. Linked to this is our Board-approved risk governance structure, which provides an integrated risk management framework designed to meet the challenges of the changing risk environment and to ensure that business growth plans are properly supported by effective risk management.

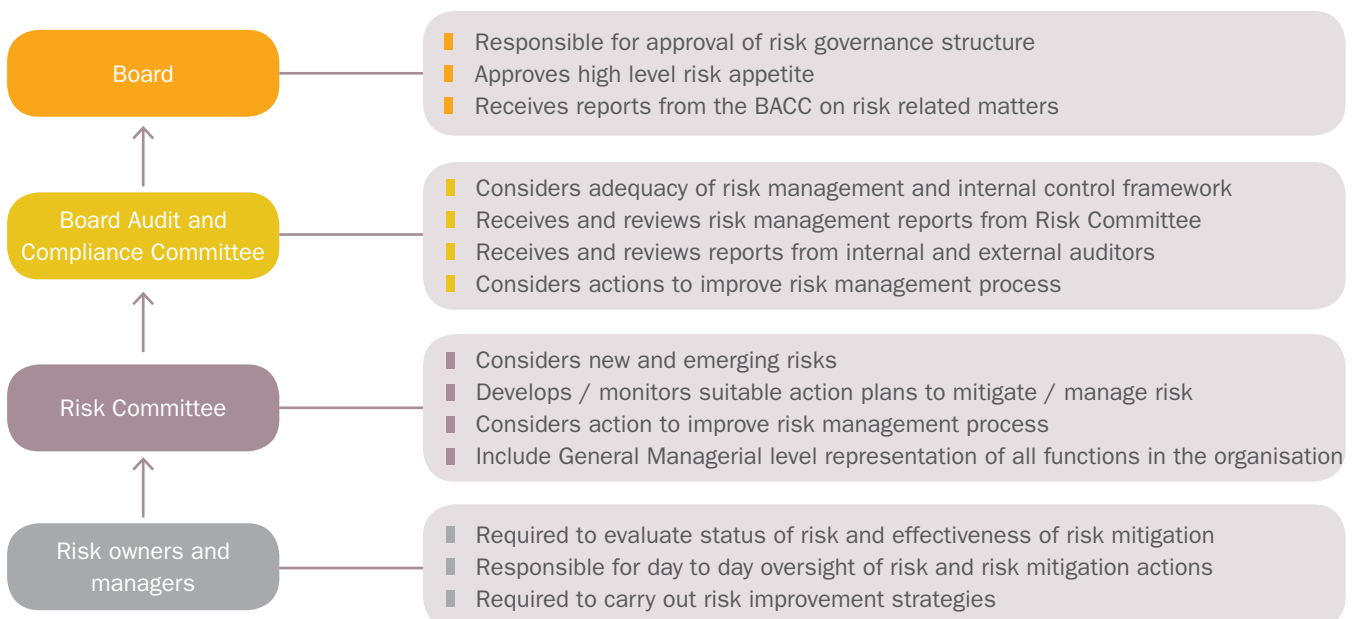
## RISK MANAGEMENT PROCESS

Risk management comprises the identification and evaluation of existing and potential risk associated with the company's operations and strategy, followed by appropriate management responses such as tolerance, mitigation, transfer, avoidance or termination or a combination of such responses. The board is accountable to shareholders for the governance

of risk and should ensure that the company's strategic and business plans have properly considered and evaluated the associated risks. In fulfilling this obligation, the board approves and annually evaluates the implementation of this policy and the risk management plan.

The Board has delegated the responsibility to design, implement and monitor the risk management plan to the Risk Committee comprising the senior management. Risk management is, however, a team effort and every employee will be responsible for managing risk in his / her working environment and should therefore assist to identify risk at all levels and in all functions of the business as required by the integrated risk management plan. Regular and formal risk analysis will provide the basis for risk identification and evaluation and the appropriate risk responses and treatment.

Management will ensure effective management of risk through continuous and regular measurement and report the company's risk management performance to the Board Audit and Compliance Committee (BACC). Control assurance will focus on continuously improving the underlying quality and sustainability of the company's business activities.



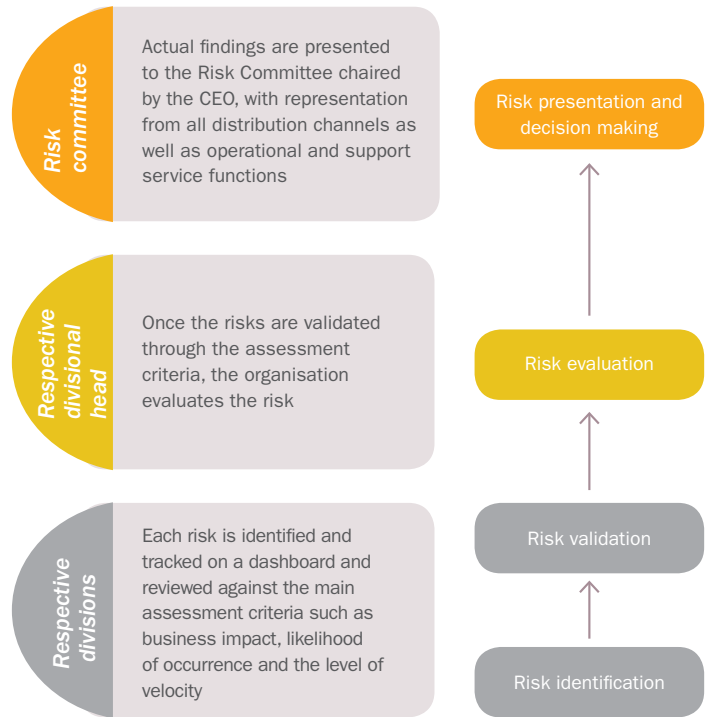
**RISK MANAGEMENT PROCESS**

The company follows a bottom up process, with the Risk Committee reviewing divisional risk grids and summarise key risks for BACC review. The company also ensures that the risk management process is aligned with the John Keells Group’s risk management policy.

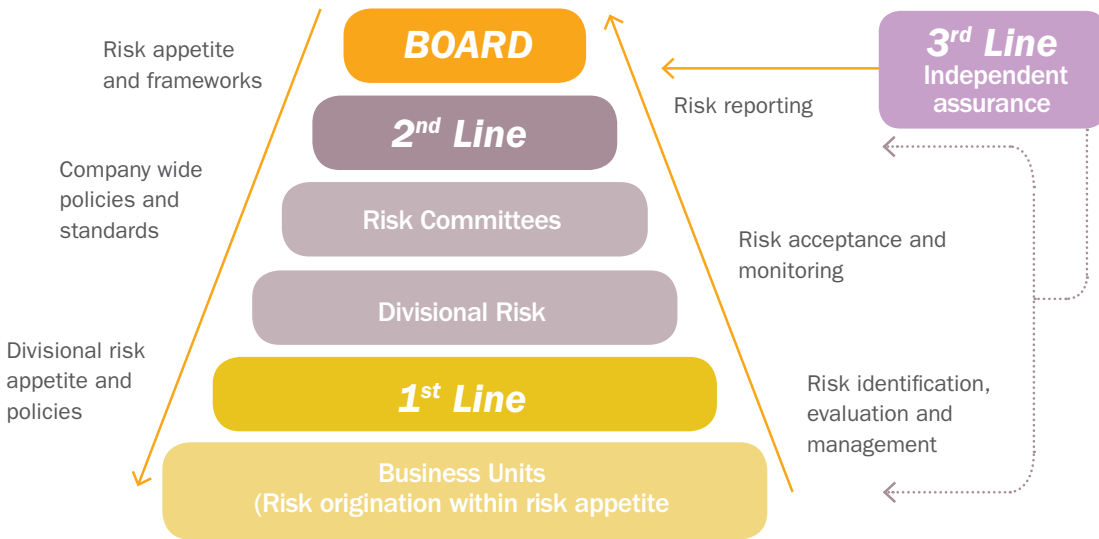
It is not possible to entirely eliminate all risks and that some risks must be retained within the balance sheet in order to generate a return in excess of the risk free rate. The risk retention threshold has been clearly communicated by the Board of Directors.

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 and 3 line defence approach are depicted in Figure 1 and Figure 2 respectively.

**Figure 1**



**Figure 2**



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

**Figure 3 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

# Integrated Risk Management






Figure 4 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 5 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 6 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 19 risk items in the divisional risk grid identified by the year end. These have been forwarded to the Risk Committee. The Risk Committee summarised these risks into 15 main risk items that needed continuous 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 7: Summary of the company risk grid

Impact / severity ranking	5	Catastrophic / extreme risk					
	4	Major / very high impact		1	1		
	3	Moderate / high impact	2	6	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 8: Summary of divisional risk grids

Impact / severity ranking	5	Catastrophic / extreme risk	1				
	4	Major / very high impact	1	6	3		
	3	Moderate / high impact	1	17	18	1	
	2	Minor impact		2	1	2	
	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				

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

Headline Risk	Description	Risk Priority		Action Plans
		2013	2012	
Catastrophe	Risk associated with a large scale event			<ul style="list-style-type: none"> <li>Ensure adequate reinsurance arrangements to cover such eventuality</li> <li>Periodically test and update the business continuity plan</li> <li>Monitor accumulation</li> </ul>
HR (Attrition)	Shortage of qualified personnel and loss of staff			<ul style="list-style-type: none"> <li>HR policies are geared to encourage continuous education for all levels of staff</li> <li>Provide adequate monetary and non monetary incentives</li> <li>Implement a succession plan for senior level staff</li> <li>Identify opportunities for job rotation</li> <li>A structured talent management initiative</li> </ul>
Competitor	Inability to retain licensed, trained non-permanent sales staff of non life operation due to competitors offering better opportunities			<ul style="list-style-type: none"> <li>Continue to invest in training and technology driven service enhancements to increase loyalty of the field staff towards the company</li> <li>Pre-underwritten products to empower the sales force</li> <li>Dedicated training resource</li> <li>Effective rewards and recognition schemes</li> </ul>

# Integrated Risk Management

Headline Risk	Description	Risk Priority		Action Plans
		2013	2012	
Internal process	Failure in internal business processes (Underwriting / Distribution / IT / Learning and Development etc.)			<ul style="list-style-type: none"> <li>■ Ensure adequate systems support / regular test of Business Continuity Planning</li> <li>■ Implement adequate financial / underwriting controls</li> <li>■ Update skills and knowledge based on current events</li> <li>■ Develop career paths for high potential staff</li> <li>■ Invest to develop alternative channels</li> <li>■ Leverage broker / leasing / finance company relationships</li> <li>■ Constantly review incentive, motivation and remuneration strategies</li> </ul>
Political	Changes to insurance regulations, tax laws			<ul style="list-style-type: none"> <li>■ Lobby via appropriate channels</li> <li>■ Work with industry participants</li> </ul>
Interest rate	Change in value of investments due to change in interest rate			<ul style="list-style-type: none"> <li>■ The company uses prudent assumptions regarding probable interest rates</li> <li>■ The Investment Committee keep a regular track of macro-economic scenarios and their likely impact on interest rates</li> </ul>
Reinsurance	Refer business (insurance) risk in note 4			Refer business (insurance) risk in note 4
Socio, economic political	Refer business (insurance) risk in note 4			Refer operational risks in note 4
Underwriting	Refer business (insurance) risk in note 4			Refer business (insurance) risk in note 4

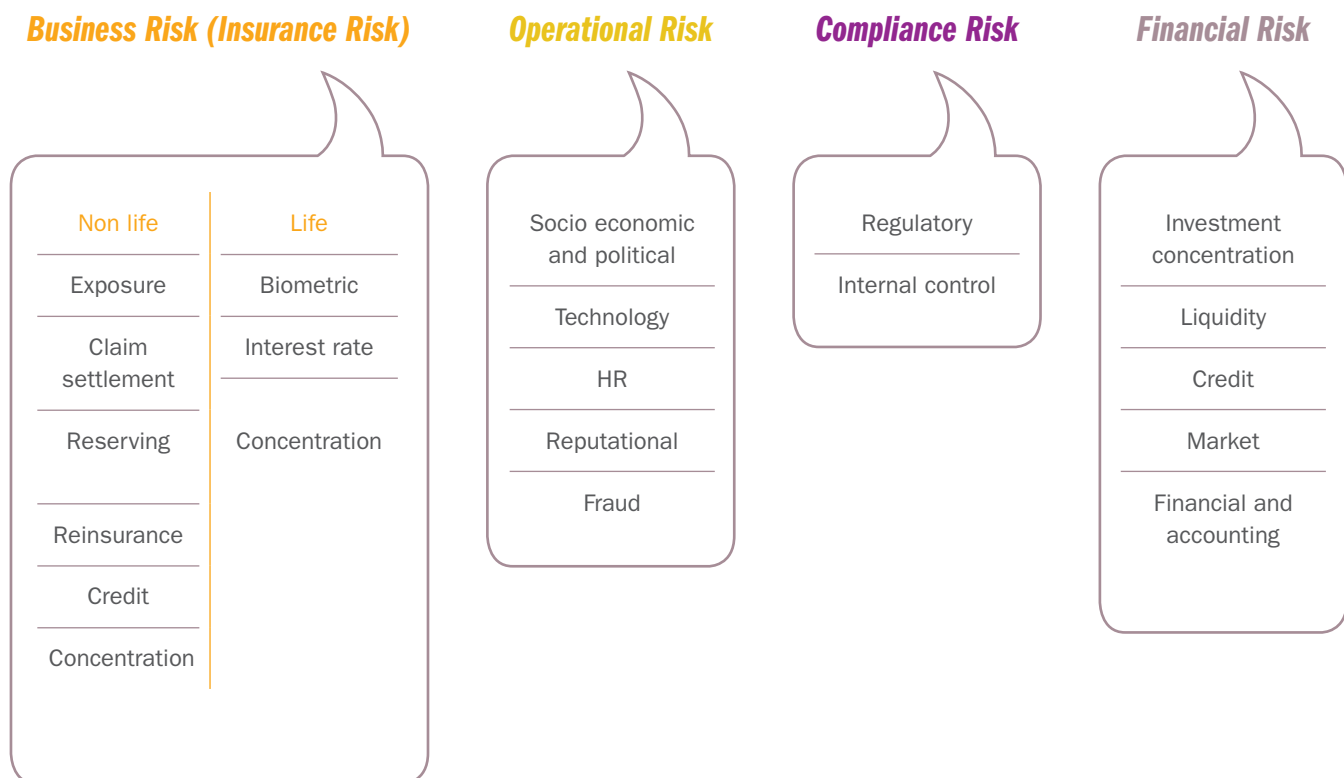
Headline Risk	Description	Risk Priority		Action Plans
		2013	2012	
Regulatory	Regulatory changes requiring separate life and non life companies	■	■	<ul style="list-style-type: none"> <li>Identify cost of operating life and general as separate businesses (as 2 separate legal entities)</li> <li>Lobby with treasury to provide tax exemptions for transactions arising due to splitting companies</li> <li>Ensure proper expense management in non life operations and distribution via pre-underwritten products etc.</li> <li>Review options to create an efficient operational model (e.g. sharing of back office operations / use of the service of outsourced parties)</li> </ul>
Health and Safety	Risk of accidents to staff, including insurance sales agents	■	■	<ul style="list-style-type: none"> <li>Continuously educate the staff on health and safety aspects</li> <li>Ensure proper health and safety measures are implemented within company premises</li> </ul>

**RISK ENVIRONMENT**

UA is in the business of reducing and eliminating risks and uncertainties. Effectively managing risks affecting us is therefore essential to ensure 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. With the well integrated risk management approach at UA, we strive to minimise the unknown.

Our Integrated risk management environment is diagrammatically presented below.



# Integrated Risk Management

CORPORATE GOVERNANCE

## BUSINESS RISK (INSURANCE 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. Business risk may arise if the company’s strategy is not compatible with market or customer requirements, or with socio economic / political parameters.

UA being an insurance company, business risk is the insurance risk that company is exposed as a result of the insurance contracts company has undertaken. The risk under

any insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim.

## HOW WE MANAGE IT

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.

Sub risks categorised under business risks and the way we manage is given in the table below;

Life Insurance Business Risk	How we manage it
<p><b>Biometric Risk :</b> Biometric risk refers to the mortality and disablement assumptions used to price life insurance policies as well as reserve for liabilities. The checking of mortality and the appropriateness of trend assumptions may result in a need for additional reserving i.e. if actual life expectancy has not been sufficiently taken into account</p>	<ul style="list-style-type: none"> <li>■ Apart from in-house actuaries, the company has contracted the services of an actuarial firm with extensive experience internationally and particularly in the region, to review biometric calculation tables and make suitable adjustments</li> <li>■ The Prophet actuarial system has enabled the company to monitor trends and review pricing in a proactive manner</li> </ul>
<p><b>Interest Rate Risk:</b> Interest rate risk refers to a scenario where a reduction in the value of a product could arise due to a rise in rates.</p>	<ul style="list-style-type: none"> <li>■ The company uses prudent assumptions regarding probable interest rates when computing future liabilities</li> <li>■ The Investment Committee members keep a regular track of macro economic scenarios and their likely impact on interest rates</li> <li>■ Life insurance products are profit tested by qualified actuaries to confirm that the company will be able to meet its obligations</li> <li>■ Union Life “Advantage,” UA’s flagship life product provides a guarantee limited to a one year period</li> <li>■ “Union Challenger” is on a unit linked platform, which enables customers to choose their investment options in a transparent manner</li> </ul>
<p><b>Concentration Risk:</b> Concentration risk in the life business is the risk of exposure to increased losses associated with inadequately diversified portfolios of assets and / or obligations</p>	<ul style="list-style-type: none"> <li>■ The Executive Committee reviews risks inherent in all new business propositions against the risk appetite of the life business.</li> </ul>

## Non life Insurance

### Business Risk

### How we manage it

#### Exposure Risk:

Exposure risk may arise when an underwriter accepts a risk for a price which is insufficient to meet the cost of claims

- 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

#### Claims Settlement Risk:

Claims settlement risk refers to the risk of potential disputes which may arise when settling the claims.

- Customers are advised of any deductible, adequacy of sum insured, whether the required covers have been obtained and any risk prevention / minimisation 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

#### 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

- 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 emphasize 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

# Integrated Risk Management

## Non life Insurance

### Business Risk

### How we manage it

#### Reinsurance Risk:

Inadequate transfer of underwritten risks to and inability of reinsurers to meet their commitments due to insufficient financial strength

- As at 31 December 2013 , 94% (31 December 2012 - 91%) 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

(Please refer page 344 on the financial section for a comparison on the reinsurance ratings)

#### 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

- 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 sixty days
- The following steps have also been taken to further reduced credit risk
- 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 receivable

#### Non life Concentration Risk:

The risk which arise from climate changes and natural disasters.

- The risk is mitigated by diversification across a large portfolio of insurance contracts into different classes
- The variability of risk is improved by careful selection and implementation of underwriting strategies which are designed to ensure that risks are diversified in terms of type of risks and level of insured benefits

**OPERATIONAL RISK**

It is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes a variety of risk sub types. These include among others, financial crime, sustainability and legal risk.

Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible.

**HOW WE MANAGE IT**

UA's approach on managing operational risk is to adopt fit for purpose operational risk practices that assist management in understanding their inherent risk and reducing their risk profile.

We have developed processes in a manner that the internal controls are embedded in the running of these processes and are reviewed regularly through the internal audit plan approved by the BACC.

Sub risks categorised under the operational risks and the way we manage is given below

**Operational Risks****How we manage it****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, legal system etc

- 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 cancellation of life policies
- Develop alternative distribution channels

**Technology Risk:**

Relates to computer security, hardware, software and other related systems failing and causing disruption to day to day business activities

- The company invested in the security infrastructure appropriate for its scale of operations
- Security arrangements cover both physical infrastructure and information are constantly updated to take account of the latest knowledge and technical enhancements
- Security regulations cover technical aspects as well as organisational 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

**Human Resource Risk:**

Human resource risks are the shortage of qualified personnel and an unpleasant work environment created in the work place

- 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

# Integrated Risk Management

## Operational Risks

## How we manage it

### 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

- 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

### Fraud Risk:

The risk that internal control weaknesses may lead to misappropriation of assets or fraudulent financial reports

- 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, are investigated immediately. The company adopts a zero tolerance policy in the case of fraud

**COMPLIANCE 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 will be exposed to compliance risk.

**HOW WE MANAGE IT**

Company representatives are actively involved in reviewing regulatory changes and assessing the business impact of such proposals and the company keeps abreast of the regulatory environment in regional markets and leverages the knowledge of our non-life and life insurance consultant actuaries as well.

Sub risks categorised under compliance risks and the way we manage is given below.

Compliance Risk	How we manage it
<p><b>Regulatory risk:</b> Not complying with applicable laws and regulations (e.g. RII Act, IBSL guidelines, etc)</p>	<ul style="list-style-type: none"> <li>■ Bottom up regulatory compliance check list sign off. These are monitored and reported every quarterly to the BACC</li> <li>■ Statutory submission compliance check list sign off. These are monitored and reported to the Board monthly</li> </ul>
<p><b>Internal Controls:</b> Defective internal controls would adversely affect the financial reporting and management process which results in not complying with the regulatory requirements</p>	<ul style="list-style-type: none"> <li>■ Having periodic internal audits on the systems and the process by independent auditors and ensure accuracy of the same</li> <li>■ Major concerns identified at the internal audit would be discussed immediately and any appropriate action taken to resolve the matter</li> </ul>

**FINANCIAL RISK**

The probability of loss inherent in financing methods which may impair the ability to provide adequate return, in other words risk occurring from presenting inaccurate financial information to our stakeholders.

**HOW WE MANAGE IT**

The company is actively involved in monitoring the financial risks by way of having sub committees to report on the observations of the financial management. An interim and a final statutory audit is conducted each year to ensure that the financial data presented represent a true and fair view of the company’s affairs. In addition specific audits are done as and when required by the management to ensure full compliance.

# Integrated Risk Management

Sub risks categorised under compliance risks and the way we manage is given below

## Financial Risk

## How we manage it

### Investment Concentration Risk:

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

- The Board Investment Committee (BIC) sets an overall asset allocation target at the start of the year. The decision is based on a number of factors including an analysis of the macro-economic environment, regulatory requirements, liquidity position and return expectations during the plan period
- The BIC has set sectoral asset allocation limits for equity investments as well as related party exposure limits
- The asset allocation of consolidated investments and the sectorial allocation of equity investments as at 31 December 2013 are given on page 347

### Liquidity Risks:

liquidity risk arise when a given security cannot be traded quickly enough in the market to prevent a loss or to make adequate profit

- The BIC manages this risk by diversifying investment durations and reviewing cash flow projections. Please refer pages 348 and 349 for analysis of the maturity of the assets

### Credit Risk:

The risk that investment institutions will be unable to pay the contractual interest or principal on their debt obligations due to declining financial strength

- 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 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
- Please refer page 350 for the analysis on the credit ratings of our corporate debts.

### Market Risk:

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices.

- For equity instruments, the decision is based on fundamentals rather than on speculation and the decisions are based on the in depth of macro economic and industry analysis as well as research reports on company performance
- The IC member's keep a regular track of macro economic scenarios and their likely impact on the interest rates
- The initial recognition of the investments are closely monitored in order to avoid any interest rate risk

# 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.

For the year ended 31 December	2013 Rs. Mn	2012 Rs. Mn
<b>Non life insurance business</b>		
Value of admissible assets maintained	6,214	5,704
Total liabilities including technical reserves	4,608	3,974
Net admissible assets	1,606	1,730
Required solvency margin	827	743
Excess over required solvency margin	779	987
Solvency ratio	1.94	2.33
<b>Life Insurance Business</b>		
Value of admissible assets maintained	20,284	16,440
Total liabilities including technical reserves	17,080	14,545
Net admissible assets	3,204	1,895
Required solvency margin	803	679
Excess over required solvency margin	2,401	1,216
Solvency ratio	3.99	2.79

## 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 December	2013 Rs. Mn	2012 Rs. Mn
<b>Non life insurance business</b>		
Approved assets maintained in non life	4,728	4,422
Technical reserves	3,149	2,873
Excess in approved assets	1,578	1,549
<b>Life insurance business</b>		
Approved assets maintained in life	18,806	15,379
Life insurance fund liability under solvency valuation basis	17,236	15,017
Excess in approved assets	1,570	361



# FINANCIAL INFORMATION

**|** *Who we are  
today*

# 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 31 December 2013 of Union Assurance PLC, a public limited liability company incorporated in Sri Lanka on 8 January 1987 under the Companies Act No. 17 of 1982, quoted on the Colombo Stock Exchange since 1988 and reregistered as required under the provisions of the Companies Act.No.7 of 2007 on 7 June 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the company, which is 'Insurance', remained unchanged during the financial year. There were no significant changes in the nature of principal activities of the company during the financial year under review. 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 6 of this report. In achieving its vision and mission all directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Conduct.

## REVIEW OF BUSINESS

A review of the financial and operational performance and future business developments of the company is contained in the Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis 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 affairs of the company. The segmental contribution of gross written premium, profits, assets and liabilities is provided on pages 315 to 320 of the financial statement.

## FUTURE DEVELOPMENTS

An overview of the future developments of the company is presented in the Chairman's Message, 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. 10, 907 million (2012 - Rs.9,733 million).

## FINANCIAL RESULTS AND APPROPRIATIONS

The company recorded a net profit of Rs.1,123.4 million for the year. A synopsis of the company's performance is presented below.

Financial Results	2013 Rs:000	2012 Rs:000
Profit after taxation	1,123,405	921,268
Profit brought forward from previous year	2,454,923	1,903,587
Profit available for appropriation	3,578,328	2,824,855
Appropriations		
Dividend paid for previous year	(428,571)	(375,000)
Transfer from revaluation reserve	5,137	5,068
Transfer of share issue expenses	(5,128)	-
Unappropriated profit carried forward	3,149,766	2,454,923

## FINANCIAL STATEMENTS AND AUDITORS' REPORT

The financial statements for the year ended 31 December 2013 has been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs), issued by The Institute of Chartered Accountants of Sri Lanka. The financial statements duly signed by the Directors are provided on pages 308 to 413 and Auditors' Report on the financial statements is provided on page 307 of this annual report.

### ACCOUNTING POLICIES

Details of accounting policies are presented in note 3 to the financial statements. There have been no changes in the accounting policies adopted by the company during the year under review.

### DIVIDENDS

The Directors have declared a first and final dividend of Rs. 6.00 per share for the year 2013 (2012 - 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 on page 364.

### PROPERTY, PLANT AND EQUIPMENT

The details of property, plant and equipment are shown in note 21 to the financial statements on page 377.

### MARKET VALUE OF FREEHOLD PROPERTIES

The land and building owned by the company in Kurunegala and at No.20, St. Michael's Road, Colombo 3 were revalued as at 31 December 2013 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 21 and note 3 to the financial statements respectively.

### INVESTMENTS

Details of investments held by the company are disclosed in note 20 to the financial statements on pages 368 to 376.

### 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. 5, 117 million as at 31 December 2013 (2012 - Rs. 4,309 million), details of which are provided in notes 28 and 29 to the financial statements on pages 383 and 384 respectively.

### SHARE INFORMATION

Information relating to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 424 Information on share trading is given on page 416 of this report.

### SHAREHOLDINGS

There were 1,345 registered shareholders, holding ordinary voting shares as at 31 December 2013 (2012 - 1,422). The distribution of shareholdings including the percentage held by the public is given on page 417 of this report.

### EQUITABLE TREATMENT TO ALL SHAREHOLDERS

The company has made every endeavour to ensure the equitable treatment to all shareholders and adopted adequate measures to prevent Information asymmetry.

### SUBSTANTIAL SHAREHOLDINGS

The list of top twenty shareholders is given on page 418 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 not engaged in any activity, which contravenes laws and regulations
- b) The Directors have declared all material interests in contracts involving the company and 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, and
- e) A review of the internal controls covering, financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained reasonable assurance of their effectiveness and successful adherence therewith
- 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 jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL)

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A more comprehensive report on Corporate Governance is found on pages 201 to 293.

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

## BOARD AUDIT AND COMPLIANCE COMMITTEE

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 268. 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 268 to 270 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 in the Corporate Governance section of this annual report on page 280.

## DIRECTORS

As at 31 December 2013 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 on page 204 to 209 and details of their appointment is given below.

Name of Director	Directorship	Year of appointment	Position / Status
Ajit D. Gunewardene	Chairman /Non-Executive Director	Appointed as alternate Director on 1 May 1992 Appointed to the Board on 24 February 2004 Appointed Chairman on 1 January 2006	Chairman of the Board, and of the Remuneration Committee and the Nominations Committee
A. S. De Zoysa	Independent Non-Executive Director	Appointed to the Board on 1 April 2009	Director, Member of the Audit and Compliance Committee, Nominations Committee and Investment Committee
G. F. C. De Saram	Independent Non-Executive Director	Appointed to the Board on 1 April 2009	Director, Member of Remuneration Committee and Nominations Committee
D. C. Alagaratnam	Non-Executive Director	Appointed to the Board on 16 August 2011	Director
S. Rajendra	Non-Executive Director	Appointed to the Board on 16 August 2011	Director, Member of the Audit and Compliance Committee
H. A. J. De Silva Wijeyeratne	Independent Non-Executive Director	Appointed to the Board on 7 September 2011	Director, Chairman of the Audit and Compliance Committee and Member of the Remuneration Committee

## 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. S. Rajendra and Ms. D.C. Alagaratnam who retire by rotation are eligible for re-election. A brief profile of the said directors are given on pages 206 and 208

## 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 38.2 on page 395 to the financial statements, under related party transactions.

### Directors' Interests in Shares

The Directors' individual shareholdings in the company as at 31 December 2013 and 31 December 2012 were as follows;

Name of Director	No. of shares as at 31.12.2013	No. of shares as at 31.12.2012
Ajit D. Gunewardene	8,562	8,562
A. S. De Zoysa	Nil	Nil
G. F. C. De Saram	Nil	Nil
D. C. Alagaratnam	Nil	Nil
S. Rajendra	Nil	Nil
H. A. J. De Silva Wijeyeratne	Nil	Nil

## Share Dealings

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

## REMUNERATION TO DIRECTORS

Directors' remuneration is established within a framework approved by the Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the company. The remuneration of the Non-Executive Directors is determined according to scales of payment decided upon by the Board.

Details of Directors' fees and emoluments paid during the year are as follows;

Directors' fees and emoluments	2013 Rs.'000	2012 Rs.'000
Executive Directors	N/A	N/A
Non-Executive Directors	5,400	5,400

## DIRECTORS' MEETINGS

Details of Directors' meetings are presented on page 222 of the annual report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs/ LKASs) issued by The Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

## RELATED PARTY TRANSACTIONS

There are no related party transactions which 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 on page 395 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 Audit and Compliance Committee. Refer page 231 for a list of compliances.

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

## SUSTAINABILITY

The company is aware of the need to pursue its business goals from a stakeholder perspective of business governance. Hence, through the structured stakeholder engagement process, the company has identified material issues in relation to each stakeholder group and endeavours to achieve its business goals with due respect to all stakeholder needs. This year, the company publishes its first integrated annual report, combining financial information with sustainability information in its bid to provide its stakeholders with more holistic information.

The Report has also received GRI Check, fulfilling the requirements of Application Level B+ Level as per GRI G3.1.

## HUMAN RESOURCES

The company continued to implement appropriate human resource management policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees. The company also adopts equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. Some of the processes and procedures adopted in this regard are mentioned in the employee section in the Management discussion and analysis section of the annual report on page 116.

The number of persons employed by the Company as at 31 December 2013 was 1,157 (2012 – 1,088)

## ENVIRONMENT PROTECTION

Initiatives taken by the company to preserve the environment are presented in the 'environment' section of the Management discussion and analysis 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. As at 31 December 2013, the trade and other payments of the Company amounted to Rs. 1,200 million (2012 – Rs. 1,039 million).

## STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees as at the statement of financial position date have been paid or, where relevant provided for, except as detailed in note 42 to the financial statements, relating to contingent liabilities.

## CAPITAL COMMITMENTS

No significant capital commitments exist as at 31 December 2013 other than those disclosed in note 40 to the financial statements.

## CONTINGENCIES AND OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the company lawyers, litigation currently pending against the company will not have a material impact on the reported financial results or future operations of the company.

## EVENTS AFTER THE REPORTING DATE

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. 2,150,000/- (2012 - Rs. 2,000,000/-) was paid to them as audit fees during the year under review and a sum of Rs. 350,000/- (2012- 1,943,750/-) 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 reappoint 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 307 of this annual report.

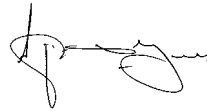
#### APPROVAL OF FINANCIAL STATEMENTS

The audited financial statements were approved by the Board of Directors on 25 February 2014.


#### 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 Monday 31 March 2014 at 9.00 a.m. The notice of the meeting relating to the twenty seventh Annual General Meeting is given on page 438.

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

25 February 2014

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements are prepared in accordance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (SLFRSs/ LKASs) and the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

Accordingly, the company has prepared financial statements which comply with SLFRSs/ LKASs and related interpretations applicable for period ending 31 December 2013, together with the comparative period data as at and for the year ended 31 December 2012, as described in the accounting policies.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements. There have been no changes in the accounting policies adopted by the company during the year under review. The accounting policies are provided in detail in note 3 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 Messrs. KPMG, in order to ensure that the provision of such services does not impair KPMG's independence. The BACC also reviews the external audit plan 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

25 February 2014

# 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 2013 Net IBNR and LAT Certification

I hereby certify that the undiscounted Central Estimate of IBNR provision of Rs. 348,979,368 is adequate in relation to the general insurance Claim Liabilities of Union Assurance PLC as at 31 December 2013, 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 31 December 2013, in 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 amount of Rs.2,317,513,273 set by the Company, net of reinsurance, is adequate in relation to the unexpired general insurance risks of Union Assurance PLC as at 31 December 2013, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

A handwritten signature in black ink, appearing to read 'Matthew Maguire'.

**Matthew Maguire**

Fellow of the Institute of Actuaries of Australia (FIAA)

For and on behalf of NMG Consulting

Dated 24 February 2014

T: +65 6325 9855 F: +65 6325 4700 E: [contact@NMG-Group.com](mailto:contact@NMG-Group.com)  
[www.NMG-Group.com](http://www.NMG-Group.com)

65 Chulia Street, #37-07/08 OCBC Centre, 049513 Singapore

# Actuary's Report - Life



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 31 DECEMBER 2013

We have carried out an actuarial valuation of the long term insurance business as at 31 December, 2013. 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, 2013, 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 2013 by Rs. 1,379.124 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. 186.178 million.
- 5) The solvency margin required under the Regulation of insurance industry Act No. 43 of 2000 is Rs. 802.734 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2013 and the Non Unit Fund and, is fully provided for.

**M Poopalanathan**  
Actuary

24 January 2014

# 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. 6.00 per share for the year ended 31 December 2013, to be paid on 18 March 2014.


The Directors are of the view that they have discharged their responsibilities as set out in this statement.

# Statement of Directors' Responsibility

## COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the company, and all other known statutory dues as were due and payable by the company as at the reporting date have been paid or, where relevant provided for except as detailed in note 42 to the financial statements, relating to contingent liabilities.

By Order of the Board



**Keells Consultants (Private) Limited**

Secretaries

25 February 2014

# Independent Auditors' Report



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## TO THE SHAREHOLDERS OF UNION ASSURANCE PLC Report on the Financial Statements

We have audited the accompanying financial statements of Union Assurance PLC ("the Company"), which comprise the statement of financial position as at December 31, 2013, the statements of 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 information set out on pages 308 to 413 of the 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, 2013 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, and of its financial performance and its cash flow 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 Section 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 appear 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  
25 February 2014

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	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA	S.T.D.L. Perera FCA
G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo 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	Management discussion and analysis reference	2013 Rs. '000	2012 Rs. '000	Change %
Gross written premium	7	358	49	10,906,775	9,732,756	12
Net change in reserve for unearned premium				(833,171)	(218,231)	282
<b>Gross earned premium</b>				<b>10,073,604</b>	<b>9,514,525</b>	<b>6</b>
Premium ceded to reinsurers	8	359		(1,536,723)	(1,161,873)	32
Net change in reserve for unearned reinsurance premium				689,974	32,488	2,024
<b>Net earned premium</b>			49	<b>9,226,855</b>	<b>8,385,140</b>	<b>10</b>
<b>Other revenue</b>						
Net investment income	9	359	49	2,635,623	2,255,490	17
Net realised gains / (losses)	10	360	49	31,724	(53,874)	(159)
Net fair value gains	11	360	49	44,609	28,782	55
Other operating income	12	360	49	133,364	102,827	30
				<b>2,845,320</b>	<b>2,333,225</b>	<b>22</b>
<b>Total net revenue</b>				<b>12,072,175</b>	<b>10,718,365</b>	<b>13</b>
<b>Benefits, losses and expenses</b>						
Net benefits and claims	13	361	50	(6,775,505)	(5,892,875)	15
Underwriting and net acquisition costs (including reinsurance)	14	363	51	(1,213,921)	(1,169,233)	4
Other operating and administrative expenses	15	363	51	(2,745,830)	(2,504,658)	10
Depreciation on property, plant and equipment	21	377	51	(154,315)	(143,347)	8
<b>Total benefits, losses and expenses</b>				<b>(10,889,571)</b>	<b>(9,710,113)</b>	<b>12</b>
<b>Profit before tax</b>	16	364	51	<b>1,182,604</b>	<b>1,008,252</b>	<b>17</b>
Income tax expense	17	364	51	(59,199)	(86,984)	(32)
<b>Profit for the year attributable to equity holders of the company</b>				<b>1,123,405</b>	<b>921,268</b>	<b>22</b>
<b>Earnings per share</b>						
Basic (Rs.)	18	366	112	13.11	12.28	
Diluted (Rs.)	18	366	112	13.11	12.28	
<b>Dividend per share (Rs.)</b>	19	367	112	<b>6.00</b>	<b>5.00</b>	

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Statement of Comprehensive Income

For the year ended 31 December	Note	2013 Rs. '000	2012 Rs. '000
Profit for the year		1,123,405	921,268
<b>Other comprehensive income, net of income tax</b>			
<b>Fair value reserve (available for sale financial assets)</b>			
Net change in fair value of available for sale financial assets		4,746	(82,662)
Net change in fair value of available for sale financial assets transferred to the statement of income		28	-
		4,774	(82,662)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets		3,364	(126,196)
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income		(1,612)	(20,438)
		1,752	(146,634)
		6,526	(229,296)
Net gain on revaluation of land and buildings	29(a)(ii)	107,827	-
		107,827	-
Actuarial loss on defined benefit plan		(4,585)	-
		(4,585)	-
<b>Other comprehensive income for the year, net of income tax</b>		109,768	(229,296)
<b>Total comprehensive income attributable to the equity holders</b>		1,233,173	691,972

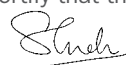
The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Statement of Financial Position

As at 31 December	Note	Page	Risk management reference	2013 Rs. '000	2012 Rs. '000
<b>Assets</b>					
Financial investments	20	368	346	24,297,498	20,802,309
Property, plant and equipment	21	377		1,454,973	1,318,225
Loans to life policyholders	22	379	353	515,735	385,688
Reinsurance receivables	23	380	351	502,571	400,627
Premium receivables	24	381	352	1,844,831	1,459,440
Receivables and other assets	25	382	353	1,087,585	1,055,006
Deferred acquisition cost	26	383		149,145	146,097
Cash and cash equivalents	27	383	353	466,402	315,634
<b>Total assets</b>				<b>30,318,740</b>	<b>25,883,026</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Stated capital	28	383		1,138,433	1,133,305
Reserves	29	384		829,094	720,830
Retained earnings				3,149,766	2,454,923
<b>Total equity</b>				<b>5,117,293</b>	<b>4,309,058</b>
<b>Liabilities</b>					
Insurance contract liabilities - Life	30	387	348	17,518,016	15,356,340
Insurance contract liabilities - Unit linked				1,807,137	1,143,546
Insurance contract liabilities - Non life	31	389	348	3,440,249	3,200,838
Reinsurance payables	32	392	348	764,977	415,394
Deferred revenue	33	392		109,402	96,904
Employee benefits	34	392		186,078	163,572
Other liabilities	35	393		1,135,194	998,381
Current tax liabilities				59,199	87,907
Deferred tax liabilities	36	394		25,371	28,161
Bank overdraft	27	383		155,824	82,925
<b>Total liabilities</b>				<b>25,201,447</b>	<b>21,573,968</b>
<b>Total equity and liabilities</b>				<b>30,318,740</b>	<b>25,883,026</b>

The notes as set out in pages 322 to 413 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

# Statement of Changes in Equity

For the year ended 31 December 2012	Note	Stated capital	Reserves			Retained earnings	Total	
			Revaluation reserve	Reserve on merger	Other reserves			
Rs. '000					Available for sale	Other capital reserves		
<b>Balance as at 1 January 2012</b>		388,433	697,304	16,752	241,138	-	1,903,587	3,247,214
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	921,268	921,268
<b>Other comprehensive income for the year</b>								
Net change fair value of available for sale financial assets	29.(b).(ii)	-	-	-	(82,662)	-	-	(82,662)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	29.(b).(i)	-	-	-	(146,634)	-	-	(146,634)
Transfer from revaluation reserve to retained earnings		-	(5,068)	-	-	-	5,068	-
<b>Total other comprehensive income, net of tax</b>		-	(5,068)	-	(229,296)	-	5,068	(229,296)
<b>Total comprehensive income for the year, net of tax</b>		-	(5,068)	-	(229,296)	-	926,336	691,972
<b>Transactions with owners, recorded directly in equity</b>								
Issue of share capital	28	744,872	-	-	-	-	-	744,872
First and final dividend 2011		-	-	-	-	-	(375,000)	(375,000)
<b>Total contribution by and distribution to owners</b>		744,872	-	-	-	-	(375,000)	369,872
<b>Balance as at 31 December 2012</b>		1,133,305	692,236	16,752	11,842	-	2,454,923	4,309,058

# Statement of Changes in Equity

For the year ended 31 December 2013	Note	Stated capital	Reserves			Retained earnings	Total	
			Revaluation reserve	Reserve on merger	Other reserves			
Rs. '000					Available for sale	Other capital reserves		
<b>Balance as at 1 January 2013</b>		1,133,305	692,236	16,752	11,842	-	2,454,923	4,309,058
Total comprehensive income for the year								
Profit for the year		-	-	-	-		1,123,405	1,123,405
<b>Other comprehensive income for the year</b>								
Net change in fair value of available for sale financial assets	29.(b).(ii)	-	-	-	4,774	-	-	4,774
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	29.(b).(i)	-	-	-	1,752	-	-	1,752
Net gain on revaluation of land and buildings, net of tax	29.(a).(ii)	-	107,827	-	-	-	-	107,827
Actuarial loss on defined benefit plan		-	-	-	-	(4,585)	-	(4,585)
Transfer from revaluation reserve to retained earnings			(5,137)				5,137	-
<b>Total other comprehensive income net of tax</b>		-	102,690	-	6,526	(4,585)	5,137	109,768
<b>Total comprehensive income for the year, net of tax</b>		-	102,690	-	6,526	(4,585)	1,128,542	1,233,173
<b>Transactions with owners, recorded directly in equity</b>								
First and final dividend 2012		-	-	-	-	-	(428,571)	(428,571)
Share based payments		-	-	-	-	3,633	-	3,633
Transfer of share issue expenses		5,128	-	-	-	-	(5,128)	-
<b>Total contribution by and distribution to owners</b>		5,128	-	-	-	3,633	(433,699)	(424,938)
<b>Balance as at 31 December 2013</b>		1,138,433	794,926	16,752	18,368	(952)	3,149,766	5,117,293

# Statement of Cash Flows

For the year ended 31 December		2013	2012
	Note	Rs. '000	Rs. '000
<b>Cash flows from operations</b>			
Insurance premium received		10,521,384	9,509,615
Reinsurance premium paid		(876,046)	(959,783)
Insurance benefits and claims paid	13. (a)	(4,217,878)	(3,492,121)
Reinsurance claims received	13. (b)	314,451	249,678
Payments to intermediaries to acquire insurance contracts		(1,484,510)	(1,292,476)
Cash paid to and on behalf of employees		(1,088,554)	(1,037,383)
Dividends received		63,771	43,661
Interest received		2,302,849	2,009,010
Other operating cash flows		(1,645,858)	(1,043,910)
<b>Cash generated from operating activities</b>	Note A	<b>3,889,609</b>	<b>3,986,291</b>
Retiring gratuity paid		(21,139)	(16,114)
Income tax paid		(4,564)	(25,018)
<b>Net cash from operating activities</b>		<b>3,863,906</b>	<b>3,945,159</b>
<b>Cash flows from investing activities</b>			
Acquisition of investments		(13,870,869)	(11,967,874)
Proceeds from sale of investments		10,650,807	7,779,075
Acquisition of property, plant and equipment	21	(188,649)	(208,910)
Proceeds on sale of property, plant and equipment		388	466
<b>Net cash used in investing activities</b>		<b>(3,408,323)</b>	<b>(4,397,243)</b>
<b>Net cash (used in) / inflow before financing activities</b>		<b>455,583</b>	<b>(452,084)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from issue of share capital	28	-	744,872
Dividends paid to equity holders of the parent		(383,148)	(338,652)
<b>Net cash from / (used in) financing activities</b>		<b>(383,148)</b>	<b>406,220</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	Note B	<b>72,435</b>	<b>(45,864)</b>

# Notes to the Cash Flow Statement

For the year ended 31 December

Note 2013  
Rs. '000 2012  
Rs. '000

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

Profit for the year		1,182,604	1,008,252
<b>Adjustment for:</b>			
Depreciation on property, plant and equipment	21	154,315	143,347
Reversal on impairment of reinsurance receivable		(1,413)	(1,639)
Reversal of premium receivable		-	(425)
Provision for employee benefits	15. (a)	39,060	23,457
Fair value (gains)/ losses	10	(31,724)	53,874
Net realised gains	11	(44,609)	(28,782)
(Gain)/ loss on sale of property, plant and equipment	12	2,230	(369)
Amortisation of deferred acquisition expenses (net)		9,450	(6,039)
Unrealised exchange gains	12	(5,436)	(14,235)
Share based payment expenses		3,633	-
<b>Cash flows from operating activities</b>		<b>1,308,110</b>	<b>1,177,441</b>
Net change in operational assets	37(a)	(592,491)	(17,262)
Net change in operational liabilities	37(b)	3,173,990	2,826,112
<b>Cash flows from operating activities</b>		<b>3,889,609</b>	<b>3,986,291</b>
<b>B. Increase / (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents		466,402	315,634
Bank overdraft		(155,824)	(82,925)
<b>Net cash at bank and in hand and cash equivalents</b>		<b>310,578</b>	<b>232,709</b>
Effect of exchange rate fluctuations on cash held		(19,669)	(14,235)
<b>Net cash and cash equivalents for the current year</b>		<b>290,909</b>	<b>218,474</b>
Net cash and cash equivalents for the previous year		(218,474)	(264,338)
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>72,435</b>	<b>(45,864)</b>

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Income - 2013

For the year ended 31 December 2013 Rs. '000	Non life insurance	Life insurance	Elimination	Total
Gross written premium	5,391,712	5,515,063	-	10,906,775
Net change in reserve for unearned premium	(833,171)	-	-	(833,171)
<b>Gross earned premium</b>	<b>4,558,541</b>	<b>5,515,063</b>	<b>-</b>	<b>10,073,604</b>
Premium ceded to reinsurers	(1,256,181)	(280,542)	-	(1,536,723)
Net change in reserve for unearned reinsurance premium	689,974	-	-	689,974
<b>Net earned premium</b>	<b>3,992,334</b>	<b>5,234,521</b>	<b>-</b>	<b>9,226,855</b>
<b>Other revenue</b>				
Investment income	582,901	2,070,240	(17,518)	2,635,623
Net realised gains / (losses)	(3,607)	35,331	-	31,724
Net fair value gains	4,744	39,865	-	44,609
Other operating income	73,848	79,182	(19,666)	133,364
	657,886	2,224,618	(37,184)	2,845,320
<b>Total net revenue</b>	<b>4,650,220</b>	<b>7,459,139</b>	<b>(37,184)</b>	<b>12,072,175</b>
<b>Benefits, losses and expenses</b>				
Net benefits and claims	(2,799,257)	(3,976,248)	-	(6,775,505)
Underwriting and net acquisition costs (including reinsurance)	(245,740)	(968,181)	-	(1,213,921)
Other operating and administrative expenses	(1,123,096)	(1,659,918)	37,184	(2,745,830)
Depreciation on property, plant and equipment	(90,487)	(63,828)	-	(154,315)
<b>Total benefits, losses and expenses</b>	<b>(4,258,580)</b>	<b>(6,668,175)</b>	<b>37,184</b>	<b>(10,889,571)</b>
<b>Profit before income tax</b>	<b>391,640</b>	<b>790,964</b>	<b>-</b>	<b>1,182,604</b>
Income tax expense	(59,199)	-	-	(59,199)
<b>Profit for the year attributable to equity holders of the company</b>	<b>332,441</b>	<b>790,964</b>	<b>-</b>	<b>1,123,405</b>

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Comprehensive Income - 2013

For the year ended 31 December 2013 Rs. '000	Non life insurance	Life insurance	Elimination	Total
Profit for the year	332,441	790,964	-	1,123,405
<b>Other comprehensive income, net of income tax</b>				
<b>Fair value reserve (available for sale financial assets)</b>				
Net change in fair value of available for sale financial assets	6,818	(2,072)	-	4,746
Net change in fair value of available for sale financial assets transferred to the statement of income	-	28	-	28
	6,818	(2,044)	-	4,774
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	-	3,364	-	3,364
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	-	(1,612)	-	(1,612)
	-	1,752	-	1,752
	6,818	(292)	-	6,526
Net gain on revaluation of land and buildings	29.(a).(ii)	-	107,827	107,827
	-	-	107,827	107,827
Actuarial loss on defined benefit plan	(2,183)	(2,402)	-	(4,585)
	(2,183)	(2,402)	-	(4,585)
<b>Other comprehensive income for the year, net of income tax</b>	4,635	105,133	-	109,768
<b>Total comprehensive income attributable to the equity holders</b>	337,076	896,097	-	1,233,173

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Income - 2012

For the year ended 31 December 2012 Rs. '000	Non life insurance	Life insurance	Elimination	Total
Gross written premium	4,626,433	5,106,323	-	9,732,756
Net change in reserve for unearned premium	(218,231)	-	-	(218,231)
<b>Gross earned premium</b>	<b>4,408,202</b>	<b>5,106,323</b>	<b>-</b>	<b>9,514,525</b>
Less: Premium ceded to reinsurers	(912,278)	(249,595)	-	(1,161,873)
Net change in reserve for unearned reinsurance premium	32,488	-	-	32,488
<b>Net earned premium</b>	<b>3,528,412</b>	<b>4,856,728</b>	<b>-</b>	<b>8,385,140</b>
<b>Other revenue</b>				
Investment income	552,088	1,703,402	-	2,255,490
Net realised gains /(losses)	(5,365)	(48,509)	-	(53,874)
Net fair value gains	3,513	25,269	-	28,782
Other operating income	57,422	65,071	(19,666)	102,827
	607,658	1,745,233	(19,666)	2,333,225
<b>Total net revenue</b>	<b>4,136,070</b>	<b>6,601,961</b>	<b>(19,666)</b>	<b>10,718,365</b>
<b>Benefits, losses and expenses</b>				
Net benefits and claims	(2,320,105)	(3,572,770)	-	(5,892,875)
Underwriting and net 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)
<b>Total benefits, losses and expenses</b>	<b>(3,660,637)</b>	<b>(6,069,142)</b>	<b>19,666</b>	<b>(9,710,113)</b>
<b>Profit before income tax</b>	<b>475,433</b>	<b>532,819</b>	<b>-</b>	<b>1,008,252</b>
Income tax expense	(86,984)	-	-	(86,984)
<b>Profit for the year attributable to equity holders of the company</b>	<b>388,449</b>	<b>532,819</b>	<b>-</b>	<b>921,268</b>

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Comprehensive Income - 2012

For the year ended 31 December 2012 Rs. '000	Non life insurance	Life insurance	Elimination	Total
<b>Profit for the year</b>	388,449	532,819	-	921,268
<b>Other comprehensive income, net of income tax</b>				
<b>Fair value reserve (available for sale financial assets)</b>				
Net change in fair value of available for sale financial assets	(82,662)	-	-	(82,662)
Net change in fair value of available for sale financial assets transferred to the statement of income	-	-	-	-
	(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)
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the statement of income	-	(20,438)	-	(20,438)
	-	(146,634)	-	(146,634)
	(82,662)	(146,634)	-	(229,296)
Net gain on revaluation of land and buildings	-	-	-	-
	-	-	-	-
Actuarial gain / (loss) on defined benefit plan	-	-	-	-
	-	-	-	-
<b>Other comprehensive income for the year, net of Income tax</b>	(82,662)	(146,634)	-	(229,296)
<b>Total comprehensive income for the year attributable to equity holders of the company</b>	305,787	386,185	-	691,972

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Financial Position - 2013

As at 31 December 2013 Rs. '000	Non life insurance	Life insurance	Elimination	Total
<b>Assets</b>				
Financial investments	4,443,064	19,854,434	-	24,297,498
Property, plant and equipment	279,072	1,175,901	-	1,454,973
Loans to life policyholders	-	515,735	-	515,735
Reinsurance receivables	415,090	87,481	-	502,571
Premium receivables	1,729,853	114,978	-	1,844,831
Receivables and other assets	756,804	354,251	(23,470)	1,087,585
Deferred acquisition cost	149,145	-	-	149,145
Cash and cash equivalents	227,958	238,444	-	466,402
<b>Total assets</b>	<b>8,000,986</b>	<b>22,341,224</b>	<b>(23,470)</b>	<b>30,318,740</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	513,433	625,000	-	1,138,433
Reserves	480,130	348,964	-	829,094
Retained earnings	1,946,307	1,203,459	-	3,149,766
<b>Total equity</b>	<b>2,939,870</b>	<b>2,177,423</b>	<b>-</b>	<b>5,117,293</b>
<b>Liabilities</b>				
Insurance contract liabilities - Life	-	17,518,016	-	17,518,016
Insurance contract liabilities - Unit linked	-	1,807,137	-	1,807,137
Insurance contract liabilities - Non life	3,440,249	-	-	3,440,249
Reinsurance payables	652,793	112,184	-	764,977
Deferred revenue	109,402	-	-	109,402
Employee benefits	69,695	116,383	-	186,078
Other liabilities	599,593	559,071	(23,470)	1,135,194
Current tax liabilities	59,199	-	-	59,199
Deferred tax liabilities	13,085	12,286	-	25,371
Bank overdraft	117,100	38,724	-	155,824
<b>Total liabilities</b>	<b>5,061,116</b>	<b>20,163,801</b>	<b>(23,470)</b>	<b>25,201,447</b>
<b>Total equity and liabilities</b>	<b>8,000,986</b>	<b>22,341,224</b>	<b>(23,470)</b>	<b>30,318,740</b>

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Segmental Review

## Statement of Financial Position - 2012

As at 31 December 2012 Rs. '000	Non life insurance	Life insurance	Elimination	Total
<b>Assets</b>				
Financial investments	4,339,702	16,462,607	-	20,802,309
Property, plant and equipment	219,967	1,098,258	-	1,318,225
Loans to life policyholders	-	385,688	-	385,688
Reinsurance receivables	356,441	44,186	-	400,627
Premium receivables	1,268,350	191,090	-	1,459,440
Receivables and other assets	754,964	372,610	(72,568)	1,055,006
Deferred acquisition cost	146,097	-	-	146,097
Cash and cash equivalents	167,243	148,391	-	315,634
<b>Total assets</b>	<b>7,252,764</b>	<b>18,702,830</b>	<b>(72,568)</b>	<b>25,883,026</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	512,578	620,727	-	1,133,305
Reserves	474,405	246,425	-	720,830
Retained earnings	1,800,060	654,863	-	2,454,923
<b>Total equity</b>	<b>2,787,043</b>	<b>1,522,015</b>	<b>-</b>	<b>4,309,058</b>
<b>Liabilities</b>				
Insurance contract liabilities - Life	-	15,356,340	-	15,356,340
Insurance contract liabilities - Unit linked	-	1,143,546	-	1,143,546
Insurance contract liabilities - Non life	3,200,838	-	-	3,200,838
Reinsurance payables	350,824	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
<b>Total liabilities</b>	<b>4,465,721</b>	<b>17,180,815</b>	<b>(72,568)</b>	<b>21,573,968</b>
<b>Total equity and liabilities</b>	<b>7,252,764</b>	<b>18,702,830</b>	<b>(72,568)</b>	<b>25,883,026</b>

The notes as set out in pages 322 to 413 form an integral part of these financial statements.

# Insurance Revenue Account

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
<b>NON LIFE INSURANCE</b>		
Gross written premium	5,391,712	4,626,433
Premium ceded to reinsurers	(1,256,181)	(912,278)
<b>Net written premium</b>	<b>4,135,531</b>	<b>3,714,155</b>
Net change in reserve for unearned premium / unearned reinsurance premium	(143,197)	(185,744)
<b>Net earned premium</b>	<b>3,992,334</b>	<b>3,528,412</b>
Policy fee income	51,605	27,799
<b>Total net income</b>	<b>4,043,939</b>	<b>3,556,211</b>
Net claims incurred	(2,799,257)	(2,320,104)
Underwriting and net acquisition costs (including reinsurance)	(245,740)	(278,697)
Other operating and administrative expenses	(1,213,583)	(1,061,834)
<b>Total benefits and expenses</b>	<b>(4,258,580)</b>	<b>(3,660,635)</b>
<b>Underwriting loss</b>	<b>(214,641)</b>	<b>(104,424)</b>
Investment and other income	606,281	579,857
Income tax expense	(59,199)	(86,984)
<b>Profit for the year - Non life insurance</b>	<b>332,441</b>	<b>388,449</b>
<b>Key Ratios: Non life Insurance</b>		
Net loss ratio	70.1%	65.8%
Net expense ratio*	36.6%	37.2%
Net combined ratio	106.7%	103.0%
* net of policy fee income		
<b>LIFE INSURANCE</b>		
Gross written premium	5,515,063	5,106,323
Premium ceded to reinsurers	(280,542)	(249,595)
<b>Net written premium</b>	<b>5,234,521</b>	<b>4,856,728</b>
Investment and other income	2,017,544	1,722,070
Net benefits and claims	(3,976,248)	(3,572,769)
Underwriting and net acquisition costs (including reinsurance)	(968,181)	(890,536)
Other operating and administrative expenses	(1,695,636)	(1,590,493)
<b>Surplus from life insurance fund</b>	<b>612,000</b>	<b>525,000</b>
Investment and other income not attributable to policyholders	207,074	23,161
Expenses not attributable to policyholders	(28,110)	(15,343)
<b>Profit for the year - life insurance</b>	<b>790,964</b>	<b>532,819</b>
<b>Profit for the year - Company</b>	<b>1,123,405</b>	<b>921,268</b>

# Notes to the Financial Statements

## 1. REPORTING ENTITY

### Corporate Information

Union Assurance PLC ("The company") is a public limited company incorporated and domiciled in Sri Lanka and the ordinary shares of the company are listed on the Colombo Stock Exchange. The registered office of the company is located at Union Assurance Centre, No. 20, St. Michael's Road, Colombo 03.

### Principal Activities and Nature of Operations

The company is primarily involved in the life and non life insurance business.

There were no significant changes in the nature of the principal activities of the company during the financial year under review.

### Number of Employees

The staff strength of the company as at 31st December 2013 is 1,157 (2012 – 1,088).

### Parent Entity and Ultimate Parent Entity

The company's ultimate parent undertaking and controlling entity is John Keells Holdings PLC which is incorporated in Sri Lanka.

## 2. BASIS OF PREPARATION

### Statement of compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred to as SLFRS/ LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

These financial statements include the following components:

- a statement of income and statement of other comprehensive Income providing the information on the financial performance of the company for the year under review; (Refer page 308 and 309)
- a statement of financial position providing the information on the financial position of the company as at the year-end; (Refer page 310)
- a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the company; (Refer page 311)

- a statement of cash flows providing the information to the users, on the ability of the company to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer page 313) and
- Notes to the financial statements comprising Accounting Policies and other explanatory information. (Refer pages 322 to 413)

### Responsibility for financial statements

The Board of Directors is responsible for preparation and presentation of the financial statements of the company as per the provisions of the companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards. The responsibility of the Directors in relation to the financial statements is set out in detail in the Statement of Directors' Responsibility report in the annual report.

### Approval of financial statements

The financial statements for the year ended 31 December 2013 were authorized for issue by the directors on 25 February, 2014.

### 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:

Note	Note No	Page reference
Assets held for trading are measured at fair value	20(d)	371
Financial instruments classified at fair value through profit or loss are measured at fair value	20(d)	371
Available-for-sale financial assets are measured at fair value	20(c)	370
Unit linked financial assets are measured at fair value	20(d)(ii)	373
Land and buildings are measured at revalued amounts	21	377
Policyholders' liabilities have been measured at actuarial determined values	22	379
The liability for defined benefit obligations are actuarially valued and recognised at the present value	34	392

No adjustments have been made for inflationary factors affecting the financial statements.

#### Supplementary Statements - Statement of Financial Position of the Life Insurance Fund

Supplementary statement of financial position of the life insurance fund together with the notes are disclosed in page 405 to 413 continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for insurance contracts then applicable, adopted by the institute of chartered accountants of Sri Lanka.

#### Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the company's functional and presentation currency.

All financial information presented in rupees has been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

#### Materiality and Aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of financial statements'.

#### Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

#### Significant accounting judgements, estimates and assumption

The preparation of the financial statements in conformity with SLFRS/ LKAS requires management to make judgments, estimates and assumptions, which may affect the amounts of income, expenditure, assets, liabilities and the disclosure of contingent liabilities, at the end of the reporting period.

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, the results which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods 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 as follows;

Critical accounting estimate / judgment	Disclosure reference	
	Note to the financial statements	Page
Insurance contract liabilities - life	30	387
Insurance contract liabilities - non life	31	389
Measurement of employee benefit obligations	34	392
Estimates related to income and deferred tax	17	364
Impairment of assets	21(g)	379
Provisions for liabilities and contingencies	42	403
Deferred acquisition cost	26	383
Revaluation of property plant and equipment	21	377
Fair valuation measurements of certain financial assets	39	398
Liability Adequacy Test (LAT) - Life	30(c)	389
Liability Adequacy Test (LAT) - Non-Life	31(c)	391

#### Comparative information

The presentation and classification of the financial statements of the previous years have been amended, where relevant for better presentation and to be comparable with those of the current year.

The significant accounting policies are discussed in note 3 below.

# Notes to the Financial Statements

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The company's financial position represents the assets, liabilities and equity. The life insurance financial position presented as supplemental information on page 405 which represent assets, liabilities and reserves of the life insurance fund. The statement of comprehensive income reflects the total revenue, benefits and claims, surplus from long term insurance business, expenses of the non life insurance business and the life insurance business.

### 3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are 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 that 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 translation are generally recognised in the statement of comprehensive income.

## 3.2 Insurance and investment contracts

### 3.2.1 Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the company issues and reinsurance contracts that the company holds.

Contracts where the company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is 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 price 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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. 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").

### Unit Linked Contracts

Unit-linked contracts are that do not meet the definition of insurance or investment contracts with discretionary participating features. For these Unit-Linked contracts, the liabilities are valued at current unit value, i.e. on the basis of the fair value of the financial investments backing those contracts at the reporting date together with Rights to future management fees.

### 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

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the statement of comprehensive 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 the profit and loss.

IBSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

### 3.2.2. 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.

## 3.3 Financial Assets and Liabilities

### 3.3.1. Non derivative financial assets

#### Initial recognition and measurement

The company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Depending on the intention and ability to hold the invested assets, the company classifies its non-derivative financial assets into following categories;

- Financial assets at fair value through profit or loss (FVTPL);
- Held to maturity (HTM);
- Loans and receivables (L&R); and
- Available for sale (AFS) financial assets as appropriate.

Income and expenses are presented on a net basis only when permitted under SLFRS/LKAS, or for gains and losses arising from a group of similar transactions such as in the company's trading activity.

#### Subsequent measurement

##### (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 statement of comprehensive income as incurred.

## Notes to the Financial Statements

Financial assets at fair value through profit and loss investments are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

### **(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 comprehensive income. The losses arising from impairment are recognised as finance cost in the statement of comprehensive 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.

### **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.

### **Premiums receivable**

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables 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 recognized in the statement of comprehensive income.

Premium receivables are derecognised when the derecognition criteria for financial assets, as described in note 24, have been met.

### **(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 comprehensive income.

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for

an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. There classification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos and investments in treasury bills and bonds.

### 3.3.2 *Non derivative financial liabilities*

#### *Initial recognition and measurement*

The company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise 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.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification, as follows:

#### *Interest bearing loans and borrowings*

After initial recognition, 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 comprehensive income when the liabilities are derecognised 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 comprehensive income.

#### *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.

#### *Derecognition of insurance payables*

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

### 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 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;

# Notes to the Financial Statements

- (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;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) 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 expire.

### 3.3.5 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.

### 3.3.6 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.

### 3.3.7 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.

### Determination of Fair Value

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 models.

### Fair Value Measurement Hierarchy

#### Level 1

The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

#### Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

#### Level 3

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued

based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial Assets	Category
Treasury Bonds	Held to Maturity, Available for Sale
Treasury Bills	Available for Sale
Reverse Repos	Loans and Receivables
Listed Equity Shares	Fair Value Through Profit or Loss
Unlisted Equity Shares	Available for Sale
Corporate Debts Quoted	Available for Sale, Held to Maturity
Corporate Debts –Un quoted	Loans and Receivables
Term Deposits	Loans and Receivables
Unit Linked Investments	Fair Value Through Profit or Loss

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.

### 3.3.8 Impairment

#### **Financial assets**

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

#### **(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 statement of comprehensive 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 was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

#### **(b) 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 comprehensive 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 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 comprehensive 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 comprehensive income and increases in their fair value after impairment are recognised directly in other comprehensive income.

### 3.4 Deferred expenses

#### **3.4.1. Deferred acquisition costs (DAC) – Non life**

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

# Notes to the Financial Statements

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 comprehensive income.

DAC are derecognised when the related contracts are either settled or disposed of.

### 3.4.2. Reinsurance commissions - Unearned commission reserve (UCR) – Non life

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

### 3.4.3. 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 comprehensive 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 comprehensive income. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Investment management services are derecognised when the related contracts are settled or disposed.

## 3.5 Property, plant and equipment

### 3.5.1 Recognition and measurement

The company applies the requirements of the Sri Lanka Accounting Standard -LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

#### Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the company and cost of the asset can be reliably measured.

#### Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost.

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;

- When the company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in "other operating income" in the statement of comprehensive income. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

### 3.5.2 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 the day-to-day servicing of property and equipment are recognised in statement of comprehensive income as incurred.

### 3.5.3 Repairs and maintenance

Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

### 3.5.4 Revaluations

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 reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive 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.

### 3.5.5 Depreciation

Depreciation is recognised in the statement of comprehensive 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 in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Class	Basis
Buildings	50 years
Office furniture	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

# Notes to the Financial Statements

All classes of property, plant & equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 21 on page 377.

### 3.5.6 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 comprehensive income.

The residual values of assets that are not insignificant are reassessed annually.

Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.

### 3.5.7 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 comprehensive income in the year the asset is de-recognised.

### 3.6 Leased assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

#### Finance Leases

Finance leases that transfer to the company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

#### Operating Leases

Leases that do not transfer to the company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### 3.7 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable value is the estimated market price in the ordinary course of business less any estimated expense to sell.

### 3.8 Impairment Non-financial assets

The carrying amounts 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 comprehensive 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.

### 3.9 Equity movements

#### **Ordinary shares**

The company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

#### **Dividends on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the company's board of directors in accordance with the articles of association.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

#### **Share issue costs**

Share issue related expenses are charged against the reserves in the equity statement.

### 3.10 Insurance contract liabilities

#### **3.10.1 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 comprehensive income in 'Increase in life insurance contract liabilities'.

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of 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 3.10.1.1.

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 unrealized 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 realized 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.

#### **3.10.1.1 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 insufficient 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 deficiency shall be recognised in the statement of comprehensive income by setting up a provision for liability adequacy.

#### **3.10.2 Non-life insurance liabilities**

Non-life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR/ IBNER) and the provision for unearned premium and the provision for premium deficiency.

#### **3.10.2.1 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

# Notes to the Financial Statements

and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is decided by an independent external actuary.

### 3.10.2.2 Provision for unearned premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Provision for unearned premium is calculated on a 1/ 24 basis except for marine / cargo class which is subject to 60 / 40 basis.

At each reporting date, the company reviews its unexpired risk and the liability adequacy tested to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums as disclosed in Note 3.10.2.4.

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.

### 3.10.2.3. Title insurance reserve

Title insurance reserve is maintained by the company to pay potential claims arising from the 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.

### 3.10.2.4. 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 comprehensive income by setting up a provision for liability adequacy.

Non-life insurance liability adequacy is decided by an independent external actuary.

### 3.10.3 Investment contract liabilities - Unit Linked

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 statement of comprehensive income.

Fair value adjustments are performed at each reporting date and are recognised in the statement of comprehensive 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 also carried at fair value, which is determined by using valuation techniques.

The liability is derecognised 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.

### 3.11 Reinsurance

The company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contract. Reinsurance is recorded gross in the financial position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the

company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive 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.

### 3.12 Employee benefits

#### 3.12.1 Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### 3.12.2 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 comprehensive 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 payments 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.

#### *Employees’ Provident Fund*

All employees of the company are member of the Employees’ Provident Fund (EPF). The company and employees contribute 12% and 8% respectively of the salary to Employees’ Provident Fund managed by the Central Bank of Sri Lanka.

#### *Employees’ Trust Fund*

All employees of the company are member of the Employees’ Trust Fund (ETF). The company contributes at the rate of 3% of the salaries of each employee to the Employees’ Trust Fund managed by the Central Bank of Sri Lanka.

# Notes to the Financial Statements

## 3.12.3 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 by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

Up to the year ended 31 December 2012, the company recognised all actuarial gains and losses arising from defined benefit plans immediately against profit or loss in the statement of comprehensive income including all expenses related to defined benefit plans in employee benefit expense.

With the adoption of LKAS 19 - "Employee Benefits", which became effective from 1 January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

## 3.13 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

### 3.14 Gross written premiums

Gross written premiums comprise the total premiums received/ receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross written premium is generally recognized is written upon inception of the policy. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross written premium.

### 3.15 Unearned premium reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24 basis except for the marine and title policies which are computed on a 60-40 basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

### 3.16 Reinsurance premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered during the period, and are generally recognised on the date on which the policy incepts.

### 3.17 Unearned reinsurance premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated on the 1/24 basis except for the marine policies which are computed on a 60-40 basis.

### 3.18 Unexpired risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at the reporting date.

### 3.19 Acquisition cost

Acquisition costs 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.

### 3.20 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.

### 3.21 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.

### 3.22 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

### 3.23 Gross written premiums

Gross recurring premiums on life and investment contracts with DPF are recognised as revenue when receivable from the policyholder (policies within the 30 day grace period are considered as due). For single premium business, revenue is recognised on the date on which the policy is effective.

### 3.24 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.

### 3.25 Acquisition cost

All acquisition cost are recognised as an expense when incurred.

### 3.26 Reinsurance commission income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

### 3.27 Gross benefits and claim expense

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Changes in the valuation of insurance contract liabilities are disclosed in the statement of financial position under increase in life fund.

### 3.28 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

### 3.29 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 comprehensive 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.

### 3.30 Dividend income

Dividend income is recognised when the company right to receive the payment is established.

# Notes to the Financial Statements

## 3.31 Realised gains and losses

Realised gains and losses recorded in the statement of comprehensive 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.

## 3.32 Fair value gains and losses

Fair value gains and losses recorded in the statement of comprehensive income on investments include fair value gains on financial assets at fair value through profit or loss and investment properties.

## 3.33 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

## 3.34 Expenditure recognition

Expenses are recognised in the statement of comprehensive 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 comprehensive income.

## 3.35 Finance cost

Interest paid is recognised in the statement of comprehensive 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.

## 3.36 Income Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in items recognised directly in equity or in other comprehensive income.

## 3.36.1 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.

## 3.36.2 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.

### 3.36.3 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.

### 3.36.4 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.

### 3.36.5 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.

### 3.37 Earnings per share (EPS)

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### 3.38 Cash flow statements

The cash flow statement has been prepared using the direct method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, "Cash Flow Statements."

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

### 3.39 Events occurring after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

### 3.40 Dividends declaration

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the financial statements.

### 3.41 Capital commitments and contingencies

Capital commitments and contingent liabilities of the company are disclosed in the financial statements.

### 3.42 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.

## 4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014/2015.

Accordingly, these Standards have not been applied in preparing these financial statements.

## Notes to the Financial Statements

### 4.1 New Accounting Standards applicable but not adopted

- Sri Lanka Accounting Standard - SLFRS 13, "Fair Value Measurement"

This SLFRS defines fair value, sets out in a single SLFRS framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective from 1 January 2014. This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

The company has started the process of evaluating the potential effect of this. Although many of the SLFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of SLFRS 13 will require the company to provide additional disclosures. Given the nature of the company's operations, this standard is not expected to have a pervasive impact on the company's financial statements. The company is still evaluating the potential effect of the adoption of this standard.

- Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 "Financial Instruments: Recognition and Measurement."

The effective date of this standard has been deferred.

### 4.2 New Accounting Standards not applicable and not adopted

- Sri Lanka Accounting Standards – SLFRS 10 "Consolidated financial statements"

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

SLFRS 10 will become effective from 1 January 2014.

- Sri Lanka Accounting Standards – SLFRS 11 "Joint Arrangements"

The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

SLFRS 11 will become effective from 1 January 2014. This SLFRS will supercede the requirements relating to consolidated financial statements in LKAS 31 - "Interests in Joint Ventures."

- Sri Lanka Accounting Standard - SLFRS 12 "Disclosure of Interests in Other Entities"

SLFRS 12 will become effective from 1 January 2014.

SLFRS 10, 11 and 12 which will be applicable only to groups and joined arrangements are not expected to have any impact on the company if it maintains its current structure, as it neither prepares consolidated financial statements nor has interest in joint ventures. However, if and when there is a change in the structure in the company, these standards will have an impact on the consolidated financial statements.

## 5. FINANCIAL RISK MANAGEMENT

It is of paramount importance that the management identify the uncertainties that hinder achievement of financial objectives of the company and implement effective mitigating strategies to safeguard the financial expectations of the stakeholders.

The company 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. A detailed approach on how the company takes initiatives on the risks have been illustrated in the Integrated Risk Management section on page 280 to 292.

The company is exposed to the following main risk categories;

### Business risk (Insurance risk)

- Reinsurance risk
- Concentration risk

### Financial risk

- Investment concentration risk
- Liquidity risk
- Credit 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 - "Insurance Contracts", 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 SLFRS 7 - "Financial Instruments - Disclosures", 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 the company is exposed and objectives, policies, process and methods adopted to manage those risks, this section should be read along with the risk management report in the corporate governance section.

### 5.1 Business risk (Insurance Risk)

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

Risk management procedures adopted by the company to manage insurance risk is given on page 286 to 288.

### 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, 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 behaviour and expense risks. Policyholder behaviour risk is mitigated by product designs that match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses, regular expense analysis and allocation exercises.

Certain life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees.

# Notes to the Financial Statements

## 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.

The company is exposed to two main types of concentration risks in its life business:

- Market risk: Interest rate guarantees expose the company 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 behaviour 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 the company'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 behaviour.

## Concentration risk within the life business

Description Rs:000	Insurance contract liabilities 31 December 2013
Participating	7,008,308
Non participating	10,123,091
Total traditional life insurance	17,131,399
Non unit fund of linked insurance	104,435
<b>Total</b>	<b>17,235,834</b>

Description Rs:000	Insurance contract liabilities 31 December 2012
Participating	6,951,248
Non participating	7,962,761
Total traditional life insurance	14,914,009
Non unit fund of linked insurance	103,637
<b>Total</b>	<b>15,017,646</b>

## 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, an (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 2013 or 2012, based on the results of the liability adequacy test.

Sensitivity of the value of insurance liabilities		
Assumptions	Change in assumptions	Impact on liabilities
Mortality	+10%	+0.41%
	-10%	-0.39%
Valuation	+ 50 basis points	-1.62%
Interest Rate	- 50 basis points	+1.71%

#### Non life insurance contracts

Non life insurance risks include the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured event as well as in the severity of the resulting claim. An overview of the company's main lines of business is as follows;

Line of 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. Contracts 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, errors and omissions liability

The company's underwriting strategy is to take advantage of the diversification of non life 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.

#### 5.1.1 Reinsurance risk

Notwithstanding the advantages reinsurance provides insurers, it can expose them, at varying degrees, to various risks inherent in its use. A new or continuing reinsurance contract could give rise to one or more of the following risks:

- Residual insurance risk may arise from discrepancies between reinsurance needs and the actual coverage provided for in the contract, resulting in the insurer retaining greater risk than anticipated. Similarly, an insurer may face a basic risk related to alternative risk transfer mechanisms where the amounts obtained by the insurer through the mechanisms do not match the losses incurred by the insurer
- Legal risk may arise when the terms of the contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced
- Counterparty risk may result from the inability or potential refusal of the reinsurer, or a stakeholder in the case of an alternative risk transfer mechanism, to honour its obligations towards the ceding insurer
- Liquidity risk may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable

Considering above factors our overall risk management strategy 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 a credit risk as discussed under financial risk factors in note 5.2.3.

# Notes to the Financial Statements

The ratings of reinsurers' and their related rating agencies are as follows;

Reinsurers	2013	2012	Rating Agency
Swiss Reinsurance Company Ltd	AA-	AA-	Standard & Poor's
Lloyds	A+	A+	Standard & Poor's
AWAC	A	-	Standard & Poor's
SCOR Reinsurance Asia Pacific Pte Ltd	A+	A+	Standard & Poor's
Toa Reinsurance Company Ltd	A+	A+	Standard & Poor's
Asia Capital Reinsurance Group Pte Ltd	A-	A-	Standard & Poor's
Korean Re	A -	A -	Standard & Poor's
Sirius Reinsurance	A-	A-	Standard & Poor's
Munich Reinsurance Company	AA-	AA-	Standard & Poor's
Hannover Re	AA-	AA-	Standard & Poor's
Partner Re	A+	-	Standard & Poor's
General Insurance Corporation of India	A-	A-	A.M. Best
Malaysian Re	A-	A-	A.M. Best
TRUST Re	A-	A-	A.M. Best
Mapfre	A-	A-	A.M. Best
ARIG	B++	B++	A.M. Best
BEST Reinsurance	A-	-	A.M. Best
Asian Re	B++	-	A.M. Best
National Insurance Trust Fund			

## 5.1.2 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.

## Concentration risk within the non life insurance business based on GWP

Class Rs. '000	2013				2012			
	Gross Written Premium	Reinsurance	Net Written Premium	%	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	2,711,341	(111,743)	2,599,598	62	2,328,111	(97,080)	2,231,031	60
Fire	821,707	(759,106)	62,601	2	569,700	(513,051)	56,649	2
Marine	325,268	(203,407)	121,861	3	319,320	(188,327)	130,993	4
Accident and liability	1,533,397	(182,291)	1,351,106	33	1,409,392	(113,820)	1,295,572	34
	5,391,712	(1,256,547)	4,135,165	100	4,626,523	(912,278)	3,714,245	100
<b>Motor / Non Motor composition</b>								
Motor	2,711,341	(111,743)	2,599,598	62	2,328,111	(97,080)	2,231,031	60
Non Motor	2,680,371	(1,144,804)	1,535,567	38	2,298,322	(815,198)	1,483,124	40
	5,391,712	(1,256,547)	4,135,165	100	4,626,433	(912,278)	3,714,155	100

**Sources of uncertainty in the estimation of future claim payments**

The company 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

## Notes to the Financial Statements

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 claims ratio

	2013 Rs:000	2012 Rs:000
+1% in claims ratio		
Net impact to profit before tax	(39,928)	(35,284)
Impact to net assets	(36,011)	(31,826)

### 5.2 Financial Risk

UA is exposed to a range of financial risks through;

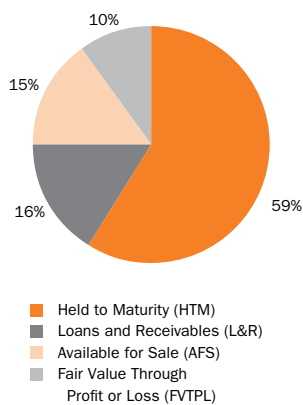
- Financial assets
- Financial liabilities
- Reinsurance receivables and
- Insurance liabilities

#### 5.2.1 Investment Concentration Risk

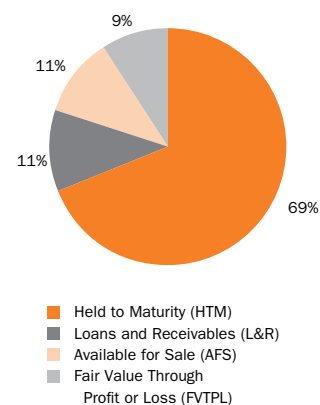
The risk specifically arise when the investment portfolio is not sufficiently diversified . The table overleaf shows how the company's investments are diversified into different categories .

As at 31 December	2013 Rs.000	% of allocation	2012 Rs.000	% of allocation
Financial investments				
Held to maturity	14,408,803	59	14,355,333	69
Loans and receivables	3,992,502	16	2,285,832	11
Available for sale	3,530,880	15	2,372,574	11
Fair value through profit or loss	2,365,313	10	1,788,570	9
<b>Total debt securities</b>	<b>24,297,498</b>	<b>100</b>	<b>20,802,309</b>	<b>100</b>

Financial Instruments by Category - 2013



Financial Instruments by Category - 2012

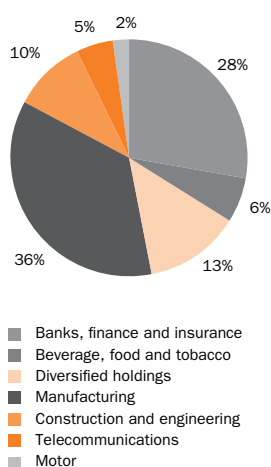


### 5.2.1 (a) Equity concentration risk

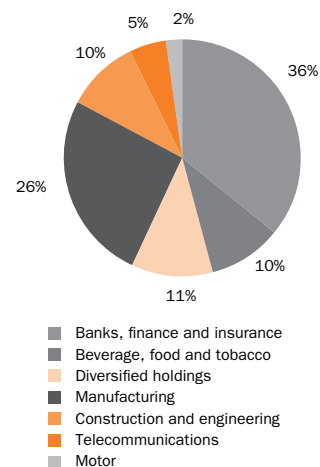
The company has no significant concentration of equity price risk as it has a diversified portfolio. The table below shows the sector diversity of quoted equity investments of the company (other than investments of unit linked fund).

Sector	2013 Rs:000	% of allocation	2012 Rs:000	% of allocation
Banks, finance and insurance	160,792	28	234,097	36
Beverage, food and tobacco	31,363	6	67,230	10
Diversified holdings	71,011	13	67,776	11
Manufacturing	206,483	36	165,697	26
Construction and engineering	57,096	10	67,455	10
Telecommunications	28,663	5	29,425	5
Motor	10,612	2	13,277	2
<b>Total</b>	<b>566,020</b>	<b>100</b>	<b>644,957</b>	<b>100</b>

Asset Allocation of Investments - 2013



Asset Allocation of Investments - 2012



# Notes to the Financial Statements

## 5.2.2 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;

- 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 contract 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.

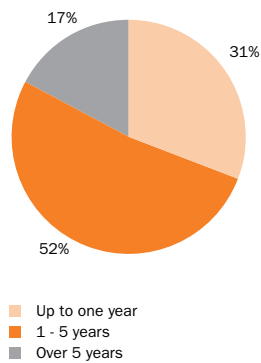
As at 31 December 2013 Rs'000	Carrying value	Up to 1 year	1 - 5 years	Over 5 years	No Maturity Date	Total
<b>Financial assets</b>						
Held to maturity	14,408,803	1,637,146	10,304,710	2,466,947	-	14,408,803
Loans and receivables	3,992,502	3,397,502	595,000	-	-	3,992,502
Available for sale	3,530,880	460,406	2,403,486	566,363	100,625	3,530,880
Financial assets at fair value through profit or loss	566,020	-	-	-	566,020	566,020
Life policyholders loans	515,735	24,233	219,436	272,066	-	515,735
Reinsurance receivable	394,063	330,535	63,528	-	-	394,063
Premiums receivable	1,844,831	1,844,831	-	-	-	1,844,831
Other financial assets	546,795	49,333	97,166	400,296	-	546,795
Cash and cash equivalents	466,402	466,402	-	-	-	466,402
<b>Total undiscounted assets</b>	<b>26,266,031</b>	<b>8,210,388</b>	<b>13,683,326</b>	<b>3,705,672</b>	<b>666,645</b>	<b>26,266,030</b>
<b>Financial liabilities</b>						
Insurance contract liabilities - life *	(17,518,016)	-	-	-	-	(17,518,016)
Insurance contract liabilities - non life *	(1,014,228)	-	-	-	-	(1,014,228)
Reinsurance payable	(764,977)	(764,976)	-	-	-	(764,976)
Other financial liabilities	(844,666)	(844,666)	-	-	-	(844,666)
Bank overdraft	(155,824)	(155,824)	-	-	-	(155,824)
<b>Total undiscounted liabilities</b>	<b>(20,297,711)</b>	<b>(1,765,466)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20,297,610)</b>
<b>Total liquidity excess</b>	<b>5,968,320</b>	<b>6,444,922</b>	<b>13,623,105</b>	<b>3,705,672</b>	<b>666,645</b>	<b>5,968,320</b>

As at 31 December 2012 Rs'000	Carrying value	Up to one year	1 - 5 years	Over 5 years	No Maturity Date	Total
<b>Financial assets</b>						
Held to maturity	14,355,333	830,015	6,859,314	6,666,004	-	14,355,333
Loans and receivables	2,285,832	2,040,832	245,000	-	-	2,285,832
Available for sale	2,372,574	2,076,278	195,670	-	100,625	2,372,573
Financial assets at fair value through profit or loss	644,957	-	-	-	644,957	644,957
Loans to life policy holders	385,688	68,263	169,428	147,997	-	385,688
Reinsurance receivable	400,627	366,591	34,036	-	-	400,627
Premiums receivable	1,459,440	1,459,440	-	-	-	1,459,440
Other financial assets	513,600	46,339	91,267	375,995	-	513,600
Cash and cash equivalents	315,355	315,355	-	-	-	315,355
<b>Total undiscounted assets</b>	<b>22,733,406</b>	<b>7,203,113</b>	<b>7,594,715</b>	<b>7,189,996</b>	<b>745,582</b>	<b>22,733,406</b>
<b>Financial liabilities</b>						
Insurance contract liabilities - life *	(15,356,340)	-	-	-	-	(15,356,340)
Insurance contract liabilities - non life *	(1,026,563)	-	-	-	-	(1,026,563)
Reinsurance payable	(415,394)	(415,394)	-	-	-	(415,394)
Other financial liabilities	(729,704)	(729,704)	-	-	-	(729,704)
Bank overdraft	(82,925)	(82,925)	-	-	-	(82,925)
<b>Total undiscounted liabilities</b>	<b>(17,610,926)</b>	<b>(1,228,023)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,610,926)</b>
<b>Total liquidity excess</b>	<b>5,122,480</b>	<b>5,975,090</b>	<b>7,549,705</b>	<b>7,189,996</b>	<b>745,582</b>	<b>5,122,480</b>

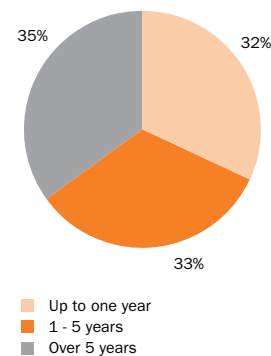
\* Timing of the cash flows of the liabilities is not certain.

#### Maturity analysis of financial investment

Maturity Analysis - 2013



Maturity Analysis - 2012



# Notes to the Financial Statements

## 5.2.3 Credit Risk

The company is exposed to credit risk on securities issued by third parties. The company limits its exposure by analysing the credit worthiness 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 the issue. The debt security investments are broadly categorised into investments in government securities and investments in corporate debt securities.

As at 31 December	2013 Rs. 000	%	2012 Rs. 000	%
Government securities	13,901,053	66	15,604,770	86
Corporate debt securities	7,012,386	34	2,578,073	14
<b>Total</b>	<b>20,913,439</b>	<b>100</b>	<b>18,182,843</b>	<b>100</b>

### 5.2.3 (a) Credit exposure of debt securities

#### a) Government securities

As shown in table above, as at 31 December 2013, 66% (2012 - 86%) 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 2013, corporate debt securities comprise 34% (2012- 14%) of the total investments in debt securities, out of which 97% (2012 – 87%) were rated “A” or better, or guaranteed by a banking institution with a rating of “A” or better.

Corporate debt security allocation 2013 vs 2012 - credit rating wise is given below

Ratings	Rs. millions	2013	% of total	2012	% of total
AAA		100	1	100	4
AA+		95	1	345	13
AA		2,594	37	600	23
AA-		2,932	42	749	29
A+		742	11	-	-
A		338	5	450	17
A-		-	-	10	-
BBB+		37	1	-	-
Not rated		174	2	324	13
<b>Total</b>		<b>7,012</b>	<b>100</b>	<b>2,578</b>	<b>100</b>

**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 reporting

date, the company holds treasury bonds worth Rs.1.27 billion as collateral for reverse repo investments amounting to Rs.0.907 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.

The company's exposure to credit risk as at the reporting date is given below 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 date. The values do not include the exposure that would arise in the future as a result of changes in values

As at 31 December Rs:000	2013	% of allocation	2012	% of allocation
Loans to life policyholders	515,735	14	385,688	13
Reinsurance receivable	502,571	14	400,627	13
Premiums receivable	1,844,831	50	1,459,440	49
Other financial assets	546,795	15	513,600	17
Cash and cash equivalents	310,578	8	232,709	8
<b>Total credit risk exposure</b>	<b>3,720,510</b>	<b>100</b>	<b>2,992,064</b>	<b>100</b>

**5.2.3 (b) Credit risk relating to reinsurance receivable**

As part of its overall risk management strategy, the company 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 credit worthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

As at 31 December 2013 reinsurance receivables amounted to Rs. 503 million (2012 - Rs. 401 million). This mainly consists of reinsurance receivable on settled claims amounting to Rs. 112 million (2012 - Rs. 43 million) and reinsurance share of claim reserve (receivables on outstanding claims including IBNR) of Rs. 391 million as at 31 December 2013 (2012 - Rs. 358 million).

As at 31 December 2013, 92% (2012 - 89%) of our reinsurance receivables (other than reinsurance receivables on IBNR) were due from reinsurers with a rating of "A -" or better and from the National Insurance Trust Fund (NITF).

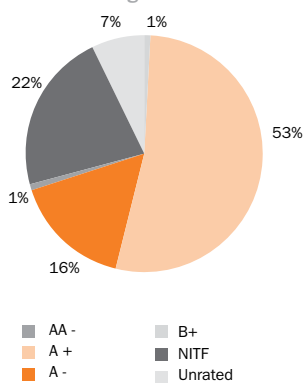
There were no collateral against reinsurance receivables as at the reporting date.

# Notes to the Financial Statements

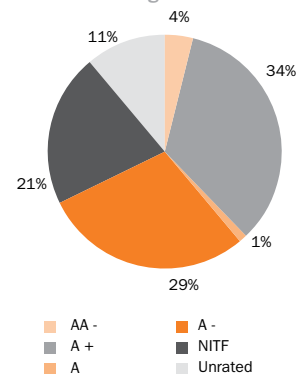
Credit risk of reinsurance receivables by rating class have been illustrated below in order to ensure that the company has significant control over managing them.

Rating Rs 'millions	2013				2012			
	On paid claims	On reserve	Total	%	On paid claims	On reserve	Total	%
AA	-	-	-	-	0.3	-	0.3	0
AA -	3.1	-	3.1	1	4.4	7.3	11.7	4
A +	98.8	110.8	209.6	53	7.7	104.9	112.6	34
A	-	-	-	-	3.2	0.5	3.7	1
A -	14.6	49.0	63.6	16	12.1	82.1	94.2	29
BBB +	-	-	-	-	0.1	0.6	0.7	0
B+	0.9	2.0	2.9	1	-	-	-	-
NITF	22.6	63.8	86.4	22	15.2	53.6	68.8	21
Unrated -	3.6	24.9	28.5	7	-	36.7	36.7	11
	143.6	250.5	294.1	100	43.0	285.7	328.7	100
IBNR reserve	-	108.5	108.5		-	71.9	71.9	
<b>Total</b>	<b>143.6</b>	<b>359.0</b>	<b>502.6</b>		<b>43.0</b>	<b>357.6</b>	<b>400.6</b>	

Reinsurance Receivable  
Based on Rating 2013



Reinsurance Receivable  
Based on Rating - 2012



### 5.2.3 (c) Credit risk relating to premiums receivable

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 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; and
- Provisioning for impairment of long outstanding premium values.

The company continuously monitors the movement on the premium receivables as it impacts the credit risk significantly. The following table illustrates the ageing of premium receivable against the preceding year.

#### 5.2.3 (d) Credit risk relating to loans

Premium receivable Rs. Million	Upto 30 days	31-60 days	Above 60 days	Total
As at December 2013	921	327	597	1,845
As at December 2012	913	216	330	1,459

The following table illustrates how the loans have been segregated amongst different categories

Loan category	2013 Rs:'000	2012 Rs:'000
Life policyholders	515,735	385,688
Staff loans	422,840	356,122
Agent / Advisory loans	91,551	89,484
<b>Total</b>	<b>1,030,126</b>	<b>831,294</b>

#### 5.2.3 (e) Loans to life policyholders

A loan issued by an insurance company considers the surrender value of the life policy as collateral. As at the reporting date, the value of policy loans granted amounted to Rs. 516 million (2012 - Rs. 386 million) and its related surrender value is Rs. 874 million (2012 - 696 million).

#### 5.2.3 (f) 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. 310 million as at 31 December 2013 (2012 - Rs. 233 million). The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better.

#### 5.2.3 (g) Other financial receivables

The table below provides an age analysis of other financial receivables including receivables that are past due but not impaired;

Rs:'000	Financial investments	Premiums receivable	Reinsurance receivable	Life Policy holders loans and other loans	Other financial assets
<b>As at 31 December 2013</b>					
Neither past due nor impaired financial assets	22,498,205	1,248,220	387,907	911,172	32,404
Past due but not impaired financial assets	1,225	596,611	114,664	-	-
Financial assets impaired	-	7,606	2,981	-	-
Gross carrying value	22,499,430	1,852,437	505,552	911,172	32,404
Less: impairment allowance	-	-	-	-	-
Individually assessed impairment allowances	-	(7,606)	(2,981)	-	-
Collectively assessed impairment allowances	-	-	-	-	-
<b>Total credit risk exposure</b>	<b>22,499,430</b>	<b>1,844,831</b>	<b>502,571</b>	<b>911,172</b>	<b>32,404</b>
<b>As at 31 December 2012</b>					
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	-	-	-	-	-
<b>Total credit risk exposure</b>	<b>19,761,401</b>	<b>1,459,440</b>	<b>400,627</b>	<b>730,350</b>	<b>67,993</b>

# Notes to the Financial Statements

## 5.2.4 Market risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices.

The company has assessed the market risk under main three categories namely;

- Equity price risk
- Currency risk
- Interest rate risk

### 5.2.4 (a) 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 macro economic 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

The risk exposure to listed equity securities as at 31 December 2013 with the comparatives are as follows;

Segment	2013 Rs:000	2012 Rs:000
Life	545,338	596,274
Non life	20,682	48,683
<b>Total</b>	<b>566,020</b>	<b>644,957</b>

## Sensitivity analysis

The table below shows the estimated impact on profits from a 10 percent decline in the equity prices, on the portfolio as at 31 December 2013 with indicative comparatives.

Sensitivity of PBT to decline in equity prices

	2013 Rs:000	2012 Rs:000
--	----------------	----------------

### Non life insurance business

10% decline in equity prices		
Investments value	(2,068)	(4,868)
Net impact before tax	(2,068)	(4,868)

### Life insurance business

10% decline in equity prices		
Investments value	(54,534)	(59,627)
Net impact on life fund*	(54,534)	(59,627)

\* Subject to actuarial valuation.

### 5.2.4 (b) Currency Risk

Currency risk is the risk that the fair value / present value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company's principal transactions are carried out in Sri Lankan Rupees and its exposure to foreign exchange risk primarily arises for transacting with re insurers who are outside the country.

The company's financial statements are primarily denominated in the same currency as its insurance liabilities. This mitigates the foreign currency exchange risk of the operations.

Foreign Currency Deposits	2013		2012	
	Amount in foreign currency	Rs'000	Amount in foreign currency	Rs'000
USD Deposits	471	60,940	248	31,069
EUR Deposits	57	10,066	216	38,078

#### Sensitivity analysis

The table below shows the estimated impact to the profitability when the foreign currency rates have a movement against the domestic currency

Change in variables	Impact to profit before tax	
	2013	2012
	Rs'000	Rs'000
(+) /(-) 5 % change in the exchange rate	(+) /(-) 3,550	(+) /(-) 3,457

#### 5.2.4 (c) 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.

The company has adopted the following policies to manage interest rate risk

- The BIC members keep a regular track of macro economic 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 2013 there were no cash flow interest rate exposures, as the company did not have any floating rate investments. However, the company is exposed to fair value fluctuations on fixed rate investments which are measured at fair value.

#### 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 equity and PBT to changes in interest rates;

Change in variables	Impact on profit before tax	Impact on equity as at 31 December 2013			Total
		Upto one year	Years 1 - 5	Years Over 5	
Rs'000					
Non life					
(+) 100 basis points	(2,241)	(532)	(1,709)	-	(2,241)
(-) 100 basis points	4,175	784	3,391	-	4,175
Life segment*					
(+) 100 basis points	(18,702)	(1,819)	(16,883)	-	(18,702)
(-) 100 basis points	9,098	808	8,290	-	9,098

Change in variable	Impact on profit before tax	Impact on equity as at 31 December 2012			Total
		Up to one year	Years 1 - 5	Years Over 5	
Rs'000					
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.

# Notes to the Financial Statements

The company's Investment portfolio analysed based on the types of interest rates are as follows

Instruments Rs'000	31 December 2013			31 December 2012		
	Fixed interest rate	Variable interest rate	Non interest bearing	Fixed interest rate	Variable interest rate	Non interest bearing
Government Securities	13,901,053	-	-	15,604,320	-	-
Corporate Debts	7,012,386	-	-	2,578,523	-	-
Equity Instruments	-	-	666,645	-	-	745,581
<b>Total</b>	<b>20,913,439</b>	<b>-</b>	<b>666,645</b>	<b>18,182,843</b>	<b>-</b>	<b>745,581</b>

## Retirement benefit obligation

The table below shows the sensitivity of the retirement benefit in relation to movements in discount rate and salary escalation rate.

Changes in discount rate (with constant salary escalation rate)	Impact on profit before tax Rs'000	Changes in salary escalation rate (with constant discount rate)	Impact on profit before tax Rs'000
(+) 1 % change in discount rate	13,000	(+) /(-) 1 % change in salary escalation rate	14,000
(-) 1 % change in discount rate	(15,000)		

## 6. OPERATING SEGMENTS

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.

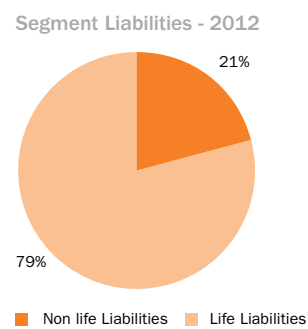
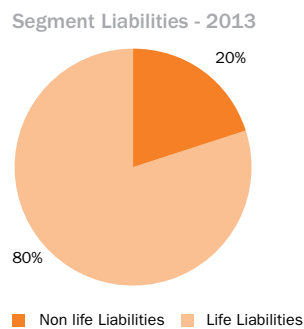
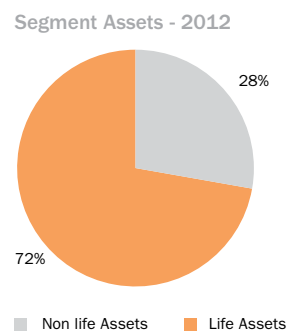
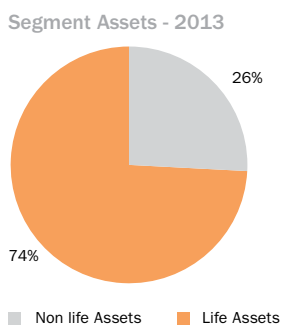
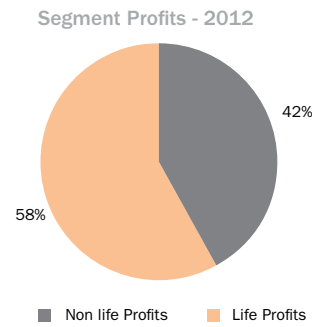
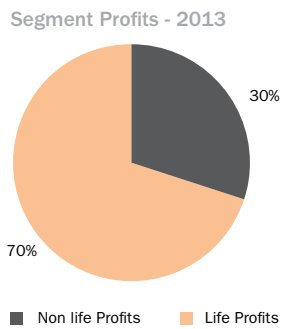
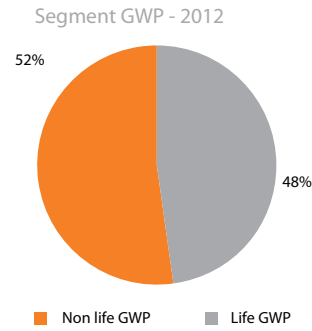
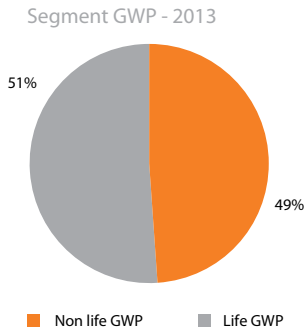
No operating segments have been aggregated to form the above reportable operating segments.

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.



# Notes to the Financial Statements

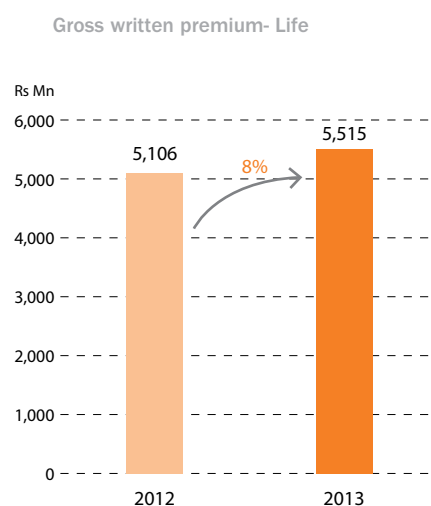
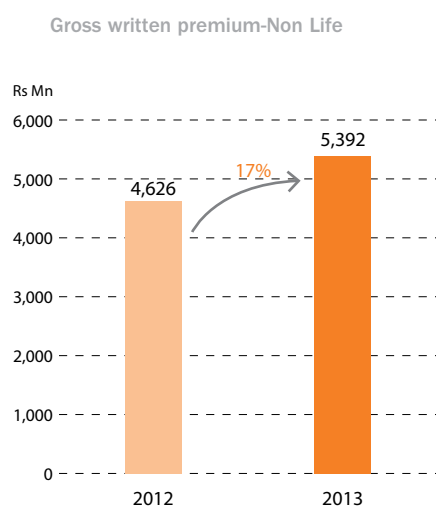
## 7 GROSS WRITTEN PREMIUM

Gross written premium (GWP) represents the premium charged by the company to underwrite risks 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 premium income for the year by major classes of business is as follows.

For the year ended 31 December Rs. '000	2013			2012		
	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total
<b>Non life insurance</b>						
Accident and liability	1,489,525	43,871	1,533,396	1,369,609	39,783	1,409,392
Fire	649,001	172,706	821,707	421,027	148,673	569,700
Marine	323,426	1,842	325,268	317,304	1,926	319,230
Motor	2,711,341	-	2,711,341	2,328,111	-	2,328,111
	5,173,293	218,419	5,391,712	4,436,051	190,382	4,626,433
<b>Life insurance</b>						
Conventional			4,702,710			4,267,936
Unit linked			812,353			838,387
			5,515,063			5,106,323
<b>Total gross written premium</b>			<b>10,906,775</b>			<b>9,732,756</b>

\* 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)



## 8 PREMIUM CEDED TO REINSURERS

Premium ceded to reinsurers represents the premium paid by the company to its reinsurers in order to manage its underwriting risks. This is accounted on an accrual basis.

For the year ended 31 December Rs. '000	2013			2012		
	Ceded premium without		Total	Ceded premium without		Total
	non motor SRCC/TC	Non motor SRCC/TC*		non motor SRCC/TC	Non motor SRCC/TC*	
<b>Non life insurance</b>						
Accident and liability	138,414	43,871	182,285	74,037	39,783	113,820
Fire	586,400	172,706	759,106	364,378	148,673	513,051
Marine	201,205	1,842	203,047	186,401	1,926	188,327
Motor	111,743	-	111,743	97,080	-	97,080
	<b>1,037,762</b>	<b>218,419</b>	<b>1,256,181</b>	<b>721,896</b>	<b>190,382</b>	<b>912,278</b>
<b>Life insurance</b>						
Conventional			278,753			243,627
Unit linked			1,789			5,968
			<b>280,542</b>			<b>249,595</b>
<b>Total premium ceded to reinsurers</b>			<b>1,536,723</b>			<b>1,161,873</b>

\* 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)

## 9 NET INVESTMENT INCOME

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
<b>Financial assets at fair value through profit or loss</b>		
Held for trading		
Conventional		
Dividend income - from equity securities	26,584	28,918
Unit linked		
Interest income - debt securities	12,134	7,238
Dividend income - from equity securities	39,086	14,649
Designated upon initial recognition		
Interest income - debt securities	16,410	11,887
Interest income from held to maturity financial assets - debt securities	1,721,249	1,289,401
<b>Available for sale financial assets</b>		
Interest income - debt securities	221,215	503,424
Dividend income - from equity securities	94	94
Interest income from loans and receivables	677,635	454,288
Investment related expenses	(78,784)	(54,409)
<b>Total net investment income</b>	<b>2,635,623</b>	<b>2,255,490</b>

# Notes to the Financial Statements

## 10 NET REALISED GAINS / (LOSSES)

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Fair value gains and losses on derivative financial instruments	-	29,955
	-	29,955
<b>Available for sale financial assets</b>		
Treasury bills	(59)	20,438
Treasury bonds	1,643	-
	1,584	20,438
<b>Fair value through profit or loss financial assets</b>		
Equity shares	25,594	(104,267)
Listed warrants	4,546	-
	30,140	(104,267)
<b>Total net realised gains / (losses)</b>	<b>31,724</b>	<b>(53,874)</b>

## 11 NET FAIR VALUE GAINS

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
<b>Fair value through profit or loss financial assets</b>		
Equity securities	44,458	28,590
Treasury bills	83	192
Debentures	68	-
<b>Total net fair value gains</b>	<b>44,609</b>	<b>28,782</b>

## 12 OTHER OPERATING INCOME

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Policy administration fee	60,967	35,107
Gain on foreign currency translation	5,436	14,235
Mortality charges	14,227	13,371
Gain/ (loss) on sale of property, plant and equipment	(2,230)	369
Miscellaneous income	22,065	16,817
Reversal of unclaimed premiums due	12,475	10,205
Net management fee income from unit linked fund	14,881	7,832
Rent income	5,543	4,891
<b>Total other operating income</b>	<b>133,364</b>	<b>102,827</b>

**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.

<b>For the year ended 31 December</b>	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>13.(a) Gross benefits and claims paid</b>		
Life insurance contracts	1,224,263	1,079,537
Non life insurance contracts	2,993,615	2,412,584
	<b>4,217,878</b>	<b>3,492,121</b>
<b>13 (b) Claims ceded to reinsurers</b>		
Life insurance contracts	(82,569)	(50,628)
Non life insurance contracts	(231,882)	(199,050)
	<b>(314,451)</b>	<b>(249,678)</b>
<b>13 (c) Gross change in contract liabilities</b>		
Life insurance contract liabilities	2,877,849	2,541,168
Non life outstanding claims provision	96,173	(48,042)
	<b>2,974,022</b>	<b>2,493,126</b>
<b>13 (d) Change in contract liabilities ceded to reinsurers</b>		
Life insurance contract liabilities	(43,295)	2,693
Non life outstanding claims provision	(58,649)	154,613
	<b>(101,944)</b>	<b>157,306</b>
<b>Total net benefits and claims</b>	<b>13. (e) 6,775,505</b>	<b>5,892,875</b>

# Notes to the Financial Statements

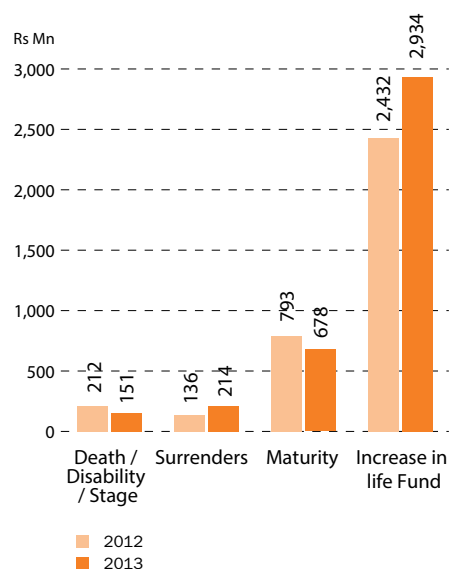
## 13 NET BENEFITS AND CLAIMS (CONTD.)

### 13.(e) Total net benefits and claims

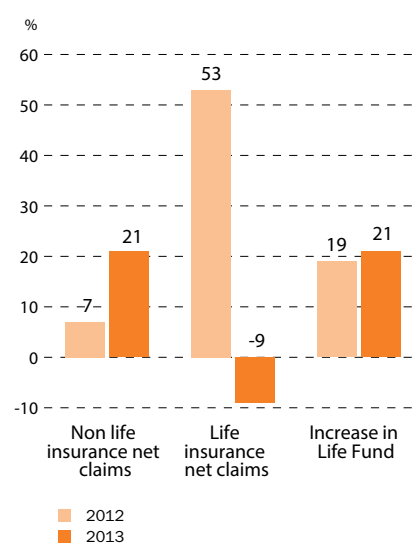
For the year ended 31 December

	2013 Rs. '000	2012 Rs. '000
<b>Life insurance</b>		
Death, disability and hospitalisation claims	281,919	266,039
Surrenders	213,557	135,846
Policy maturities	672,277	787,244
Reinsurance recoveries	(125,864)	(47,935)
<b>Life insurance net claims and benefits excluding actuarial change in life contract liability</b>	<b>1,041,889</b>	<b>1,141,194</b>
Change in life insurance contract liabilities due to actuarial reserving	2,934,359	2,431,574
<b>Life insurance net claims and benefit</b>	<b>3,976,248</b>	<b>3,572,768</b>
<b>Non life insurance</b>		
Gross claims incurred	3,089,788	2,448,641
Reinsurance recoveries	(290,531)	(128,534)
<b>Non life insurance net claims</b>	<b>2,799,257</b>	<b>2,320,107</b>
<b>Total net benefits and claims</b>	<b>6,775,505</b>	<b>5,892,875</b>

Net claims and benefits - Life



Movement in net claims and benefits



**14 UNDERWRITING AND NET ACQUISITION COSTS (INCLUDING REINSURANCE)**

This note includes acquisition costs comprising commissions and other variable costs directly connected with acquisition or renewal of insurance contracts and commission income generated from reinsurance business during the year.

<b>For the year ended 31 December</b>		<b>2013</b>	<b>2012</b>
		<b>Rs. '000</b>	<b>Rs. '000</b>
Acquisition cost		<b>1,515,525</b>	1,388,661
Net change in reserve for deferred acquisition cost (DAC)		<b>(3,048)</b>	1,398
		<b>1,512,477</b>	1,390,059
Reinsurance commission income		<b>(311,054)</b>	(228,263)
Net change in reserve for unearned commission (UCR)		<b>12,498</b>	7,437
		<b>(298,556)</b>	(220,826)
<b>Total underwriting and net acquisition costs</b>		<b>1,213,921</b>	1,169,233

**15 OTHER OPERATING AND ADMINISTRATIVE EXPENSES**

<b>For the year ended 31 December</b>		<b>2013</b>	<b>2012</b>
		<b>Rs. '000</b>	<b>Rs. '000</b>
Employee benefits expenses	15.(a)	<b>1,117,011</b>	1,090,331
Administration and establishment expenses		<b>1,125,800</b>	956,694
Selling expenses		<b>503,019</b>	457,633
<b>Total other operating and administrative expenses</b>		<b>2,745,830</b>	2,504,658
<b>15.(a) Employee benefits expenses</b>			
Staff remuneration		<b>878,100</b>	878,190
Defined contribution plan cost - EPF		<b>83,721</b>	71,621
Defined contribution plan cost - ETF		<b>20,930</b>	17,905
Defined benefit plan cost	34(b)(ii)	<b>39,060</b>	23,457
Staff welfare		<b>35,367</b>	30,147
Training expenses		<b>38,147</b>	45,536
Share based payment expense	29(b)(iv)	<b>3,633</b>	-
Other costs		<b>18,053</b>	23,475
		<b>1,117,011</b>	1,090,331

# Notes to the Financial Statements

## 16 PROFIT BEFORE TAX

The profit before taxation for the year is stated after charging the following expenses;

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Auditors remuneration	2,150	2,000
Statutory audit services	1,650	2,350
Audit related services	350	1,356
Non audit related services	3,014	8,571
Legal fees	154,315	143,347
Depreciation on property, plant and equipment	83,721	71,621
Defined contribution plan cost - EPF	20,930	17,905
Defined contribution plan cost - ETF	39,060	23,457
Defined benefit plan cost	5,400	5,400
Fees to Non Executive Directors		

## 17 INCOME TAX EXPENSE

### 17.(a) Statement of income

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
<b>Current tax expense</b>		
Current tax expense for the year	17.(b) 58,222	87,907
Adjustments in respect of current tax of previous year	977	(923)
	59,199	86,984
<b>Deferred tax expense</b>		
Origination of deferred tax assets	36 (81,703)	(111,515)
Origination of deferred tax liabilities	36 81,703	111,515
Deferred tax change / (reversal)	-	-
<b>Income tax expense</b>	59,199	86,984

**17.(b) Reconciliation of effective tax rate**

A reconciliation between tax expense and the product of accounting profit.

<b>For the year ended 31 December</b>	<b>2013</b> Rs. '000	<b>2012</b> Rs. '000
Accounting profit before tax	1,182,604	1,008,252
Aggregate net allowable income	(1,455,946)	(1,271,449)
Aggregate disallowed expenses	366,069	424,374
Aggregate allowed expenses	(361,858)	(342,002)
Notional tax credit added for tax purposes	187,074	189,106
Tax losses incurred during the year which is carried forward	403,837	474,726
Tax losses brought forward and utilised	(113,845)	(169,052)
Taxable profit	207,935	313,955
Statutory tax rate	28%	28%
Current income tax expense	58,222	87,907
Adjustments in respect of current income tax of previous year	977	(923)
Current income tax expense	59,199	86,984

Union Assurance PLC is liable to income tax at 28% (2012 - 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 the available credits. The tax loss carried forward as at 31 December 2013 is Rs. 2,883 million (2012 - Rs. 2,591 million) which is made up as follows;

<b>Tax loss analysis</b> <b>As at 31 December</b>	<b>2013</b> Rs. '000	<b>2012</b> Rs. '000
Balance as at 1 January	2,590,568	2,246,647
Utilised during the year	(113,845)	(169,052)
	2,476,723	2,077,595
Loss incurred in the business of life insurance	403,837	474,726
Under recognition of tax losses in respect of previous year	2,473	38,247
Balance as at 31 December	2,883,033	2,590,568

**17. (c) 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;

<b>As at 31 December</b>	<b>2013</b> Rs. '000	<b>2012</b> Rs. '000
Balance as at 1 January	975,015	785,909
Tax credit for the year	187,074	189,106
Balance as at 31 December	1,162,089	975,015

# Notes to the Financial Statements

## 18 EARNINGS PER SHARE

### 18.(a) Basic earnings per share

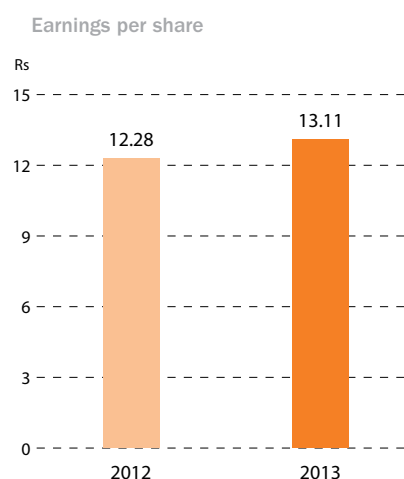
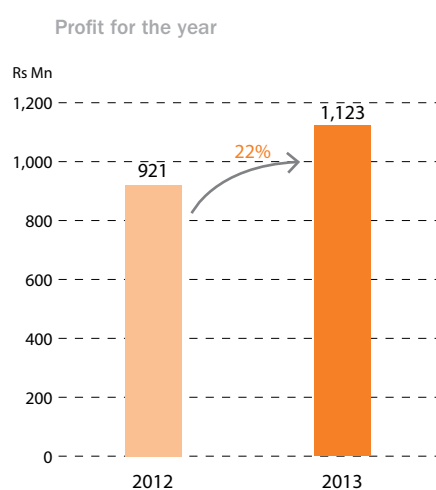
The calculation of basic earnings per share as at 31 December 2013 was based on the profit attributable to ordinary shareholders of Rs. 1,123 million (2012 - Rs. 921 million) and a weighted average number of ordinary shares outstanding for the year ended 31 December 2013 of 85.7 million (2012 - 75 million).

#### For the year ended 31 December

		2013	2012
Profit for the year (Rs. '000)		1,123,405	921,268
Weighted average number of ordinary shares ('000)	18.(b)	85,714	75,000
Earning per share (Rs.)		13.11	12.28

### 18.(b) Weighted average number of shares

	2013	2012
	Shares '000	Shares '000
Number of ordinary shares as at 31 December	85,714	75,000
Ordinary shares issued during the year	-	10,714
Impact on rights issue	-	(10,714)
	85,714	75,000



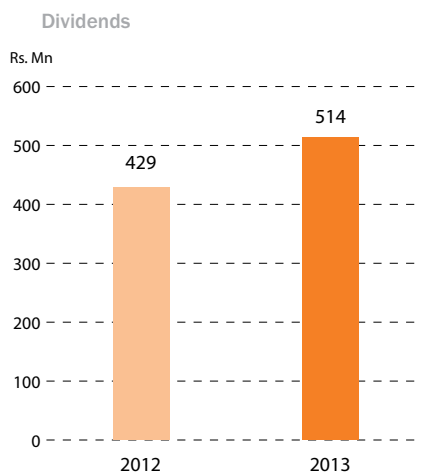
### 18.(c) Diluted earnings per share

There was no dilution of ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is the same as basic earning per share as shown in Note 18.(a).

**19 DIVIDEND PER SHARE**

The Board of Directors of the company has declared a first and final dividend of Rs. 6.00 per share for the financial year ended 31 December 2013.

	2013	2012
Dividend Declared (Rs. '000)	514,286	428,571
Number of ordinary shares ('000)	85,714	85,714
<b>Dividend per share (Rs.)</b>	<b>6.00</b>	<b>5.00</b>

**19.(a) Compliance with Section 56 and 57 of Companies Act No 7 of 2007**

As required by Section 56 of the Companies Act No 07 of 2007, the Board of Directors of the company satisfied the solvency test in accordance with Section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 25 February 2014 has been audited by Messrs KPMG.

**19.(b) Dividend paid during the year**

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
First and final dividend for 2012 - Rs. 5.00 per share (2011 - Rs. 5.00 per share)	428,571	375,000

# Notes to the Financial Statements

## 20. FINANCIAL INVESTMENTS

The following 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 the company in relation to the investment portfolio are outlined on Note 5.2. The decision making process adopted by the Board Investment Committee with regard to which assets / classes / duration to invest is detailed on page 263. The majority of the company's investments i.e. 59% (2012 - 78%) are in government securities. Corporate debt securities (which comprise quoted and unquoted debentures) account for a further 21% of investments (2012 - 15%) and 9% (2012 - 7%) in equities.

The company's financial instruments are summarised by the following categories:

As at 31 December Rs. '000	Note	2013		2012	
		Carrying value	Fair value	Carrying value	Fair value
Held to maturity financial assets (HTM)	20a	14,408,803	15,196,822	14,355,333	14,136,698
Loans and receivables (L&R)	20b	3,992,502	4,026,437	2,285,832	2,279,307
Available for sale financial assets (AFS)	20c	3,530,880	3,530,880	2,372,574	2,372,574
Financial assets at fair value through profit or loss (FVTPL)	20d	2,365,313	2,365,313	1,788,570	1,788,571
<b>Total financial investments</b>	<b>20e</b>	<b>24,297,498</b>	<b>25,119,452</b>	<b>20,802,309</b>	<b>20,577,150</b>

The company's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 5.2.

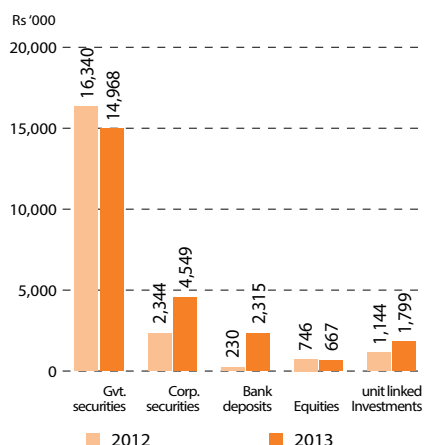
The current portion of financial assets is Rs. 5,495 million (2012 - Rs. 4,947 million) the remaining being non current. The assets comprised in each of the categories above are detailed in the following notes.

Financial investments are not pledged as security as at reporting date.

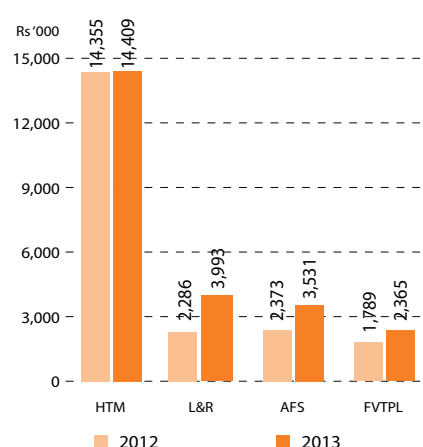
Refer financial risk management disclosure in Note 5.2 to the financial statements for additional details.

Union Assurance's investment portfolio is mainly derived from our core business of insurance. The composition of financial investments is analysed below.

Movement in investments (Instrument wise)



Movement in investments (SLFRS category)



## 20.(a) Held to maturity financial assets (HTM)

Amortised cost as at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Debt securities - fixed interest rate:			
Quoted debentures	20. (a) (i)	2,106,788	2,343,895
Treasury bonds		12,302,015	12,011,438
		<b>14,408,803</b>	14,355,333

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 impaired.

## 20.(a)(i) Debt securities - Quoted debentures: fixed interest rate

Issuer	Maturity date	No of debentures	2013 Carrying value Rs. '000	Market value Rs. '000	Interest rate %
Bank Of Ceylon	29/11/2017	6,000,000	608,416	608,416	16.00
DFCC Bank PLC	26/09/2016	250,000	257,000	257,000	14.00
DFCC Vardhana Bank PLC	30/08/2016	2,222,222	235,105	235,105	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Merchant Bank of Sri Lanka PLC	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	04/08/2016	275,000	287,997	287,997	11.50
Peoples' Leasing Company PLC	19/03/2018	1,186,300	127,455	135,190	16.75
Sampath Bank PLC	10/11/2017	715,500	83,758	88,364	16.50
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
			<b>2,106,788</b>	<b>2,106,823</b>	

Issuer	Maturity date	No of debentures	2012 Carrying value Rs. '000	Market value Rs. '000	Interest rate %
Bank of Ceylon	29/11/2017	6,000,000	608,416	608,416	16.00
DFCC Bank PLC	26/09/2016	250,000	285,096	285,096	14.00
DFCC Vardhana Bank PLC	30/08/2016	2,222,222	222,292	222,292	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
LB Finance PLC	22/09/2013	10,000	12,400	12,371	24.00
Merchant Bank of Sri Lanka PLC	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	04/08/2016	275,000	287,961	287,961	11.50
Nations Trust Bank PLC	19/08/2013	1,750,000	188,592	188,592	21.00
Sampath Bank PLC	10/11/2017	715,500	74,614	74,163	16.50
Singer Sri Lanka PLC	30/09/2013	1,500,000	157,467	157,467	19.75
Urban Development Authority	05/10/2015	1,743,000	178,923	178,766	11.00
			<b>2,343,895</b>	<b>2,343,258</b>	

# Notes to the Financial Statements

## 20. (b) Loans and receivables (L&R)

Amortised cost as at 31 December	2013 Rs. '000	2012 Rs. '000
<b>Fixed interest rate:</b>		
Bank deposit	2,315,373	229,637
Unquoted debentures	616,627	257,622
Reverse repurchase agreements	1,060,502	1,798,573
	<b>3,992,502</b>	<b>2,285,832</b>

The effective interest rates on non-current receivables 13.82%      14.00%

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 as at 31 December		2013 Rs. '000	2012 Rs. '000
<b>Fair value</b>			
Equity securities - unlisted	20. (c) (i)	100,625	100,625
Debt securities - unlisted	20. (c) (ii)	988,535	2,271,949
Debt securities - listed	20. (c) (iii)	2,441,720	-
		<b>3,530,880</b>	<b>2,372,574</b>

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 impaired.

### 20.(c)(i) Equity securities - unlisted

	2013		2012	
	No of shares	Rs. '000	No of shares	Rs. '000
Fitch Rating Lanka Limited	62,500	625	62,500	625
Central Hospitals Limited	5,882,353	100,000	5,882,353	100,000
		<b>100,625</b>		<b>100,625</b>

### 20.(c)(ii) Debt securities - unlisted

	2013 Rs. '000	2012 Rs. '000
Treasury bonds	614,587	1,874,783
Treasury bills	373,948	397,166
	<b>988,535</b>	<b>2,271,949</b>

20.(c)(iii) Debt securities - listed  
Quoted debentures

Issuer	Maturity date	No of debentures	2013		Interest rate %
			Carrying value Rs. '000	Market value Rs. '000	
Bank of Ceylon	25/10/2018	288,000	29,498	29,498	13.00
Bank of Ceylon	25/10/2023	402,300	41,261	41,261	13.75
Central Finance Company PLC	17/06/2016	24,500	25,380	25,380	14.24
Central Finance Company PLC	12/12/2017	35,900	3,616	3,616	13.25
Central Finance Company PLC	17/06/2018	35,900	42,178	42,178	14.75
Central Finance Company PLC	17/06/2018	140,100	140,100	140,100	14.74
Central Finance Company PLC	12/12/2018	525,100	52,898	52,898	13.50
Central Finance Company PLC	12/12/2018	819,200	82,546	82,546	13.95
Hatton National Bank PLC	13/06/2018	2,850,449	304,330	304,330	14.00
Hatton National Bank PLC	30/08/2023	1,124,225	78,488	78,488	14.25
Hayleys PLC	09/07/2016	65,400	67,775	67,775	14.24
Lion Brewery (Ceylon) PLC	17/06/2016	15,000	16,672	16,672	13.50
Lion Brewery (Ceylon) PLC	17/06/2016	33,600	33,600	33,600	13.40
Lion Brewery (Ceylon) PLC	17/06/2017	15,000	16,703	16,703	13.75
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	33,600	33,600	13.67
Lion Brewery (Ceylon) PLC	17/06/2018	20,000	22,311	22,311	14.00
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	44,800	44,800	13.93
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	105,791	105,791	17.50
National Development Bank PLC	19/12/2018	203,000	20,397	20,397	13.40
National Development Bank PLC	19/12/2023	4,500,000	452,228	452,228	13.90
Nations Trust Bank PLC	19/12/2018	3,081,300	309,557	309,557	13.00
People's Leasing Company PLC	19/03/2018	250,000	26,630	26,630	14.00
People's Leasing Company PLC	19/03/2018	280,000	33,086	33,086	14.75
Sampath Bank PLC	04/12/2018	298,000	143,655	143,655	13.40
Sampath Bank PLC	04/12/2018	1,114,800	112,198	112,198	13.00
Senkadagala Finance PLC	28/05/2017	366,111	38,201	38,201	17.25
Singer Sri Lanka PLC	29/05/2015	1,593,280	164,221	164,221	14.50
			2,441,720	2,441,720	

20.(d) Financial assets at fair value through profit or loss (FVTPL)

Fair value as at 31 December	2013		2012	
		Rs. '000		Rs. '000
Fair value				
Equity securities	20. (d) (i)	566,020		644,956
Investments in unit linked funds	20. (d) (ii)	1,799,293		1,143,614
		2,365,313		1,788,570

# Notes to the Financial Statements

## 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 36% of quoted equities are invested in the manufacturing sector. The Banks, Finance and Insurance and the diversified holding sectors account for 28% and 13% of the portfolio respectively.

	2013			2012		
	No of shares	Cost Rs. '000	Carrying value Rs. '000	No of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Banks, Finance and Insurance</b>						
Commercial Bank PLC (non-voting)	429,739	25,099	39,966	453,480	27,878	41,312
Commercial Bank PLC	341,626	36,106	41,132	336,000	36,106	34,608
Hatton National Bank PLC (non-voting)	-	-	-	626,469	51,943	70,478
Hatton National Bank PLC	521,346	37,140	62,040	-	-	-
Sampath Bank PLC	-	-	-	267,222	36,027	53,578
AIA Insurance PLC	-	-	-	53,499	15,253	17,644
HNB Assurance PLC	336,266	23,645	17,654	336,266	23,645	16,477
		121,990	160,792		190,852	234,097
<b>Diversified Holding</b>						
Hemas Holdings PLC	405,750	6,708	13,796	405,750	6,708	10,955
Expolanka Holdings PLC	6,376,700	89,589	47,825	6,376,700	89,589	44,636
Softlogic Holdings PLC	1,117,806	32,416	9,390	1,117,806	32,416	12,184
		128,713	71,011		128,713	67,775
<b>Beverage, Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	162,500	24,363	31,363	405,000	63,890	67,230
		24,363	31,363		63,890	67,230
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	301,140	66,814	57,096	301,140	66,814	67,455
		66,814	57,096		66,814	67,455
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	272,200	35,927	72,895	272,200	35,927	54,984
Tokyo Cement Company (Lanka) PLC (voting)	640,777	7,817	18,262	582,525	7,817	16,660
Tokyo Cement Company (Lanka) PLC (non-voting)	3,033,250	84,147	70,978	2,757,500	84,147	53,220
Lanka Floortiles PLC	455,200	61,211	35,915	455,200	61,211	29,588
Piramal Glass PLC	1,874,100	16,585	8,433	1,874,100	16,585	11,245
		205,687	206,483		205,687	165,697
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	10,612	22,062	33,340	13,277
		33,340	10,612		33,340	13,277
<b>Telecommunication</b>						
Dialog Axiata PLC	2,000,000	14,241	18,000	2,000,000	14,241	16,600
Sri Lanka Telecom PLC	288,200	13,844	10,663	288,200	13,844	12,825
		28,085	28,663		28,085	29,425
		608,992	566,020		717,381	644,956

**20.(d)(ii) Investments of unit linked fund**

This note provides the details of investments made under the unit linked product. As per Note 3.3.1.(a) unit linked investments are stated at fair value through profit and loss.

		2013 Rs. '000	2012 Rs. '000
Government and other securities	20. (d) (ii)(a)	371,025	216,679
Quoted equities	20. (d) (ii)(b)	1,428,268	926,935
		<b>1,799,293</b>	1,143,614

**20.(d)(ii) (a) Government and other securities**

		2013 Rs. '000	2012 Rs. '000
Reverse repurchase agreements		259,395	144,556
Treasury bills		61,217	72,123
Bank deposits		28,502	-
Debentures		21,911	-
		<b>371,025</b>	216,679

# Notes to the Financial Statements

## 20 (d) (ii) (b) Quoted equities

	No. of shares	2013		2012	
		Cost Rs. '000	Carrying value Rs. '000	Cost Rs. '000	Carrying value Rs. '000
<b>Banks, Finance and Insurance</b>					
Commercial Bank of Ceylon PLC*	1,670,248	180,889	201,098	153,977	148,089
Commercial Bank of Ceylon PLC	44,940	4,995	5,411	-	-
Commercial Bank of Ceylon PLC -(non voting)	54,286	4,222	5,049	4,222	4,849
DFCC Bank PLC*	469,180	58,492	60,524	-	-
Hatton National Bank PLC*	517,263	77,575	76,038	9,678	10,832
Janashakthi Insurance PLC*	-	-	-	6,449	6,642
National Development Bank PLC*	383,416	58,639	61,538	-	-
Nations Trust Bank PLC*	-	-	-	23,634	22,538
Pan Asia Banking Corporation PLC*	-	-	-	68,589	70,228
Sampath Bank PLC*	437,622	86,643	75,227	-	-
LB Finance PLC	-	-	-	10,401	8,768
Union Bank of Colombo PLC	-	-	-	10,036	12,643
Browns Investments PLC	-	-	-	30,294	29,715
Central Finance Company PLC	-	-	-	17,301	18,547
Lanka Orix Finance PLC	-	-	-	4,625	4,281
Lanka Orix Finance PLC*	1,000	72	73	-	-
		471,527	484,958	339,206	337,132
<b>Beverage, Food and Tobacco</b>					
Distilleries Company of Sri Lanka*	240,769	43,635	46,468	10,029	10,194
Cargill's (Ceylon) PLC*	113,030	17,344	16,615	-	-
Ceylon Tobacco Company PLC*	96,833	93,453	114,689	-	-
Nestle Lanka PLC*	13,122	21,790	27,565	-	-
		176,222	205,337	10,029	10,194
<b>Construction and Engineering</b>					
Colombo Dockyard PLC*	-	-	-	9,993	9,714
Colombo Dockyard PLC	43,365	9,993	8,222	-	-
		9,993	8,222	9,993	9,714
<b>Diversified Holdings</b>					
John Keells Holdings PLC*	1,094,597	218,548	248,802	299,536	332,067
Richard Pieris and Company PLC*	-	-	-	29,300	26,383
Aitken Spence PLC*	506,948	62,294	51,861	-	-
Expolanka Holdings PLC	1,241,000	9,855	9,308	30,900	32,555
Softlogic Holdings PLC	-	-	-	17,556	14,818
Free Lanka Capital Holdings PLC	-	-	-	6,022	5,700
Vallibel One PLC	-	-	-	35,263	34,367
C T Holdings PLC*	181,512	25,897	25,430	-	-
Carsons Cumberbatch PLC*	168,297	75,904	58,904	-	-
Hayleys PLC*	90,066	27,054	26,389	-	-
		419,552	420,694	418,577	445,890

## 20 (d) (ii) (b) Quoted equities (Contd.)

	No. of shares	2013		2012	
		Cost Rs. '000	Carrying value Rs. '000	Cost Rs. '000	Carrying value Rs. '000
<b>Health Care</b>					
The Lanka Hospital Corporation PLC	-	-	-	15,100	15,342
				15,100	15,342
<b>Hotels and Travel</b>					
Asian Hotels and Properties PLC*	276,761	20,483	17,768	-	-
Aitken Spence Hotel Holdings PLC*	265,733	19,539	18,575	-	-
		40,022	36,343	-	-
<b>Investment Trusts</b>					
Environmental Resources Investments PLC*	-	-	-	19,010	9,056
				19,010	9,056
<b>Land and Property</b>					
Colombo Land & Development Company PLC	-	-	-	14,292	12,355
East West Properties PLC	-	-	-	3,435	3,551
The Colombo Fort Land & Building Company	-	-	-	13,500	10,851
				31,227	26,757
<b>Manufacturing</b>					
Chevron Lubricants Lanka PLC*	178,296	48,081	47,748	6,957	7,999
Chevron Lubricants Lanka PLC	39,600	6,957	10,605	-	-
Lanka Tiles PLC	128,000	9,938	10,099	9,938	8,320
Tokyo Cement Company Lanka PLC -(non voting)	451,660	10,217	10,569	10,217	7,924
Piramal Glass Ceylon PLC	806,000	4,917	3,627	10,979	9,940
Ceylon Grain Elevators PLC	-	-	-	7,689	6,204
		80,110	82,648	45,780	40,387
<b>Power and Energy</b>					
Laugfs Gas PLC	-	-	-	17,110	14,948
				17,110	14,948
<b>Telecommunication</b>					
Dialog Axiata PLC*	3,768,419	32,464	33,916	-	-
Dialog Axiata PLC	609,000	5,055	5,480	-	-
Sri Lanka Telecom PLC*	1,221,580	59,840	45,198	-	-
		97,359	84,594	-	-
<b>Trading</b>					
Browns and Company PLC*	-	-	-	21,364	15,384
PC House PLC	-	-	-	2,486	2,130
				23,850	17,514
<b>Oil Palms</b>					
The Bukit Darah PLC*	170,143	121,422	105,472	-	-
		121,422	105,472	-	-
		1,416,207	1,428,268	929,882	926,935

\* Investments made by Union Assurance PLC under the unit linked Equity Tracker Fund, which invests in the 20 companies that comprise the Standard & Poors (S&P) Sri Lanka 20 Index. In 2012, the Unit Linked Equity Tracker Fund, invested in the 25 companies that comprised the Milanka Price Index.

# Notes to the Financial Statements

## 20.(e) Carrying values of financial investments

This 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).

Rs:000	Held to maturity	loans and receivables	Available for sale	Fair value through profit or loss	Total
<b>As at 1 January 2012</b>	7,757,349	2,028,054	5,939,989	1,483,042	17,208,434
Purchases	6,247,741	2,196,183	2,452,192	1,071,762	11,967,878
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) classified as held for trading	-	-	-	17,975	17,975
Fair value gains recorded in other comprehensive income	-	-	(208,858)	-	(208,858)
Amortisation adjustment	168,111	-	(689,819)	-	(521,708)
Accrued Interest	182,132	8,738	(88,608)	(390)	101,872
<b>As at 31 December 2012</b>	<b>14,355,333</b>	<b>2,285,832</b>	<b>2,372,574</b>	<b>1,788,570</b>	<b>20,802,309</b>
<b>As at 1 January 2013</b>	14,355,333	2,285,832	2,372,574	1,788,570	20,802,309
Purchases	118,630	21,947,730	3,307,398	10,029,512	35,403,270
Maturities	(335,000)	(11,061,972)	(1,810,000)	(8,653,217)	(21,860,189)
Disposals	-	(9,342,444)	(421,214)	(855,425)	(10,619,083)
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	44,609	44,609
Fair value gains recorded in other comprehensive income	-	-	6,526	-	6,526
Amortisation adjustment	275,341	-	45,601	6,846	327,788
Accrued Interest	(5,501)	163,356	29,995	4,418	192,268
<b>As at 31 December 2013</b>	<b>14,408,803</b>	<b>3,992,502</b>	<b>3,530,880</b>	<b>2,365,313</b>	<b>24,297,498</b>

### 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.

## 21. PROPERTY, PLANT AND EQUIPMENT

Rs. '000	Freehold Land	Freehold Buildings	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total 2013	Total 2012
<b>Cost/Revaluation</b>								
Balance as at 1 January	609,000	318,000	192,887	285,671	822,150	24,927	2,252,635	2,090,170
Additions during the year	-	-	43,952	20,536	124,081	80	188,649	163,289
Surplus/(deficit) on revaluation	115,000	(28,000)	-	-	-	-	87,000	-
Disposals/scrapping during the year	-	-	(2,671)	(10,481)	(25,745)	(24,927)	(63,824)	(824)
<b>Balance as at 31 December</b>	<b>724,000</b>	<b>290,000</b>	<b>234,168</b>	<b>295,726</b>	<b>920,486</b>	<b>80</b>	<b>2,464,460</b>	<b>2,252,635</b>
<b>Accumulated depreciation and impairment losses</b>								
Balance as at 1 January	-	8,886	134,724	191,771	574,103	24,927	934,410	791,790
Depreciation for the year	-	9,151	22,462	32,396	90,295	11	154,315	143,347
Transferred accumulated depreciation on assets revalued	-	(18,037)	-	-	-	-	(18,037)	-
Accumulated depreciation on disposals/scrapping	-	-	(1,789)	(10,223)	(24,263)	(24,927)	(61,201)	(727)
<b>Balance as at 31 December</b>	<b>-</b>	<b>-</b>	<b>155,397</b>	<b>213,944</b>	<b>640,135</b>	<b>11</b>	<b>1,009,487</b>	<b>934,410</b>
<b>Carrying value</b>								
As at 31 December 2012	609,000	309,114	58,163	93,900	248,048	-	1,318,225	1,298,380
As at 31 December 2013	724,000	290,000	78,771	81,782	280,351	69	1,454,973	1,318,225

## 21.(a) 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.

## 21.(b) Acquisition of property, plant and equipment during the year

During the financial year, the company acquired property, plant and equipment to the aggregate value of Rs.189 million (2012- Rs. 163 million).

## 21. (c) Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2012 - Nil).

# Notes to the Financial Statements

21. (d) The details of freehold land and buildings which are stated at valuation are as follows;

Company property	Extent (Perches)	Square Feet (Building)	Method of valuation	Date of valuation	Valuer	Revalued amount - Land Rs:'000	Revalued amount - Building Rs:'000	Carrying Value Rs:'000	Carrying Value %
Land & building situated at No. 20, St. Michael's Road, Colombo 3 owned by Union Assurance PLC	93.4	57,916	Investment method	31 December 2013	Mr. P.B. Kalugalagedera and Associates Chartered valuation surveyor	654,000	196,000	850,000	84%
Land & building situated at No. 6, Rajapihilla Road, Kurunegala owned by Union Assurance PLC	32.3	27,904	Investment method	31 December 2013		70,000	94,000	164,000	16%
						724,000	290,000	1,014,000	100%

21.(d)(i) Net gain on revaluation on land and building

Rs:'000	Land	Building	Total
Revaluation surplus	115,000	(28,000)	87,000
Transfer from accumulated depreciation	-	18,037	18,037
	115,000	(9,963)	105,037

The reduction in the revaluation surplus relating to the building has been taken to revaluation reserve (through OCI) to set off against previous revaluation surplus. Refer Note 29(a).

21.(e) If land and buildings were stated at historical cost, the amounts would have been as follows;

	2013 Rs. '000	2012 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(65,547)	(61,533)
Carrying value	185,577	189,591

21.(f) The effect of revaluation of freehold buildings on the Statement of Income in the subsequent period is as follows;

	2013 Rs. '000
Depreciation charge per annum prior to revaluation	4,014
Depreciation charge per annum after revaluation	9,151
Decrease in profit in subsequent period	5,137

**21.(g) 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 2013. 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.(h) 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	2013 Rs. '000
Computer equipment	395,930
Office equipment	73,468
Furniture and fittings	123,204
Motor vehicles	24,927
<b>Total</b>	<b>617,529</b>

**21.(i) Property, plant and equipment pledged as security**

None of the property, plant and equipment have been pledged as securities as at the reporting date.

**21.(j) Temporarily idle property, plant and equipment**

There are no temporarily idle property, plant and equipment as at the reporting date.

**21.(k) Compensation from third parties for items of property, plant and equipment**

There were no compensation received/receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

**22 LOANS TO LIFE POLICYHOLDERS**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	284,744	246,674
Loans granted during the year	228,511	137,667
Repayments during the year	(116,474)	(99,597)
	<b>396,781</b>	284,744
Interest receivables on loans to life policy holders	118,954	100,944
<b>Balance as at 31 December</b>	<b>515,735</b>	385,688

**22.(a) Collateral details**

As at 31 December 2013 surrender value of policyholder loans amounted to Rs. 874 million (2012 - Rs. 696 Million ). For further details refer Note 5.2.3.(e).

**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 2013, there were no impaired loss recorded for policyholder loans (2012 - nil).

# Notes to the Financial Statements

## 23. REINSURANCE RECEIVABLES

This 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 335. The risk management initiatives of reinsurance receivables are detailed in Note 5.2.3.(b).

As at 31 December		2013 Rs. '000	2012 Rs. '000
Reinsurance receivable on outstanding claims		390,888	358,025
Reinsurance receivable on settled claims net of dues		114,664	46,996
		505,552	405,021
Impairment of reinsurance receivables	23.(b)	(2,981)	(4,394)
<b>Total reinsurance receivables</b>		<b>502,571</b>	<b>400,627</b>

### 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

As at 31 December 2013, there were no impaired loss recorded for reinsurance receivables, except as disclose below;

The ageing of reinsurance receivables on settled claims net of due is as follows;

As at 31 December		2013 Rs. '000	2012 Rs. '000
Less than 60 days		42,824	27,601
More than 60 days		71,840	19,395
		114,664	46,996
Movements in the provision for impairment of reinsurance receivables are as follows;			
Balance as at 1 January		4,394	6,033
Unused amounts reversed		(1,413)	(1,639)
Balance as at 31 December		2,981	4,394

### 23.(b)(i) Reinsurance receivable past due but not impaired (on paid claims)

As at 31 December 2013, reinsurance receivable of Rs. 72 million (2012 - Rs. 19 million) were past due but not impaired. These relate to parties where there were no recent history of default.

### 23.(c) Collateral details

The company does not hold any collateral as security against potential default by reinsurance counter parties.

### 23.(d) Reinsurance receivable on outstanding claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable not been received.

### 23.(e) Risk management

For risk management initiatives relating to reinsurance please refer Note 5.1.1 to financial statements.

**24. PREMIUMS RECEIVABLES**

This details the insurance premium receivables from customers and intermediaries.

As at 31 December		2013 Rs. '000	2012 Rs. '000
<b>Non life insurance</b>			
Premium receivable from policyholders and intermediaries		1,737,459	1,275,956
<b>Life insurance</b>			
Premium receivable from policyholders		40,684	76,670
Premium receivable from Intermediaries		74,294	114,420
		<b>1,852,437</b>	<b>1,467,046</b>
<b>Less: Impairment of premium receivable</b>			
As at the beginning of the year		(7,606)	(8,031)
Reversal made during the year		-	425
As at end of the year		(7,606)	(7,606)
<b>Total premium receivable net of impairment</b>	24. (a)	<b>1,844,831</b>	<b>1,459,440</b>
<b>24.(a) Premium receivable from related parties</b>		<b>2,133</b>	<b>7,748</b>
Premium receivable from others		<b>1,842,698</b>	<b>1,451,692</b>
		<b>1,844,831</b>	<b>1,459,440</b>

**24.(b) Fair value of premium receivable**

The carrying amount disclosed above approximates the fair values at the reporting date.

**24.(c) Impairment of premium receivable**

As at December 2013, there were no impaired loss recorded for premium receivable.

No allowance for impairment have been made in respect of premium receivable during the year.

**24.(c)(i) Premium receivable past due but not impaired**

As at 31 December 2013, premium receivable of Rs. 597 million (2012 - Rs. 330 million) were past due but not impaired. These balances relate to persons whom there were no recent history of default and have been fully settled subsequent to the reporting date.

**23.(d) Collateral details**

The company does not hold any collateral as security against potential default by policyholders or intermediaries.

**24.(e) 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 5.2.3.(c) to financial statements for more information.

# Notes to the Financial Statements

## 25. RECEIVABLES AND OTHER ASSETS

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
<b>Financial assets</b>			
Staff loans*	25.(a)	422,840	356,122
Agent / advisory loans	25.(b)	91,551	89,484
Refundable deposits		12,809	38,076
Other receivables		19,595	29,918
		<b>546,795</b>	<b>513,600</b>
<b>Non financial assets</b>			
Taxes recoverable	25.(c)	239,969	284,497
Prepayments		215,103	172,327
Inventories		9,293	9,056
Other receivables		32,799	29,905
Advance payments		43,626	45,621
		<b>540,790</b>	<b>541,406</b>
<b>Total receivables and other assets</b>		<b>1,087,585</b>	<b>1,055,006</b>

\*No loans have been granted to the Directors of the company.

### 25.(a) Staff loans

Balance as at 1 January	356,122	365,911
Loans provided during the year	170,163	104,435
Payments / settlements during the year	(63,577)	(23,247)
Fair value adjustment during the year	(39,868)	(90,977)
Balance as at 31 December	<b>422,840</b>	<b>356,122</b>

### 25.(b) Agent / advisory loans

Balance as at 1 January	89,484	122,520
Loans provided during the year	112,637	62,164
Payments / settlements during the year	(101,242)	(95,200)
Provision for impairment	(9,328)	-
Balance as at 31 December	<b>91,551</b>	<b>89,484</b>

### 25.(c) Taxes recoverable

ACT recoverable	92,296	92,296
WHT recoverable	142,874	174,342
ESC receivable	4,799	17,859
	<b>239,969</b>	<b>284,497</b>

### 25.(d) Fair value

The fair value of staff loans are based on cash flow discounting rate. Discount rate is equal to AWPLR plus appropriate risk margin. The fair values of agent / advisory loans are equal to the carrying amount as they are granted at competitive market rates.

25.(e) Refer Note 5.2.3.(g) to the financial statements for risk management policies / initiatives relating to other financial assets.

**26. DEFERRED ACQUISITION COST (DAC)**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	146,097	147,495
Acquisition cost during the year	484,523	441,848
Amortisation for the year	(481,475)	(443,246)
<b>Balance as at 31 December</b>	<b>149,145</b>	<b>146,097</b>

**27. CASH AND CASH EQUIVALENTS**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Cash at bank	465,574	314,806
Cash in hand	828	828
<b>Total cash and cash equivalents</b>	<b>466,402</b>	<b>315,634</b>
Bank overdraft used for cash management purposes	155,824	82,925
<b>Cash and cash equivalent in the statement of cash flows</b>	<b>310,578</b>	<b>232,709</b>

**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 5.2.3.(f) to the financial statements for more information.

**28. STATED CAPITAL**

	Number of shares outstanding	Equity Rs. '000
Balance as at 1 January 2012	75,000,000	388,433
Share issue during the year	10,714,286	744,872
<b>Balance as at 31 December 2012</b>	<b>85,714,286</b>	<b>1,133,305</b>
Transfer of share issue expenses	28. (b) -	5,128
<b>Balance as at 31 December 2013</b>	<b>85,714,286</b>	<b>1,138,433</b>

**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) Share issue expenses**

The company had incurred various expenses relating to the share issue during the year 2012. Such expenses had been deducted from the stated capital during the year 2012. This has been transferred during the year and the said expenses have been recognised in the retained earnings as shown in the Statement of Changes in Equity during the year ended 31 December 2013. Prior year balances have not been restated since the effect is not material.

# Notes to the Financial Statements

## 29. 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, etc.

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Capital reserves	29. (a)	811,678	708,988
Other reserves	29. (b)	17,416	11,842
<b>Total Reserves</b>		<b>829,094</b>	<b>720,830</b>

### 29.(a) Capital reserves

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Revaluation reserve			
Unrealised gain reserve	29. (a) (i)	475,860	475,860
Life policy holders' revaluation reserve	29. (a) (ii)	319,066	216,376
		<b>794,926</b>	<b>692,236</b>
Reserve on merger with Cornhill (Private) Limited	29. (a) (iii)	16,752	16,752
		<b>811,678</b>	<b>708,988</b>

#### 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

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	216,376	221,444
Revaluation surplus during the year	105,037	-
Adjustment for deferred tax	2,790	-
Net gain on revaluation of land and buildings	107,827	-
Depreciation transfer during the year	(5,137)	(5,068)
Balance as at 31 December	<b>319,066</b>	<b>216,376</b>

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 2013 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.

**29.(a)(iii) Reserve on merger with Cornhill (Private) Limited**

The unrealised gain reflects the net result of the merger of the company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders statement of financial position.

**29.(b) Other reserves**

This reserve represents the unrealised gain in available for sale financial assets and other capital reserves:

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
<b>Available for sale</b>			
Reserve for insurance contract liabilities - policyholder	29. (b) (i)	13,004	11,253
Reserve for available for sale	29. (b) (ii)	5,363	589
		<b>18,367</b>	<b>11,842</b>
<b>Other capital reserves</b>			
Reserves on retirement benefit obligation	29. (b) (iii)	(4,585)	-
Other capital reserve	29. (b) (iv)	3,633	-
		<b>(952)</b>	<b>-</b>
		<b>17,416</b>	<b>11,842</b>

Movements in the other reserves were as follows;

**29.(b)(i) Reserve for insurance contract liabilities - policyholders**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	11,253	157,887
Adjustment from unrealised gain/ (losses) on AFS assets - gross	3,364	(126,196)
Adjustment from net realised gains on AFS assets - net	(1,612)	(20,438)
Balance as at 31 December	<b>13,004</b>	<b>11,253</b>

**29.(b)(ii) Reserve for available for sale**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	589	83,251
Adjustment from unrealised gain/ (losses) on AFS assets - gross	4,746	(82,662)
Adjustment from net realised gains on AFS assets - net	28	-
Balance as at 31 December	<b>5,363</b>	<b>589</b>

**29.(b)(iii) Reserves on retirement benefit obligation**

As at 31 December	2013 Rs. '000	2012 Rs. '000
Reserves on retirement benefit obligation - policyholder	(2,402)	-
Reserves on retirement benefit obligation	(2,183)	-
	<b>(4,585)</b>	<b>-</b>

Reserve arising due to movement in actuarial valuation of the retirement benefit obligation

## Notes to the Financial Statements

### 29.(b)(iv) Other capital reserves

#### Share based payment plan

#### Description of the employee share option scheme

Under the John Keells Group's Employee Share Option Scheme (ESOP), share options of the parent are granted to senior executives of the company and is dependent on a performance criteria and a service criteria. SLFRS 02 - Share based payment has been applied to equity instruments in share based transactions that were granted after 1 January 2012, which was the effective date of the standard. Hence option granted on 1 July 2013 has been accounted as per the standard.

The terms and conditions of the grants are as follows; All options are to be settled by shares and there are no cash settlement alternatives.

Grant date/ employees entitled	Number of instruments	Vesting conditions	Contractual life of the option	Exercise price
Senior executives of the company with more than 12 months of service on 31 December 2013	172,149	Vests over a period of four years. A minimum performance achievement of meeting the Key Result Areas (KRA) s and being in employment at the time the share options vests.	5 years	Equal to the 30 day volume weighted average market price of the underlying shares on the date of grant.

#### Reconciliation of outstanding share options

The following table illustrates the number of options (No.) and weighted average exercise prices (WAEP) of, and movements, share options during the year:

As at 31 December	2013 No	2013 WAEP (Rs)
Outstanding at 1 January 2013	-	-
Granted during the year (on 01.07.2013)	149,200	265.18
Adjustment for 2:13 rights issue (on 02.10.2013)	22,949	(12.02)
Forfeited during the year	-	-
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at 31 December 2013	172,149	253.16
Exercisable at 31 December 2013	172,149	253.16

There were no options exercised during the year ended 31 December 2013.

### Employee expenses for share based payment transactions

The expense recognised for employee services received during the year is as follows;

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Expense arising from equity-settled share-based payment transactions	3,633	-
	3,633	-

The expense recognised for employee services is based on the parents' best estimate of the number of options that will ultimately vest. No expense is recognised for awards that do not ultimately vest.

### 29.(b)(v) Fair value of the share options and assumptions

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The valuation takes into account factors such as stock price, expected time to maturity, exercise price, expected volatility of share price, expected dividend yield and risk free interest rate.

### 30. INSURANCE CONTRACT LIABILITIES - LIFE

As at 31 December		2013			2012		
Rs:000	Note	Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
<b>Life insurance</b>							
Insurance contract liabilities	30.(a)	17,882,286	(646,453)	17,235,833	15,466,127	(448,480)	15,017,647
Unclaimed benefits		282,183	-	282,183	338,693	-	338,693
<b>Total insurance contract liabilities - life</b>		<b>18,164,469</b>	<b>(646,453)</b>	<b>17,518,016</b>	<b>15,804,821</b>	<b>(448,480)</b>	<b>15,356,340</b>

#### 30.(a) Insurance contract liabilities

As at 31 December		2013			2012		
Rs:000		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Balance as at 1 January		15,466,127	(448,480)	15,017,647	13,460,872	(249,513)	13,211,359
Premiums received	7 & 8	5,515,063	(280,542)	5,234,521	5,106,323	(249,595)	4,856,728
Liabilities paid for death, maturities, surrenders, benefits and claims		(1,224,263)	82,569	(1,141,694)	(1,079,537)	50,628	(1,028,909)
Benefits and claims experience variation		(1,182,812)	-	(1,182,812)	(1,240,254)	-	(1,240,254)
Investment return		1,973,071	-	1,973,071	1,699,751	-	1,699,751
Expenses		(2,664,900)	-	(2,664,900)	(2,481,028)	-	(2,481,028)
Balance as at 31 December		17,882,286	(646,453)	17,235,833	15,466,127	(448,480)	15,017,647

Changes in some of the previously mentioned assumptions will largely be offset by corresponding changes in the assets backing the liabilities.

## Notes to the Financial Statements

Long duration contract liabilities included in the life insurance fund, result primarily from traditional participating and non participating life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based on the following;

- 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 on actual experience.

The amount of policyholder dividend to be paid is determined annually by the company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract or by insurance regulations.

The valuation of conventional life insurance fund as at 31 December 2013 was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 522 million to be transferred from the conventional life insurance fund to the shareholders fund for the year 2013. Subsequent to the transfer the conventional life fund stands as Rs.17,131 million, including the liability in respect of bonuses and dividends declared up to and including the year 2013.

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. 90 million to be transferred from the non unit fund of the linked long term fund to shareholders fund for the year 2013. Subsequent to the transfer the fund stands at Rs.104 million as at 31 December 2013.

In establishing the valuation, a reserve of Rs. 443 million for conventional life insurance fund and Rs. 96 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 2013 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.

### 30.(b) Movement in insurance contract liabilities

As at 31 December	2013 Rs. '000	2012 Rs. '000
<b>Conventional life insurance</b>		
Balance as at 1 January	14,914,009	13,140,952
Increase in life insurance fund before surplus transfer to share holders	2,739,389	2,198,057
Transfer to shareholder	(522,000)	(425,000)
Balance as at 31 December - conventional life insurance	17,131,398	14,914,009
<b>Non unit fund of linked life insurance contracts</b>		
Balance as at 1 January	103,638	70,707
Increase in non unit fund of linked life insurance before surplus transfer to share holders	90,797	132,931
Transfer to shareholder	(90,000)	(100,000)
Balance as at 31 December - Non unit fund of linked life insurance	104,435	103,638
	17,235,833	15,017,647

**30.(c) 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**

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Outstanding claims provision (Gross)	31(a)	1,122,736	1,026,563
Provision for unearned premiums (Net)	31(b)	2,317,513	2,174,275
<b>Total insurance contract liabilities - non life</b>		<b>3,440,249</b>	<b>3,200,838</b>

**Movement in insurance contract liabilities - non life**

The company enters into reinsurance agreements in order to mitigate insurance risks as outlined in Note 5.1 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.

As at 31 December	Note	2013			2012		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Rs. '000							
Provision for reported claims		665,249	(341,265)	323,984	615,877	(256,393)	359,484
Incurred But Not Reported (IBNR)		457,487	(108,508)	348,979	410,686	(71,938)	338,748
Outstanding claims provision	31 a	1,122,736	(449,773)	672,963	1,026,563	(328,331)	698,232
Provision for unearned premiums	31 b	3,039,975	(722,462)	2,317,513	2,613,711	(439,436)	2,174,275
<b>Total non life insurance contract liabilities</b>		<b>4,162,711</b>	<b>(1,172,235)</b>	<b>2,990,476</b>	<b>3,640,274</b>	<b>(767,767)</b>	<b>2,872,507</b>

For reinsurance receivables, refer Note 23 to the financial statement.

**31.(a) Outstanding claims provision**

The movement in the outstanding claims provision is as follows;

Provision for reported claims	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	615,877	701,411
Claims incurred during the year	3,089,788	2,448,641
Claims paid during the year	(3,040,416)	(2,534,175)
Balance as at 31 December	665,249	615,877
<b>Incurred But Not Reported (IBNR)</b>		
Balance as at 1 January	410,686	361,033
Increase/ (decrease) in IBNR	46,801	49,653
Balance as at 31 December	457,487	410,486
	<b>1,122,736</b>	<b>1,026,563</b>

**31.(a)(i) 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.

## Notes to the Financial Statements

### Current estimate of cumulative claims incurred

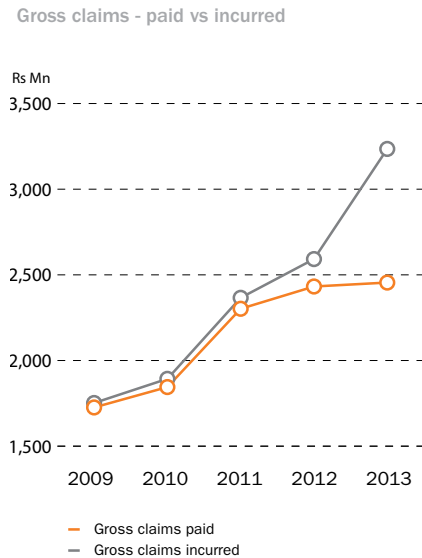
AY/DY	1	2	3	4	5	6	7	8	9	10	11	Total
1999	226,937	255,945	268,343	271,727	270,006	282,047	333,121	335,269	306,790	315,067	756,360	
2000	297,105	364,263	382,239	383,860	379,867	387,530	420,587	429,081	411,565	418,078	412,583	
2001	339,749	419,723	425,717	422,883	417,499	427,029	464,053	465,319	449,357	453,966	429,805	
2002	425,846	412,418	415,010	411,741	407,632	419,672	471,000	470,565	452,675	453,317	452,289	
2003	387,353	383,439	381,183	380,543	380,715	392,607	428,639	429,536	412,116	412,460	412,486	
2004	342,846	294,274	290,458	290,166	293,810	300,951	330,170	308,782	307,026	309,656		
2005	584,800	582,792	601,607	640,522	645,285	665,410	780,390	778,718	776,839			
2006	1,020,498	1,042,819	1,078,292	1,087,151	1,090,217	1,146,907	1,139,970	1,143,620				
2007	1,292,844	1,310,989	1,357,993	1,364,511	1,363,825	1,366,693	1,372,163					
2008	1,585,087	1,654,763	1,699,416	1,702,542	1,701,916	1,696,615						
2009	1,784,714	1,703,494	1,854,397	1,759,458	1,752,113							
2010	2,002,954	1,928,684	1,898,570	1,893,339								
2011	2,494,065	2,423,052	2,365,798									
2012	2,690,287	2,591,892										
2013	3,234,961											
Cumulative claims incurred	3,234,961	2,591,892	2,365,798	1,893,339	1,752,113	1,696,615	1,372,163	1,143,620	776,839	309,656	2,463,523	19,600,519

### Cumulative payments to date

AY/DY	1	2	3	4	5	6	7	8	9	10	11	Total
1999	286,378	403,226	415,085	418,714	419,438	420,134	422,958	440,977	442,072	444,037	752,475	
2000	248,122	380,175	387,340	388,557	385,586	387,284	390,934	403,181	405,326	406,266	412,437	
2001	284,046	396,998	412,332	414,358	417,012	417,706	419,186	422,248	423,830	424,030	427,090	
2002	288,487	406,206	414,920	419,263	421,043	424,091	446,726	448,452	451,543	451,560	451,734	
2003	263,745	374,551	389,757	398,195	402,733	408,754	409,295	409,305	410,784	410,784	410,784	
2004	205,253	290,291	297,651	300,365	304,679	304,937	305,760	305,821	305,920	309,071		
2005	428,779	629,582	663,062	755,010	763,955	766,888	768,857	771,716	772,554			
2006	785,151	1,095,370	1,115,635	1,120,030	1,127,022	1,133,815	1,135,791	1,136,483				
2007	1,007,244	1,296,823	1,311,930	1,323,674	1,344,641	1,357,178	1,361,341					
2008	1,279,124	1,642,404	1,657,956	1,670,415	1,680,325	1,684,359						
2009	1,380,281	1,649,466	1,665,754	1,715,347	1,725,707							
2010	1,507,553	1,802,016	1,829,794	1,845,004								
2011	1,888,234	2,279,386	2,301,561									
2012	1,976,430	2,432,220										
2013	2,454,963											
Cumulative payments to date	2,454,963	2,432,220	2,301,561	1,845,004	1,725,707	1,684,359	1,361,341	1,136,483	772,554	309,071	2,454,520	18,477,783
Total gross claims provision	779,998	159,672	64,237	48,335	26,406	12,256	10,822	7,137	4,285	585	9,003	1,122,736

**31(a)(ii) 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.(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 2013, but covering periods after 31 December 2013.

Rs. '000	Note	2013			2012		
		Insurance contract liabilities	Reinsurance liabilities	Net	Insurance contract liabilities	Reinsurance liabilities	Net
Balance as at 1 January		2,613,711	(439,436)	2,174,275	2,431,148	(442,617)	1,988,531
Premiums written in the year	7 & 8	5,391,712	(1,256,181)	4,135,531	4,626,433	(912,278)	3,714,155
Premiums earned during the year		(4,965,448)	973,155	(3,992,293)	(4,443,870)	915,459	(3,528,411)
Balance as at 31 December		3,039,975	(722,462)	2,317,513	2,613,711	(439,436)	2,174,275

**31.(c) Liability adequacy test (LAT) - Non life insurance contract liabilities**

As per the liability adequacy test performed by the NMG Financial Service Consulting as at 31 December 2013, 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) Non life insurance technical reserves**

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Non life insurance contract liabilities	31	3,440,249	3,200,838
Deferred acquisition cost (net)		(39,743)	(49,193)
Reinsurance receivable on outstanding claims		(449,773)	(328,331)
		2,950,733	2,823,314

# Notes to the Financial Statements

## 32. REINSURANCE PAYABLES

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	415,394	441,567
Arising during the year	1,359,967	1,161,030
Utilised during the year	(1,010,384)	(1,187,203)
<b>Balance as at 31 December</b>	<b>764,977</b>	<b>415,394</b>

## 33. DEFERRED REVENUE

This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires.

As at 31 December	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	96,904	89,467
Commission income	248,232	171,986
Recognised during the year	(235,734)	(164,549)
<b>Balance as at 31 December</b>	<b>109,402</b>	<b>96,904</b>

## 34. EMPLOYEE BENEFITS

The company had 1,157 and 1,088 employees (full-time equivalents) as of 31 December 2013 and 2012 respectively. Personnel and other related costs incurred for the year ended 31 December 2013 and 2012 were Rs. 1,117 millions and Rs. 1,090 million, which include staff remuneration of Rs. 878 million in both years.

### 34.(a) Defined contribution plans

Following contributions have been made for employee provident fund and employee trust fund during the year.

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
<b>Employees' Provident Fund (EPF)</b>		
Employer's contribution (12%)	83,721	71,621
Employee's contribution (8%)	55,814	47,747
<b>Employees' Trust Fund (ETF)</b>		
Employer's contribution (3%)	20,930	17,905

### 34.(b) Defined benefit plans

This note indicates the assumptions used and the movement in the employee benefit. The plan is not externally funded. As at 31 December 2013 the gratuity liability was actuarially valued under the projected unit credit (PUC) method by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Limited. The valuation is performed annually.

## 34.(b)(i) Movement in present value of gratuity

As at 31 December	Note	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January		163,572	154,702
Expenses recognised in the statement of comprehensive income	34(b)(ii)	43,645	23,457
Gratuity transferred		-	1,527
		<b>207,217</b>	<b>179,686</b>
Payments during the year		(21,139)	(16,114)
Balance as at 31 December		<b>186,078</b>	<b>163,572</b>

## 34.(b)(ii) Expenses recognised in the statement of comprehensive income

For the year ended 31 December	2013 Rs. '000	2012 Rs. '000
Expenses recognised in statement of income		
Current service cost	21,067	18,886
Interest cost on benefit obligation	17,993	15,470
	<b>39,060</b>	<b>34,356</b>
Expenses recognise in statement of other comprehensive income		
Net actuarial (gain)/ loss on obligation	4,585	(10,899)
	<b>43,645</b>	<b>23,457</b>

The company recognises the actuarial gains/ (losses) in the statement of other comprehensive income from the year ended 31 December 2013, in line with LKAS 19 - Employee Benefits which became effective from 1 January 2013. The prior year balances has not been restated since the effect is not material.

## 34.(b)(iii) Principal actuarial assumptions used

Assumption	2013	2012
Discount rate	11%	11%
Incidence of withdrawal	3%	3%
Salary increase	10%	10%
Retirement Age	55 Years	55 Years

Assumptions regarding future mortality are based on published statistics and mortality tables.

## 35. OTHER LIABILITIES

As at 31 December	2013 Rs. '000	2012 Rs. '000
<b>Other financial liabilities</b>		
Agency commission payable	197,582	166,567
Premiums in suspense	389,142	285,183
Other liabilities and accruals	257,942	277,954
	<b>844,666</b>	<b>729,704</b>
<b>Other non financial liabilities</b>		
Government levies	109,093	91,197
Other staff related provisions	112,417	154,241
Other liabilities	69,018	23,239
	<b>290,528</b>	<b>268,677</b>
<b>Total other liabilities</b>	<b>1,135,194</b>	<b>998,381</b>

Maturity schedule of other financial liabilities as of 31 December 2013 and 2012 are shown in Note 5.2.2 to the financial statements

# Notes to the Financial Statements

## 36. DEFERRED TAX LIABILITIES

The amount reflects the liability that may arise on the revaluation impact if the free hold properties owned by the company.

### 36.(a) Deferred tax liability on net gain on revaluation of assets

As at 31 December	2013 Rs. '000	2012 Rs. '000
Deferred income tax related to items charged or credited directly to equity		
Net gain on revaluation of building	90,611	100,574
Tax rate	28%	28%
<b>Total</b>	<b>25,371</b>	<b>28,161</b>

### 36.(b) Unrecognised deferred tax liabilities / (assets)

As at 31 December	2013 Rs. '000	2012 Rs. '000
Unrecognised deferred tax assets as at 1 January	(702,835)	(534,118)
Movement during the year	(108,117)	(168,717)
Unrecognised deferred tax assets as at 31 December	<b>(810,952)</b>	<b>(702,835)</b>

### 36.(b)(i) Analysis of deferred tax liabilities / (assets)

Rs:'000	2013		2012	
	Temporary difference	Tax effect	Temporary difference	Tax effect
<b>Deferred tax - liability</b>				
Property, plant and equipment	291,797	81,703	386,423	108,199
Available for sale financial assets	-	-	11,842	3,316
	<b>291,797</b>	<b>81,703</b>	<b>398,265</b>	<b>111,515</b>
<b>Deferred tax - assets</b>				
Retirement benefit obligation	(186,078)	(52,102)	(163,572)	(45,800)
Staff bonus	(112,417)	(31,477)	(154,251)	(43,190)
Available for sale financial assets	(6,526)	(1,827)	-	-
Unutilised tax losses	(2,883,033)	(807,249)	(2,590,568)	(725,360)
	<b>(3,188,054)</b>	<b>(892,655)</b>	<b>(2,908,391)</b>	<b>(814,350)</b>
Net deferred tax assets - (Note 36.b.ii)	<b>(2,896,257)</b>	<b>(810,952)</b>	<b>(2,510,126)</b>	<b>(702,835)</b>

## 36.(b) (ii) Movement in temporary differences

As at 31 December	2013		2012			
Rs:000	Balance as at 1 January	Movement	Balance as at 31 December	Balance as at 1 January	Movement	Balance as at 31 December
<b>Deferred tax - liability</b>						
Property, plant and equipment	386,423	(94,626)	291,797	357,430	28,993	386,423
Available for sale financial assets	-	-	-	241,139	(229,297)	11,842
	<b>386,423</b>	<b>(94,626)</b>	<b>291,797</b>	<b>598,569</b>	<b>(200,304)</b>	<b>398,265</b>
<b>Deferred tax - assets</b>						
Retirement benefit obligation	(163,572)	(22,506)	(186,078)	(154,702)	(8,870)	(163,572)
Staff bonus	(154,251)	41,834	(112,417)	(105,349)	(48,902)	(154,251)
Available for sale financial assets	11,842	(18,368)	(6,526)	-	-	-
Unutilised tax losses	(2,590,568)	(292,465)	(2,883,033)	(2,246,074)	(344,494)	(2,590,568)
	<b>(2,896,549)</b>	<b>(291,505)</b>	<b>(3,188,054)</b>	<b>(2,506,125)</b>	<b>(402,266)</b>	<b>(2,908,391)</b>
	<b>(2,510,126)</b>	<b>(386,131)</b>	<b>(2,896,257)</b>	<b>(1,907,556)</b>	<b>(602,570)</b>	<b>(2,510,126)</b>

As at the year end the total carried forward tax loss is Rs. 2,883 million (2012 - Rs. 2,591 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. However, no deferred tax asset is recognised in the financial statements as it is not probable that the future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

## 37. CASH GENERATED FROM OPERATING ACTIVITIES

For the year ended 31 December		2013	2012
		Rs. '000	Rs. '000
<b>37(a)</b>	<b>Net change in operational assets</b>		
	Net change in reinsurance assets	249,051	146,786
	Net change in premium receivables	(385,391)	(223,142)
	Net change in receivables and other assets	(456,151)	59,094
		<b>(592,491)</b>	<b>(17,262)</b>
<b>37(b)</b>	<b>Net change in operational liabilities</b>		
	Net change in life insurance contract liabilities	2,825,267	2,398,643
	Net change in non - life insurance contract liabilities	239,411	149,862
	Net change in other liabilities	109,312	277,607
		<b>3,173,990</b>	<b>2,826,112</b>

## 38. RELATED PARTY DISCLOSURES

## 38.1 Parent and ultimate controlling party

The Company's immediate and ultimate controlling party is John Keells Holdings PLC.

## 38.2 Transactions with key management personnel (KMPs)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the company and its ultimate parent company John Keells Holdings PLC (including Executive and Non-Executive Directors) and close family members (CFM) of a KMP. In addition, selected key employees who meet the criteria for KMP and their CFM have also been classified as KMP of the company from the current year onwards.

CFMs of a KMP are those family members who may be expected to influence, or be influenced by, that KMP in their dealings with the entity. They may include KMPs domestic partner and children, children of the KMPs domestic partner and dependents of the KMP or the KMPs domestic partner.

## Notes to the Financial Statements

### 38.2.a Compensation of KMPs

	2013 Rs. '000	2012 Rs. '000
Short term employment benefits	38,120	5,400
Post employment benefits	1,044	-
	<b>39,164</b>	5,400

The short term employment benefits include only the directors fees and emoluments paid to directors. Where applicable such fees are paid directly to the companies that the Directors represent. There are no short-term, long-term, post - employment, terminal and share-based payments linked to the remuneration of the directors and no ex-gratia payments were made to directors during the year. Further, the company does not provide any non-cash benefit to the KMPs.

### 38.2.b Transactions, arrangements and agreements involving KMPs, and their close family members (CFMs)

The details of the transactions with the KMP's are as follow;

	2013 Rs. '000
Insurance premium - Non life	2,804
Insurance premium - Life	39

The Directors of the company and their immediate relatives do not have substantial shareholdings in the company as at 31 December 2013.

The Directors of the company are also Directors of the following companies as set out below and transaction in Note 38.3 have been carried out with such companies.

Company	Name of Director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	A. D. Gunewardene	Deputy Chairman	John Keells Holdings PLC and one of its subsidiaries own 95.65% of the company's issued share capital	Union Assurance has transactions in the normal course of business with John Keells Holdings PLC, and its subsidiaries and associate companies
Keells Consultants (Pvt) Ltd.	A. D. Gunewardene D. C. Alagaratnam	Director Director	Keells Consultants (Private) Ltd is the Secretary of Union Assurance PLC	Union Assurance has transactions in the normal course of business with Keells Consultants (Private) Ltd
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

**38.3 Transactions with related parties**

The company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures. Details of related party transactions are reported below.

**38.3.a Transactions with the parent and ultimate controlling party.**

<b>As at 31 December</b>	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Statement of financial position</b>		
<b>Assets</b>		
Premium receivables	141	5,062
	<b>141</b>	<b>5,062</b>
<b>Liabilities</b>		
Other liabilities	308	-
	<b>308</b>	<b>-</b>
<b>Statement of income</b>		
	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Gross written premium	13,971	22,763
Net benefits and claims	10,061	17,908
Other operating and administrative expenses	36,135	33,100

**38.3.b Transactions with / between subsidiary companies and associates of the parent company and other related entities.**

		<b>Relationship with John Keells Holdings PLC</b>	<b>Investment / Transaction</b>	<b>As at 31 December</b>
				<b>2013</b>
				<b>Rs. '000</b>
				<b>2012</b>
				<b>Rs. '000</b>
<b>Statement of financial position.</b>				
<b>Assets</b>				
<b>Property plant &amp; equipment</b>				
Other subsidiaries and associates		Acquisition of property plant & equipment		12,109
			<b>43,280</b>	<b>12,109</b>
<b>Financial investments</b>				
Central Hospital (Pvt) Ltd	Associate	Equity	100,000	100,000
Nations Trust Bank PLC	Associate	Corporate debt	583,130	450,000
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - term	265,742	200,000
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - overnight	1,571	4,400
			<b>950,443</b>	<b>754,400</b>
<b>Receivables and other assets</b>				
John Keells Residential Properties (Pvt) Ltd	Subsidiary	Advance paid for investment property	24,420	24,420
			<b>24,420</b>	<b>24,420</b>
<b>Premium receivables</b>				
Other subsidiaries and associates		Policy Premium	1,992	2,686
			<b>1,992</b>	<b>2,686</b>
<b>Other liabilities</b>				
Other subsidiaries and associates		Payment for shared services	233	-
			<b>233</b>	<b>-</b>

# Notes to the Financial Statements

Transaction amount  
During the year  
2013 2012  
Rs'000 Rs'000

## Statement of income

### Gross written premium

Other subsidiaries and associates	63,055	78,114
Kalutara Bodhi Trust	147	140
Nations Trust Bank PLC	1,292	1,665
	64,494	79,919

### Net benefits and claims

Other subsidiaries and associates	42,272	56,591
Kalutara Bodhi Trust	5	205
Nations Trust Bank PLC	595	206
	42,872	57,002

### Investment income

Nations Trust Bank PLC - Debentures	54,783	35,895
- Repo	517	6,829
	55,300	42,724

### Other operating and administrative expenses

Other subsidiaries and associates	66,746	51,943
	66,746	51,943

## 39. DETERMINATION OF FAIR VALUES

This note explains the methodology for valuing our financial assets and liabilities and provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

### 39.1. Valuation models

The company measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 3.3.7. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The company's accounting policy on fair value measurements is discussed in Note 3.3.7.

### 39.2. Valuation framework

The company has an established control framework with respect to the measurement of fair values. The investment committee has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include :

- Verification of observable pricing;
- Re-performance of model valuations;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS.

### 39.3 Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three “levels” based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- **Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

---

- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

---

- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

---

# Notes to the Financial Statements

## 39.4. Valuation methodologies of financial instruments measured at fair value.

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

As at 31 December 2013 Rs'000	Note	Fair value hierarchy			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss:</b>					
<b>Financial assets held for trading:</b>					
Equity securities	20.(d)(i)	566,020	-	-	566,020
Investments for the benefit of life insurance policyholders who bear the investment risk					-
Equity securities	20.(d)(ii)b	1,428,268	-	-	1,428,268
Debt securities	20.(d)(ii)a	-	111,630	-	111,630
<b>Designated at fair value through profit or loss:</b>					
Investments for the benefit of life insurance policyholders who bear the investment risk - debt securities	20.(d)(ii)a	-	259,395	-	259,395
		<b>1,994,288</b>	<b>371,025</b>	<b>-</b>	<b>2,365,313</b>
<b>Available for sale financial assets:</b>					
Debt securities	20.(c)(ii)&(iii)	2,441,720	988,535	-	3,430,255
		<b>2,441,720</b>	<b>988,535</b>	<b>-</b>	<b>3,430,255</b>
		<b>4,436,008</b>	<b>1,359,560</b>	<b>-</b>	<b>5,795,568</b>

As at 31 December 2012 Rs'000	Note	Fair value hierarchy			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss:</b>					
<b>Financial assets held for trading:</b>					
Equity securities	20.(d)(i)	644,956	-	-	644,956
Investments for the benefit of life insurance policyholders who bear the investment risk					-
Equity securities	20.(d)(ii)b	926,935	-	-	926,935
Debt securities	20.(d)(ii)a	-	72,123	-	72,123
<b>Designated at fair value through profit or loss:</b>					
Investments for the benefit of life insurance policyholders who bear the investment risk - Debt securities	20.(d)(ii)a	-	144,556	-	144,556
		<b>1,571,891</b>	<b>216,679</b>	<b>-</b>	<b>1,788,570</b>
<b>Available for sale financial assets:</b>					
Debt securities	20.(c)(ii)&(iii)	-	2,271,949	-	2,271,949
		<b>-</b>	<b>2,271,949</b>	<b>-</b>	<b>2,271,949</b>
		<b>1,571,891</b>	<b>2,488,628</b>	<b>-</b>	<b>4,060,519</b>

Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

### 39.5 Fair values of financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the financial assets and liabilities of the company which are not measured at fair value in the financial statements.

As at 31 December	Explanatory reference	Note	2013		2012	
Rs'000			Fair value	Carrying value	Fair value	Carrying value
<b>Held to maturity financial assets :</b>						
Debentures	39.5.1		2,106,823	2,106,789	2,343,258	2,343,895
Treasury bonds	39.5.2		13,089,999	12,302,014	11,793,440	12,011,438
		20.(a)	15,196,822	14,408,803	14,136,698	14,355,333
<b>Loans and receivables :</b>						
Debentures	39.5.1		650,562	616,627	251,097	257,622
Fixed term deposit	39.5.3		2,315,373	2,315,373	229,637	229,637
Reverse repos	39.5.4		1,060,502	1,060,502	1,798,573	1,798,573
		20.(b)	4,026,437	3,992,502	2,279,307	2,285,832
<b>Other financial assets :</b>						
	39.5.5					
Loans to life policyholders		22	515,735	515,735	385,688	385,688
Staff loans		25	422,840	422,840	356,122	356,122
Agent / advisory loans		25	91,551	91,551	89,484	89,484
Reinsurance receivables		23	502,571	502,571	400,627	400,627
Premium receivables		24	1,844,831	1,844,831	1,459,440	1,459,440
Refundable deposits		25	12,809	12,809	38,076	38,076
Other receivables		25	19,595	19,595	29,918	29,918
Cash and cash equivalent		27	466,402	466,402	315,634	315,634
			3,876,334	3,876,334	3,074,989	3,074,989
			23,099,593	22,277,639	19,490,994	19,716,154
<b>Financial liabilities :</b>						
	39.5.6					
Reinsurance payables		32	764,977	764,977	415,394	415,394
Agency commission payables		35	197,582	197,582	166,567	166,567
Premium in suspense		35	389,142	389,142	285,183	285,183
Other financial liabilities		35	257,942	257,942	277,954	277,954
Bank overdraft		27	155,824	155,824	82,925	82,925
			1,765,467	1,765,467	1,228,023	1,228,023

#### 39.5.1 Debentures

The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows. Unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar maturity plus a risk premium determined based on the credit rating of the instrument.

#### 39.5.2 Treasury bonds

The fair values of treasury bonds are estimated based on broker/dealer price quotation and based on current market yields.

#### 39.5.3 Fixed term deposit

The fair values of fixed term deposits with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate term deposits with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of term deposits of similar credit risks and maturity.

# Notes to the Financial Statements

## 39.5.4 Reverse repos

The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.

## 39.5.5 Other financial assets

The carrying amount of cash and bank balances approximate fair values due to the relatively short maturity of the financial instruments.

The fair value of the staff loan, agent / advisory loan and loans to life policy holders have been computed based on the interest rates prevailed at reporting date.

For other receivables the carrying values have been considered as the fair value due to uncertainty of the timing of the cash flows.

## 39.5.6 Financial liabilities

Carrying values of financial liabilities have been considered as the fair value, due to uncertainty of the timing of the cash flow.

## 40. CAPITAL COMMITMENTS

There were no significant capital commitments as at the reporting date other than the following:

	2013 Rs:000	2012 Rs:000
Capital Commitments contracted	219,783	219,783

The company has contracted for eleven units of residential property being constructed by John Keells Residential Properties (Pvt) Ltd. and above payment is due in October 2014.

### 40.1 Operating lease

The company does not have any non cancellable operating lease as at the reporting period.

## 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. 6 per share for the financial year ended 31 December 2013.

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 2013.

**42. CONTINGENCIES**

The contingent liability of the company as at 31 December 2013, relates to the following;

**42.1 Income tax assessment relating to the year of assessment 2010/11**

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2010/ 11, assessing the Life insurance business to pay an income tax liability of Rs. 132 millions along with a 50% penalty totaling to Rs. 198 millions and the company has lodged a valid appeal against the said assessment. Department of Inland Revenue has issued a letter of acknowledgement on the 03 February 2014, accepting the hold over of the tax liability and penalty.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for year of assessment 2010/ 11 and therefore, the above assessment has no rationale or basis in law.

**42.2** 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.

**42.3** 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**

The presentation and classification of following items in these financial statements are amended to ensure comparability with the current year information.

Statement of financial position		As at 31 December 2012	
		Current presentation Rs:'000	As Reported previously Rs:'000
Financial Investments	43.a	20,802,309	20,071,094
Property, plant and equipment	43.b	1,318,225	1,363,845
Loans to life policy holders	43.a	385,688	284,744
Receivables and other assets	43.a & b	1,055,006	1,841,545

For the year ended 31 December 2012			
Statement of comprehensive income		Current presentation	
		Rs:'000	As Reported previously Rs:'000
Net realised gains/ (losses)	43.c	(53,874)	20,438
Net fair value gains/ (losses)	43.c	28,782	(45,530)

**43(a)** The interest receivables relating to financial investments and loans to life policy holders were previously classified under receivables and other assets. However, the interest receivable has been added to the respective financial asset in the Statement of Financial Position.

**43(b)** The advances paid to suppliers to purchase property, plant and equipment, which was previously classified as property, plant and equipment, has been reclassified under other receivable in the Statement of Financial Position.

**43(c)** The net realised gains/ (losses) arising from financial assets designated on fair value through profit or loss and derivative financial instruments which was previously classified under net fair value gains has been reclassified under net realised gains/ (losses).

**44. DIRECTORS' RESPONSIBILITY**

The Board of Directors of the company is responsible for the preparation and presentation of the financial statements.

# SUPPLEMENTARY INFORMATION

## FINANCIAL CALENDAR

Audited Financial Statements authorised on - 25 February 2014

27<sup>th</sup> Annual General Meeting to be held on - 31 March 2014

The first and final dividend for the year will be paid on - 18 March 2014

**Interim financial statements will be published as per rule 8.3 of the Colombo Stock Exchange**

Interim results for the three months ended 31.03.2014 - 13 May 2014

Interim results for the six months ended 30.06.2014 - 15 August 2014

Interim results for the nine months ended 30.09.2014 - 14 November 2014

Interim results for the twelve months ended 31.12.2014 - 27 February 2015

# Statement of Financial Position of the Life Insurance Fund

As at 31 December	Note	Page	2013 Rs. '000	2012 Rs. '000
<b>Assets</b>				
Financial investments	1	406	18,614,252	15,552,781
Property, plant and equipment	2	410	1,175,902	1,098,258
Loans to life policyholders			515,735	385,688
Reinsurance receivables	3	411	87,481	44,186
Premium receivables			114,978	191,089
Receivables and other assets	4	411	342,388	525,670
Cash and cash equivalents	5	412	238,324	148,294
<b>Total assets</b>			<b>21,089,060</b>	<b>17,945,966</b>
<b>Reserves and liabilities</b>				
<b>Reserves</b>				
Other reserves	6	412	346,421	244,381
<b>Total reserves</b>			<b>346,421</b>	<b>244,381</b>
<b>Liabilities</b>				
Insurance contract liabilities - Life	7	413	17,518,016	15,356,340
Insurance contract liabilities - Unit linked			1,807,137	1,143,546
Reinsurance payables			112,184	64,570
Employee benefits	8	413	116,383	106,820
Other liabilities	9	413	1,137,909	990,758
Deferred tax liabilities			12,286	15,076
Bank overdraft			38,724	24,475
<b>Total liabilities</b>			<b>20,742,639</b>	<b>17,701,585</b>
<b>Total reserves and liabilities</b>			<b>21,089,060</b>	<b>17,945,966</b>

# Notes to the Supplementary Information

## 1 FINANCIAL INVESTMENTS

As at 31 December Rs. '000	Note	2013		2012	
		Carrying value	Fair value	Carrying value	Fair value
Held to maturity financial assets (HTM)	1(a)	11,457,350	12,042,708	11,463,560	11,233,931
Loans and receivables (L&R)	1(b)	2,031,676	2,061,154	998,011	896,731
Available for sale financial assets (AFS)	1(c)	2,780,595	2,780,595	1,351,323	1,351,232
Financial assets at fair value through profit or loss (FVTPL)	1(d)	2,344,631	2,344,631	1,739,887	1,739,887
<b>Total financial investments</b>		<b>18,614,252</b>	<b>19,229,088</b>	<b>15,552,781</b>	<b>15,221,781</b>

### 1.(a) Held to maturity financial assets (HTM)

Amortised cost as at 31 December	2013		2012	
	Rs. '000		Rs. '000	
Debt securities - fixed interest rate				
Quoted debentures	1. (a) (i)	1,728,804	1,928,562	
Treasury bonds		9,728,546	9,534,998	
		<b>11,457,350</b>	<b>11,463,560</b>	

### 1.(a)(i) Quoted debentures

Issuer	Maturity date	No. of debentures	2013		Interest Rate %
			Carrying value Rs. '000	Market value Rs. '000	
Bank of Ceylon	29/11/2017	5,000,000	507,014	507,014	16.00
DFCC Bank PLC	26/09/2016	200,000	228,000	228,000	14.00
DFCC Vardhana Bank PLC	30/08/2016	1,481,481	148,195	148,195	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Merchant Bank of Sri Lanka	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	03/08/2016	200,000	209,452	209,452	11.50
People's Leasing Company PLC	19/03/2018	686,300	73,232	77,709	16.75
Sampath Bank PLC	10/11/2017	476,900	55,854	58,897	16.50
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
			<b>1,728,804</b>	<b>1,724,018</b>	

## 1.(a)(i) Quoted debentures

Issuer	Maturity date	No. of debentures	2012	Market value Rs. '000	Interest rate %
			Carrying value Rs. '000		
Bank of Ceylon	29/11/2017	5,000,000	507,014	507,014	16.00
DFCC Bank PLC	26/09/2016	200,000	228,077	228,077	14.00
DFCC Vardhana Bank PLC	30/08/2016	1,481,481	148,195	148,195	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
LB Finance PLC	22/09/2013	10,000	12,400	12,371	24.00
Merchant Bank of Sri Lanka	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	19/08/2013	1,500,000	209,426	209,426	21.00
Nations Trust Bank PLC	03/08/2016	200,000	161,652	161,651	11.50
Sampath Bank PLC	10/11/2017	480,234	49,765	49,431	16.50
Singer Sri Lanka PLC	30/09/2013	1,000,000	104,976	104,978	19.75
Urban Development Authority	05/10/2015	1,743,000	178,923	178,766	11.00
			1,928,562	1,928,043	

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.

## 1.(b) Loans and receivables

Amortised cost as at 31 December	2013	2012
	Rs. '000	Rs. '000
Reverse repurchase agreement	490,998	190,380
Debentures	858,685	224,222
Fixed deposits	681,993	583,409
	2,031,676	998,011

## Notes to the Supplementary Information

### 1.(c) Available for sale financial assets

Fair value as at 31 December	2013 Rs. '000	2012 Rs. '000
Equity securities - unlisted	100,000	100,000
Debt securities - unlisted	607,631	1,251,323
Debt securities - listed	2,072,964	-
	<b>2,780,595</b>	1,351,323

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 2,680 millions as at 31 December 2013 ( 2012- Rs. 1,251 million) have stated interest rate of 8% to 17.5% (2012 -11% to 24%). and mature in 1 to 9 years.

### 1.(d) Financial assets at fair value through profit or loss

Fair value as at 31 December		2013 Rs. '000	2012 Rs. '000
Equity securities	1. (d) (i)	545,338	596,274
Investment in unit linked fund	1. (d) (ii)	1,799,293	1,143,613
		<b>2,344,631</b>	1,739,887

## 1.(d)(i) Quoted equities at market value

	2013			2012		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
<b>Banks Finance and Insurance</b>						
AIA Insurance PLC	-	-	-	53,499	15,253	17,644
Commercial Bank Ceylon PLC (non-voting)	429,739	25,099	39,966	336,000	36,106	34,608
Commercial Bank Ceylon PLC	341,626	36,106	41,132	421,313	25,099	38,382
Hatton National Bank PLC (non-voting)	521,346	37,140	62,040	521,346	37,140	58,652
Sampath Bank PLC		-	-	267,222	36,027	53,578
HNB Assurance PLC	336,266	23,645	17,654	336,266	23,645	16,477
		121,990	160,792		173,270	219,341
<b>Diversified Holding</b>						
Hemas Holdings PLC	405,750	6,708	13,796	405,750	6,708	10,955
Expolanka Holdings PLC	6,376,700	89,589	47,825	6,376,700	89,589	44,637
Softlogic Holdings PLC	1,117,806	32,416	9,390	117,806	32,416	12,184
		128,713	71,011		128,713	67,776
<b>Beverage Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	162,500	24,363	31,363	325,000	48,727	53,950
		24,363	31,363		48,727	53,950
<b>Construction &amp; Engineering</b>						
Colombo Dockyard PLC	238,350	50,507	45,191	238,350	50,507	53,390
		50,507	45,191		50,507	53,390
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	272,200	35,927	72,895	272,200	35,927	54,984
Tokyo Cement Company (Lanka) PLC (voting)	640,777	7,817	18,262	582,525	7,817	16,660
Tokyo Cement Company (Lanka) PLC (non-voting)	2,658,150	68,109	62,201	2,416,500	68,109	46,638
Lanka Floortiles PLC	455,200	61,211	35,915	455,200	61,211	29,588
Piramal Glass PLC	1,874,100	16,585	8,433	1,874,100	16,585	11,245
		189,649	197,706		189,649	159,115
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	10,612	22,062	33,340	13,277
		33,340	10,612		33,340	13,277
<b>Telecommunication</b>						
Dialog Axiata PLC	2,000,000	14,241	18,000	2,000,000	14,241	16,600
Sri Lanka Telecom PLC	288,200	13,844	10,663	288,200	13,844	12,825
		28,085	28,663		28,085	29,425
		576,647	545,338		652,291	596,274

# Notes to the Supplementary Information

## 1.(d)(ii) Investment - unit linked

		2013 Rs. '000	2012 Rs. '000
Government and other securities	1. (d) (ii) (a)	371,025	216,678
Quoted equities		1,428,268	926,935
		<b>1,799,293</b>	<b>1,143,613</b>

## 1.(d)(ii)(a) Government and other securities

	2013 Rs. '000	2012 Rs. '000
Reverse repurchase agreements	259,395	144,554
Treasury bills	61,217	72,124
Bank deposits	28,502	-
Debentures	21,911	-
	<b>371,025</b>	<b>216,678</b>

## 2. PROPERTY, PLANT AND EQUIPMENT

Rs. '000	Freehold Land	Freehold Buildings	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total
<b>Cost/Revaluation</b>							
Balance as at 1 January 2013	609,000	318,004	41,624	84,867	226,096	2,077	1,281,668
Additions during the year	-	-	18,754	9,181	9,138	-	37,073
Surplus/(deficit) on revaluation	115,000	(28,000)	-	-	-	-	87,000
Disposals/scraping during the year	-	-	(613)	(4,441)	(5,090)	(2,077)	(12,221)
Balance as at 31 December 2013	724,000	290,004	59,765	89,607	230,144	-	1,393,520
<b>Accumulated depreciation and impairment losses</b>							
Balance as at 1 January 2013	-	8,886	27,221	37,848	107,379	2,077	183,411
Depreciation charge for the year	-	9,151	5,589	14,603	34,485	-	63,828
Transferred accumulated depreciation on assets revalued	-	(18,037)	-	-	-	-	(18,037)
Accumulated depreciation on disposals/scraping	-	-	(222)	(4,435)	(4,850)	(2,077)	(11,584)
Balance as at 31 December 2013	-	-	32,588	48,016	137,014	-	217,618
<b>Carrying value</b>							
As at 31 December 2012	609,000	309,118	14,403	47,019	118,717	-	1,098,257
As at 31 December 2013	724,000	290,004	27,177	41,591	93,130	-	1,175,902

## 3. REINSURANCE RECEIVABLES

As at 31 December	2013 Rs. '000	2012 Rs. '000
Reinsurance receivable on outstanding claims	56,053	29,694
Reinsurance receivable on settled claims net of dues	31,428	14,492
<b>Total reinsurance receivables</b>	<b>87,481</b>	<b>44,186</b>

## 4. RECEIVABLES AND OTHER ASSETS

As at 31 December	2013 Rs. '000	2012 Rs. '000
<b>Financial assets</b>		
Staff loans	85,828	108,842
Refundable deposits	3,757	10,575
Other receivables	52,974	225,358
Advance payments	24,378	4,615
	<b>166,937</b>	<b>349,390</b>
<b>Non financial assets</b>		
Taxes recoverable	158,526	142,122
Prepayments	12,517	28,801
Inventories	4,408	5,357
	<b>175,451</b>	<b>176,280</b>
<b>Total receivable and other assets</b>	<b>342,388</b>	<b>525,670</b>

## 4.(a) Taxes recoverable

As at 31 December	2013 Rs. '000	2012 Rs. '000
WHT receivable	153,727	136,216
ESC receivable	4,799	5,906
	<b>158,526</b>	<b>142,122</b>

# Notes to the Supplementary Information

## 5. CASH AND CASH EQUIVALENTS

As at 31 December	2013 Rs. '000	2012 Rs. '000
Cash at bank - life	237,703	147,815
Cash in hand - life	200	200
Cash at bank - unit linked	421	279
<b>Total cash and cash equivalents</b>	<b>238,324</b>	<b>148,294</b>

## 6. OTHER RESERVES

As at 31 December		2013 Rs. '000	2012 Rs. '000
Capital reserves	6.a.	335,818	233,128
Reserve for available for sale		13,005	11,253
Reserves on retirement benefit obligation		(2,402)	-
<b>Total other reserves</b>		<b>346,421</b>	<b>244,381</b>

### 6.(a) Capital reserves

		2013 Rs. '000	2012 Rs. '000
Revaluation reserve	6.a.i	319,066	216,376
Reserve on Cornhill merger	6.a.ii	16,752	16,752
		<b>335,818</b>	<b>233,128</b>

### 6.(a)(i) Revaluation reserve

	2013 Rs. '000	2012 Rs. '000
Balance as at 1 January	216,376	221,444
Revaluation surplus during the year	105,037	-
Adjustment for deferred tax	2,790	-
Transfer to retained earnings	(5,137)	(5,068)
<b>Balance as at 31 December</b>	<b>319,066</b>	<b>216,376</b>

**6.(a)(ii) 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 - LIFE**

<b>As at 31 December</b>	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Insurance provision - Life	17,235,833	15,017,647
Unclaimed benefits	282,183	338,693
<b>Total insurance contract liabilities</b>	<b>17,518,016</b>	<b>15,356,340</b>

**8. EMPLOYEE BENEFITS**

<b>As at 31 December</b>	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
Balance as at 1 January	106,820	99,124
Payments during the Year	(13,206)	(4,839)
Provision during the year	20,367	12,535
Net actuarial loss on obligation	2,402	-
Balance as at 31 December	<b>116,383</b>	<b>106,820</b>

**9. OTHER LIABILITIES**

<b>As at 31 December</b>	<b>2013</b>	<b>2012</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Financial liabilities</b>		
Agency commission payable	75,307	70,162
Other payables	1,058,379	917,291
	<b>1,133,686</b>	<b>987,453</b>
<b>Non financial liabilities</b>		
Government levies	4,223	3,305
<b>Total other liabilities</b>	<b>1,137,909</b>	<b>990,758</b>

# Shareholder Information

## STOCK EXCHANGE LISTING

Union Assurance PLC is a public quoted company, the ordinary shares of which are listed with the Colombo Stock Exchange (CSE). The audited statement of comprehensive Income for the year ended 31 December 2013 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

Sri Lankan equities over 2013 were only marginally higher with the All Share Index up by 4.8%, but this was in the face of a tighter domestic monetary environment as well as global volatility connected to the ending of an unprecedented easing cycle by the US Federal Reserve which stemmed the liquidity pouring into emerging and frontier markets over the last few years. The impact of the signals that the US Fed will start "tapering" their QE program were felt throughout the entire emerging market space from May onwards. The All Share index topped out for the year in May at 6,488 but started rising again from September onwards after a dip of 13.6% from the peak of May. However net foreign participation was positive even after the Fed's mid-year tapering announcement.

## 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 an increase from Rs. 83.00 in 2012 to Rs. 104.00 in 2013.

The UA Share was traded between a low of Rs. 83.00 and high of Rs. 114.90 during the year 2013.

## EARNINGS PER SHARE (EPS)

EPS for the year ended 31 December 2013 was Rs. 13.11, an increase from Rs. 12.28 recorded in 2012. This was due to Rs. 202 million (22%) increase in the profit in 2013, compared with 2012.

## PRICE EARNINGS RATIO (PER)

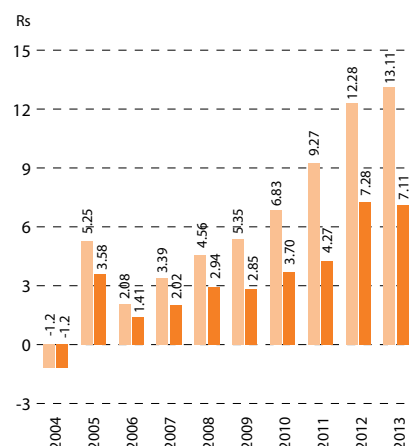
PER as at 31 December 2013 increased to 7.93 times from 6.76 times as at 31 December 2012. The UA shares were trading at a 50.2 % Discount to the market PER which on 31 December 2013 was estimated at 15.92 times.

## EPS VS RETENTION RATIO

Year	EPS (Rs.)*	Retention per share (Rs.)	Retention ratio
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%
2013	13.11	7.11	54%

\* Diluted for subsequent bonus issues, subdivision of shares and right issues.

EPS vs Retention Ratio



**PRICE TO BOOK RATIO**

The price to book ratio as at 31 December 2013 was 1.74 times, a increase of 6% from 1.66 times recorded in 2012.

**TOTAL SHAREHOLDER RETURNS (TSR)**

TSR of UA share was 32.5% in 2013 compared with -18.6% recorded in the previous year. Dividend yield of 7.2% and capital gain of 25.3% contributed to this positive TSR in 2013.

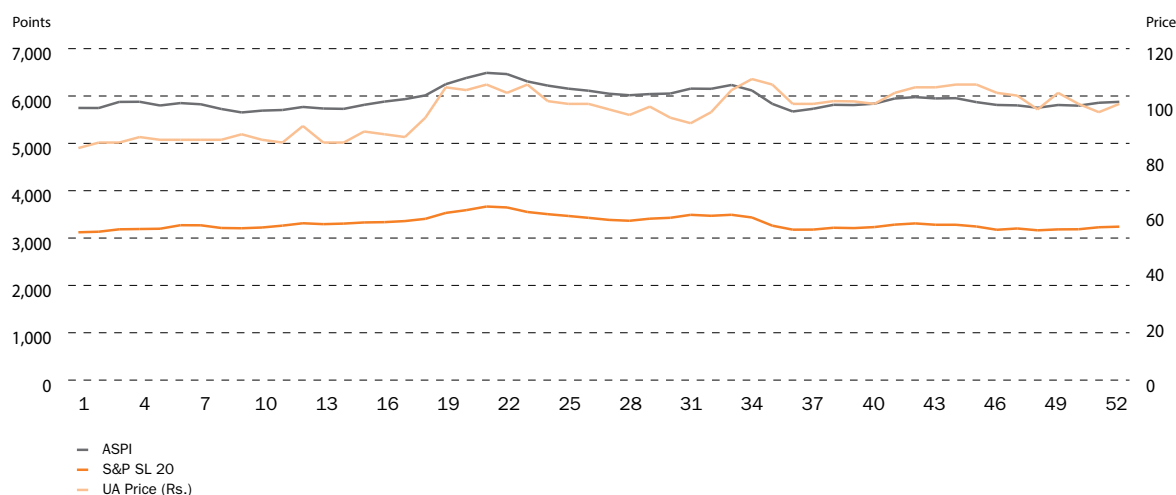
**MARKET CAPITALIZATION AND MARKET PRICE**

The market capitalization of Union Assurance Share as at 31 December 2013 was Rs 8.9 billion, valued at the year end price of Rs 104.00 per share. UA's main benchmark indices - the All Share Price Index (ASPI) and the S&P Sri Lanka 20 - increased by 4.8% and 5.8% respectively. In the same period, the UA share price ranged between a low of Rs 83.00 and a high of Rs 114.90, closing the year at Rs. 104.00.

**VALUATION**

As at 31 December	2013	2012
Earnings per share (Rs.)	13.11	12.28
Net asset per share (Rs.)	59.7	50.27
Price earnings ratio (Times)	7.93	6.76
Price / book value (Times)	1.74	1.66
Dividend yield (%)	7.2	4.6
Total shareholder returns (%)	32.5	(18.6)

UA Share Price Movement vs. Market Performance

**MARKET INFORMATION ON ORDINARY SHARES OF THE COMPANY**

Market value	2013	2012
Highest price (Rs.)	114.90 (08 May 2013)	120.00 (03 Sep 2012)
Lowest price (Rs.)	83.00 (02 Jan 2013)	76.00 (23 Nov 2012)
Year end price (Rs.)	104.00	83.00

# Shareholder Information

Trading statistics	2013	2012
Number of transactions	981	906
Number of shares traded	3,301,288	488,464
Value of shares traded (Rs.)	306,617,076	49,249,237
Percentage of total shares in issue (%)	3.9	0.6
Market capitalization	8,914,285,744	7,114,285,738
Percentage of total market capitalization (%)	0.4	0.3

## DIVIDENDS

The dividend policy of Union Assurance seeks to ensure a dividend payout which correlates with the growth in profits, whilst ensuring that the company retains adequate funds to meet the solvency requirements as stipulated by the Insurance Board of Sri Lanka (IBSL) in the short, medium and long term.

The Board of Directors declared a first and final dividend of Rs. 6 per share, based on the profits of 2013. Accordingly, The gross dividend payable out of the profits for the year ended 31 December 2013 will be Rs. 514 million, an increase of Rs. 85 million, compared to the dividend of Rs 429 million in the previous year. UA pays its dividend annually.

## GROSS DIVIDEND VS. DIVIDEND PAYOUT

Year	DPS (Rs)*	Dividends (Rs. '000)	Dividend payout ratio
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%
2013	6.00	514,286	46%

\* Diluted and restated for subsequent bonus issues, subdivision of shares and right issues.

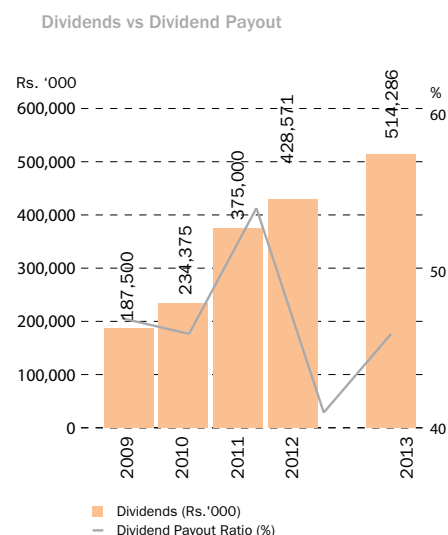
## FREE FLOAT

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 decreased from 1,422 as at 31 December 2012 to 1,345 as at 31 December 2013. On 31 December 2013, UA had 1,257 registered individual shareholders, representing 93% 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 approximately 97% of UA's ordinary share capital.

The top twenty shareholders hold 97.68% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.



## DISTRIBUTION OF SHAREHOLDERS

Range of shareholders	31 December 2013				31 December 2012			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Less than or equal to 1000	918	68.25	250,890	0.29	963	67.72	276,802	0.32
1,001 to 10,000	373	27.73	1,169,683	1.36	407	28.62	1,275,599	1.49
10,001 to 100,000	48	3.57	1,222,292	1.44	45	3.17	1,081,830	1.27
100,001 to 1,000,000	4	0.30	1,082,297	1.26	4	0.28	1,090,931	1.27
Over 1,000,000	2	0.15	81,989,124	95.65	3	0.21	81,989,124	95.65
Total	1,345	100.00	85,714,286	100.00	1,422	100.00	85,714,286	100.00

## COMPOSITION OF SHAREHOLDERS

	31 December 2013				31 December 2012			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Directors and spouses:	1	0.07	8,562	0.01	1	0.07	8,562	0.01
<b>Resident:</b>								
Individuals	1245	92.57	2,363,291	2.76	1327	93.32	2,498,129	2.91
Institutions	85	6.23	7,651,590	8.92	82	5.77	10,377,228	12.11
<b>Non Resident:</b>								
Individuals	11	0.81	31,785	0.04	9	0.63	29,452	0.03
Institutions	2	0.15	15,783	0.02	2	0.14	6,024	0.01
Shareholders holding more than 10%:	1	0.07	75,643,275	88.25	1	0.07	72,794,891	84.93
Total	1,345	100.00	85,714,286	100.00	1,422	100.00	85,714,286	100.00

## PUBLIC SHAREHOLDING

As at 31 December	2013		2012	
	No. of Shares	(%) of Shares	No. of Shares	(%) of Shares
Public shareholding	3,716,600	4.34	3,716,600	4.34

# Shareholder Information

## TWENTY LARGEST SHAREHOLDERS

As at 31 December		2013		2012	
Name of shareholder		No. of shares	%	No. of shares	%
1	John Keells Holdings PLC	75,643,275	88.25	72,794,891	84.93
2	Whittall Boustead Limited	6,345,849	7.40	6,345,849	7.40
3	Waldock Mackenzie Ltd / Mr. And Mrs. S.N. Palihena	600,000	0.70	660,000	0.77
4	Waldock Mackenzie Ltd / Hi-Line Trading (Pvt) Ltd	212,886	0.25	161,520	0.19
5	Corporate Holdings (Private) Limited	149,373	0.17	149,373	0.17
6	V. Bandaranayake	120,038	0.14	120,038	0.14
7	A.C. Visvalingam	89,375	0.10	85,600	0.10
8	H.A.D. Ratnapala	56,250	0.07	56,250	0.07
9	J.W. Nanayakkara	56,250	0.07	56,250	0.07
10	R.Z. Wikramanayake	53,585	0.06	53,585	0.06
11	N.I. Wikramanayake	53,059	0.06	53,059	0.06
12	A.A. Mashoor	45,600	0.05	45,600	0.05
13	Waldock Mackenzie Limited / Dr. Henedige Srinath	41,065	0.05	4,200	0.00
14	G.M. Abdulhussein	39,808	0.05	39,808	0.05
15	N.D. Kurukulasuriya	39,000	0.05	39,000	0.05
16	Waldock Mackenzie Limited / Mr. L.P Hapangama	38,610	0.05	13,500	0.02
17	H.A. Rehmanjee	36,596	0.04	36,596	0.04
18	East India Holding (Pvt) Ltd	35,900	0.04	-	-
19	L. Amaradasa	33,750	0.04	33,750	0.04
20	A.N. Esufally	32,142	0.04	32,142	0.04
		83,722,411	97.68	80,781,011	94.24
	Other shareholders	1,991,875	2.32	4,933,275	5.76
	Total shareholders	85,714,286	100.00	85,714,286	100.00

## DIRECTORS' SHAREHOLDINGS

31 December	2013	2012
Mr. Ajit.D. Gunewardene (Chairman)	8,562	8,562
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
----------------	-----	-----

## 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 2013 of the Colombo Stock Exchange includes the following information as compulsory for the 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 Director during the financial year is provided on page 204.	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 31st December 2013 is provided on page 418.	Complied
7.6.iv	The public holding percentage	The details of the public shareholding is available on page 417.	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 418.	Complied
7.6.vi	Information pertaining to material foreseeable risk factors of the entity	Information pertaining to material foreseeable risk factors is provided in the risk management section from pages 280 to 292 and Note 5 to the financial statements.	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	The company did not encounter any issue relating to employees and industrial relations during the year 2013	Complied
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 377.	Complied
7.6.ix	Number of shares representing the entity's stated capital	The 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 percentages 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 417	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

## Shareholder Information

Listing rule number	Compliance requirement	Detail / Reference	Compliance status
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 the lands	Complied
7.6.xiii	If during the year the entity has raised fund either through a public issue, rights issue, and private placement	No funds raised during 2013	Complied
7.6.xiv	Employee share Option Schemes and Employee Share Purchase Scheme	The details of Employee Share option scheme is given in the note 29.(b)(iv) in page 386.	Complied
7.6.xv	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5C. And 7.10.6C of section 7 of the rule	The disclosures relating to Corporate Governance practices are available in the Corporate Governance Report from page 201 to 293.	Complied
7.6.xvi	Details of investments in related party transactions	There are no material transactions during the year with any related party of the company other than disclosed in Note 38	Complied

# Quarterly Analysis 2013

Rs'000	1st Quarter January - March	2nd Quarter April - June	3rd Quarter July - September	4th Quarter October - December	Total
Gross written premium	2,662,517	2,535,061	2,524,469	3,184,728	10,906,775
Net change in reserve for unearned premium	(160,595)	(453,035)	110,101	(329,642)	(833,171)
<b>Gross earned premium</b>	<b>2,501,922</b>	<b>2,082,026</b>	<b>2,634,570</b>	<b>2,855,086</b>	<b>10,073,604</b>
Premium ceded to reinsurers	(357,480)	(315,151)	(260,564)	(603,528)	(1,536,723)
Net change in reserve for unearned reinsurance premium	21,406	423,334	(54,175)	299,409	689,974
<b>Net earned premium</b>	<b>2,165,848</b>	<b>2,190,209</b>	<b>2,319,831</b>	<b>2,550,967</b>	<b>9,226,855</b>
<b>Other revenue</b>					
Net investment income	592,842	662,041	680,788	699,952	2,635,623
Net realised gains / (losses)	(3,908)	30,994	(93)	4,731	31,724
Net fair value gains and losses	55,760	51,747	(118,987)	56,090	44,610
Other operating revenue	25,725	25,755	40,492	41,392	133,364
	670,418	770,536	602,200	802,166	2,845,320
<b>Total net revenue</b>	<b>2,836,266</b>	<b>2,960,745</b>	<b>2,922,031</b>	<b>3,353,133</b>	<b>12,072,175</b>
<b>Benefits, losses and expenses</b>					
Net benefits and claims	(1,804,561)	(1,878,720)	(1,824,180)	(1,268,044)	(6,775,505)
Underwriting and net acquisition costs (including reinsurance)	(307,477)	(310,077)	(267,964)	(328,403)	(1,213,921)
Other operating and administrative expenses	(552,938)	(654,260)	(677,533)	(861,099)	(2,745,830)
Depreciation on property and equipment	(36,650)	(37,489)	(39,491)	(40,685)	(154,315)
<b>Total benefits, losses and expenses</b>	<b>(2,701,626)</b>	<b>(2,880,546)</b>	<b>(2,809,168)</b>	<b>(2,498,231)</b>	<b>(10,889,571)</b>
Profit before income tax	134,640	80,199	112,863	854,902	1,182,604
Income tax expenses	(23,275)	(1,837)	(11,330)	(22,757)	(59,199)
<b>Profit for the year</b>	<b>111,365</b>	<b>78,362</b>	<b>101,533</b>	<b>832,145</b>	<b>1,123,405</b>

# Quarterly Analysis 2012

Rs'000	1st Quarter January - March	2nd Quarter April - June	3rd Quarter July - September	4th Quarter October - December	Total
Gross written premium	2,411,965	2,294,665	2,318,347	2,707,779	9,732,756
Net change in reserve for unearned premium	(34,348)	(56,368)	64,993	(192,508)	(218,231)
<b>Gross earned premium</b>	<b>2,377,617</b>	<b>2,238,297</b>	<b>2,383,340</b>	<b>2,515,271</b>	<b>9,514,525</b>
Premium ceded to reinsurers	(332,120)	(262,994)	(275,540)	(291,219)	(1,161,873)
Net change in reserve for unearned reinsurance premium	5,113	8,391	(9,675)	28,659	32,488
<b>Net earned premium</b>	<b>2,050,610</b>	<b>1,983,694</b>	<b>2,098,125</b>	<b>2,252,711</b>	<b>8,385,140</b>
<b>Other revenue</b>					
Net investment income	523,956	606,028	549,614	575,892	2,255,490
Net realised gains / (losses)	(34,275)	1,213	(63,427)	42,615	(53,874)
Net fair value gains/ (losses)	(137,168)	(71,957)	367,681	(129,774)	28,782
Other operating revenue	33,902	8,969	26,354	33,602	102,827
	386,415	544,253	880,222	522,335	2,333,225
<b>Total net revenue</b>	<b>2,437,025</b>	<b>2,527,947</b>	<b>2,978,347</b>	<b>2,775,046</b>	<b>10,718,365</b>
<b>Benefits, losses and expenses</b>					
Net benefits and claims	(1,500,519)	(1,490,259)	(1,992,662)	(909,435)	(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	(490,060)	(619,265)	(623,061)	(772,272)	(2,504,658)
Depreciation on property and equipment	(34,105)	(35,529)	(36,089)	(37,624)	(143,347)
<b>Total benefits, losses and expenses</b>	<b>(2,334,710)</b>	<b>(2,440,537)</b>	<b>(2,898,589)</b>	<b>(2,036,277)</b>	<b>(9,710,113)</b>
Profit before income tax	102,315	87,410	79,758	738,769	1,008,252
Income tax expense	(17,127)	(15,797)	(13,854)	(40,206)	(86,984)
<b>Profit for the year</b>	<b>85,188</b>	<b>71,613</b>	<b>65,904</b>	<b>698,563</b>	<b>921,268</b>

# Ten Year at a Glance

Rs'000	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>STATEMENT OF INCOME</b>										
Gross written premium	10,906,775	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
Net earned premium	9,226,855	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
Investment and other operating income	2,845,320	2,333,225	1,658,711	2,229,021	1,795,414	1,249,036	928,837	754,816	523,116	471,982
Net claims incurred	(6,775,505)	(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)
Underwriting and net acquisition costs (including reinsurance)	(1,213,921)	(1,169,233)	(1,087,919)	(848,296)	(615,535)	(546,405)	(426,885)	(320,819)	(219,871)	(229,445)
Other operating and administrative expenses	(2,745,830)	(2,504,658)	(2,075,216)	(1,853,829)	(1,690,024)	(1,440,918)	(1,216,593)	(946,372)	(729,474)	(575,350)
Depreciation on property plant and equipment	(154,315)	(143,347)	(128,694)	(107,766)	(81,722)	(70,653)	(56,177)	(42,184)	(26,634)	(46,119)
Profit before income tax	1,182,604	1,008,252	761,940	593,041	467,382	357,370	252,159	180,784	275,187	(51,954)
Income tax expenses	(59,199)	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)
<b>Profit for the year</b>	<b>1,123,405</b>	<b>921,268</b>	<b>695,185</b>	<b>511,971</b>	<b>400,871</b>	<b>342,084</b>	<b>251,932</b>	<b>158,918</b>	<b>260,492</b>	<b>(60,600)</b>

## INSURANCE REVENUE ACCOUNTS

### NON LIFE INSURANCE

Gross written premium	5,391,712	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
Net earned premium	3,992,334	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
Other operating income	51,605	27,799	16,610	15,365	10,303	6,787	5,438	3,213	1,004	2,076
Net claims incurred	(2,799,257)	(2,320,104)	(2,164,561)	(1,677,537)	(1,643,287)	(1,425,748)	(1,147,955)	(820,783)	(441,141)	(446,560)
Underwriting and net acquisition costs (including reinsurance)	(245,740)	(278,697)	(268,843)	(172,623)	(112,386)	(88,974)	(47,238)	(57,505)	6,187	9,466
Other operating and administrative expenses	(1,213,583)	(1,061,834)	(786,060)	(664,392)	(648,904)	(593,450)	(526,672)	(411,912)	(333,956)	(320,877)
Underwriting profit / (loss)	(214,641)	(104,424)	(120,320)	(175,859)	(190,877)	(134,966)	(107,671)	(55,842)	39,099	(161,485)
Investment and other operating income	606,281	579,857	466,086	443,900	423,259	307,336	215,830	161,126	92,088	109,531
Income tax expense	(59,199)	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)	(8,646)
<b>Profit for the year</b>	<b>332,441</b>	<b>388,449</b>	<b>279,011</b>	<b>186,971</b>	<b>165,871</b>	<b>157,084</b>	<b>107,932</b>	<b>83,418</b>	<b>116,492</b>	<b>(60,600)</b>

### LIFE INSURANCE

Gross written premium	5,515,063	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
Net written premium	5,234,521	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
Investment and other operating income	2,017,544	1,722,070	1,215,043	1,806,873	1,361,853	934,914	707,659	590,477	430,024	360,375
Net benefits and claims	(3,976,248)	(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)
Underwriting and net acquisition costs (including reinsurance)	(968,181)	(890,536)	(819,076)	(675,673)	(503,150)	(457,431)	(379,647)	(263,314)	(226,058)	(238,911)
Other operating and administrative expenses	(1,695,636)	(1,590,493)	(1,444,052)	(1,334,320)	(1,122,841)	(918,122)	(746,188)	(576,644)	(422,152)	(300,592)
<b>Surplus from life insurance fund</b>	<b>612,000</b>	<b>525,000</b>	<b>429,000</b>	<b>325,000</b>	<b>235,000</b>	<b>185,000</b>	<b>144,000</b>	<b>75,500</b>	<b>144,000</b>	<b>-</b>
Investment and other income not attributable to policyholders	207,074	23,161	(12,826)	-	-	-	-	-	-	-
Expenses not attributable to policyholders	(28,110)	(15,343)	-	-	-	-	-	-	-	-
<b>Profit for the year</b>	<b>790,964</b>	<b>532,819</b>	<b>416,174</b>	<b>325,000</b>	<b>235,000</b>	<b>185,000</b>	<b>144,000</b>	<b>75,500</b>	<b>144,000</b>	<b>-</b>

# Ten Year at a Glance

Rs.000	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
--------	------	------	------	------	------	------	------	------	------	------

## STATEMENT OF FINANCIAL POSITION

### Assets

Financial investments	24,297,498	20,802,309	16,579,094	14,337,860	11,911,086	9,389,319	7,952,135	6,513,709	5,369,372	4,339,425
Investment in subsidiary	-	-	-	-	-	183,200	183,200	183,200	183,200	183,200
Property, plant and equipment	1,454,973	1,318,225	1,298,380	1,108,723	1,070,060	353,725	328,622	250,078	180,976	118,718
Intangible assets	-	-	-	-	49,500	49,500	49,500	49,500	49,500	55,000
Loans to life policyholders	515,735	385,688	246,674	232,618	224,325	189,274	159,757	140,732	127,256	110,405
Reinsurance receivable	502,571	400,627	545,774	619,228	900,800	836,708	920,244	1,110,604	1,513,507	2,207,985
Premiums receivable	1,844,831	1,459,440	1,236,299	1,237,594	845,756	724,748	628,600	549,013	400,047	343,266
Receivables and other assets	1,087,585	1,055,006	1,795,727	1,552,089	1,329,848	1,164,821	1,017,394	642,374	535,848	430,188
Deferred acquisition cost	149,145	146,097	147,495	139,176	130,445	115,019	108,854	104,823	113,220	141,413
Cash and cash equivalents	466,402	315,634	373,413	390,138	313,855	272,080	244,301	152,515	167,741	330,148
<b>Total assets</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>	<b>9,696,548</b>	<b>8,640,667</b>	<b>8,259,748</b>

### Equity

Stated capital	1,138,433	1,133,305	388,433	388,433	388,433	388,433	388,433	266,667	266,667	266,667
Other reserves	829,094	720,830	955,194	1,340,970	584,359	47,958	48,633	45,048	45,708	-
Retained earnings	3,149,766	2,454,923	1,903,587	1,439,109	1,332,359	1,051,077	716,120	666,212	699,483	438,991
<b>Total equity</b>	<b>5,117,293</b>	<b>4,309,058</b>	<b>3,247,214</b>	<b>3,168,512</b>	<b>2,305,151</b>	<b>1,487,468</b>	<b>1,153,186</b>	<b>977,927</b>	<b>1,011,858</b>	<b>705,658</b>

### Liabilities

Insurance contract liabilities - life	17,518,016	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
Insurance contract liabilities - unit linked	1,807,137	1,143,546	555,541	165,835	-	-	-	-	-	-
Insurance contract liabilities - non life	3,440,249	3,200,838	3,050,976	2,813,250	2,689,394	2,371,342	2,244,240	2,161,134	2,334,250	2,915,505
Provision for life fund solvency	-	-	-	-	-	-	95,323	67,849	-	-
Reinsurance payable	764,977	415,394	441,567	405,764	327,196	344,991	285,403	259,034	181,650	287,210
Deferred revenue	109,402	96,904	154,702	132,422	95,955	83,811	75,759	63,501	51,107	48,754
Employee benefits	186,078	163,572	89,467	83,032	77,823	68,620	64,942	62,537	67,547	84,367
Other liabilities	1,375,588	1,197,374	1,242,931	1,079,302	1,496,480	788,122	867,369	491,582	391,762	315,422
<b>Total Liabilities</b>	<b>25,201,447</b>	<b>21,573,968</b>	<b>18,975,642</b>	<b>16,448,914</b>	<b>14,470,524</b>	<b>11,790,926</b>	<b>10,439,421</b>	<b>8,718,621</b>	<b>7,628,809</b>	<b>7,554,090</b>

<b>Total equity and liabilities</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>	<b>9,696,548</b>	<b>8,640,667</b>	<b>8,259,748</b>
-------------------------------------	-------------------	-------------------	-------------------	-------------------	-------------------	-------------------	-------------------	------------------	------------------	------------------

### Investor information

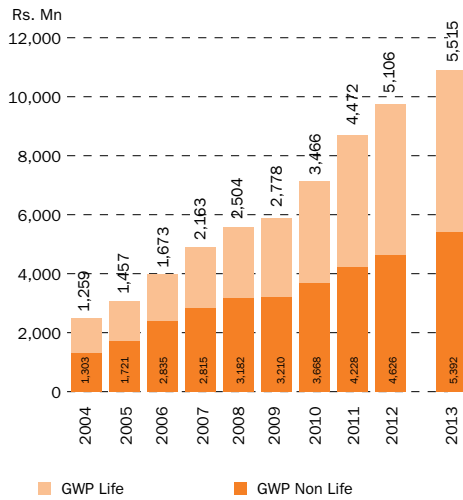
Return on net assets (%)	21.95	21.38	21.41	16.16	17.39	23.00	21.85	16.25	25.74	-8.59
Earnings per share (Rs.)	13.11	12.28	9.27	6.83	5.35	4.56	3.39	2.08	5.25	-1.20
Dividend per share (Rs.)*	6.00	5.00	5.00	3.13	2.50	1.63	1.38	0.67	1.67	0.00
Net assets per share (Rs.)	59.70	50.27	43.30	84.49	61.47	39.67	30.75	39.12	40.47	28.23
Market price per share (Rs.)	104.00	83.00	108.10	122.10	90.75	49.75	46.25	102.50	96.00	45.00
Market capitalization (Rs. Mn.)	8,914.26	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
Price earnings ratio (Times)	7.94	6.76	11.66	8.94	8.49	5.45	6.88	16.12	9.21	-18.56

### Other information

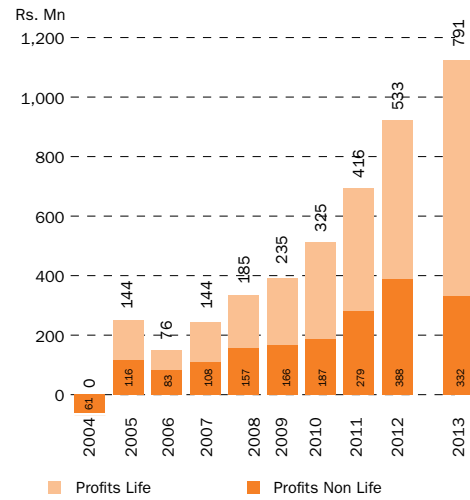
Number of employees	1,157	1,088	1,009	989	949	902	897	792	597	547
No of shares ('000)	85,714	85,714	75,000	37,500	37,500	37,500	37,500	25,000	25,000	25,000

\* Diluted for subsequent bonus issues, subdivision of shares and right issues.

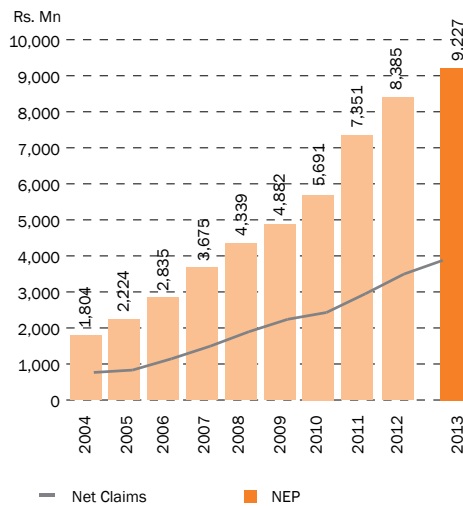
Gross Written Premium Non life and Life



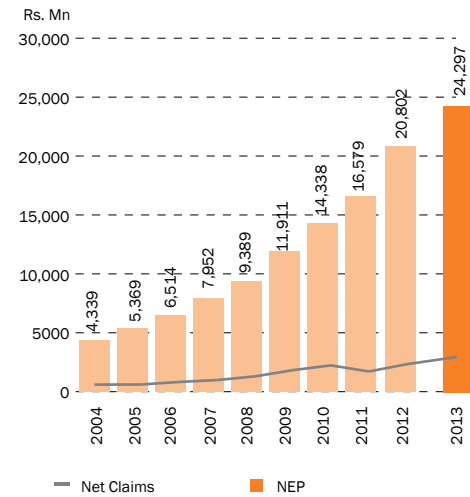
Profits - Non life and Life



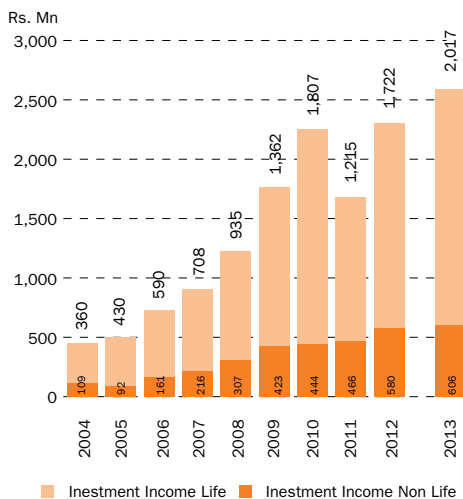
Net Earned Premium vs Net claims



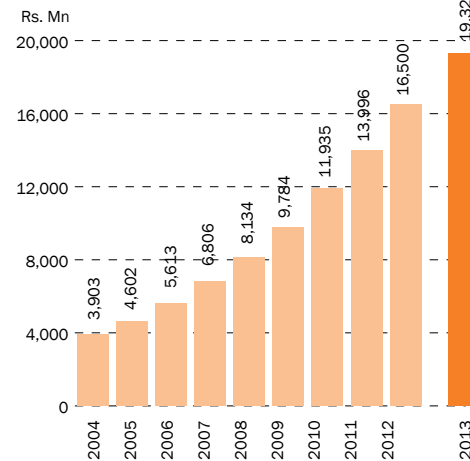
Investment vs Investment Income



Investment and other operating income



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. This brief note is to facilitate the reviewer in understanding our financials and is to be read with the additional information provided in the glossary. We have provided the following overview based on the life and non life insurance statements as presented in the segmental analysis.

## Statement of income

For the year ended 31 December 2013	Comment	Non life insurance Rs. '000	Life insurance Rs. '000
Gross written premium	1	5,391,712	5,515,063
Net change in reserve for unearned premium	2	(833,171)	-
<b>Gross earned premium</b>	3	4,558,541	5,515,063
Premium ceded to reinsurers	4	(1,256,181)	(280,542)
Net change in reserve for unearned reinsurance premium	5	689,974	-
<b>Net earned premium</b>	6	3,992,334	5,234,521
<b>Other revenue</b>			
Net investment income	7	582,901	2,070,240
Net realised gains / (losses)	8	(3,607)	35,331
Net fair value gains	9	4,744	39,865
Other operating income		73,848	79,182
		657,886	2,224,618
<b>Total net revenue</b>		4,650,220	7,459,139
<b>Benefits, losses and expenses</b>			
Net benefits and claims	10	(2,799,257)	(3,976,248)
Underwriting and net acquisition costs (including reinsurance)	11	(245,740)	(968,181)
Other operating and administrative expenses	12	(1,123,096)	(1,659,918)
Depreciation on property, plant and equipment		(90,487)	(63,828)
<b>Total benefits, losses and expenses</b>		(4,258,580)	(6,668,175)
<b>Profit before income tax</b>		391,640	790,964
Income tax expense		(59,199)	-
<b>Profit for the year attributable to equity holders of the company</b>		332,441	790,964

## Statement of Financial Position.

As at 31 December 2013	Comment	Non Life Segment Rs. '000	Life Segment Rs. '000
<b>Assets</b>			
Financial investments	13	4,443,064	19,854,434
Loans to life policyholders	14	-	515,735
Reinsurance receivables	15	306,582	87,481
Premium receivables	16	1,729,853	114,978
Deferred expenses	17	149,145	-
<b>Liabilities</b>			
Insurance contract liabilities – Life	18	-	17,518,016
Insurance contract liabilities - Non life	19	3,331,741	-
Insurance contract liabilities - Unit linked	20	-	1,807,137
Reinsurance payables	21	652,793	112,184
Deferred revenue	22	109,402	-

## COMMENTS

- The main source of income of an insurance company consists of the premiums paid by customers for the risk/s which they transfer to the company. GWP is comparable with the “turnover” of a trading or manufacturing organisation.
- A Non-life insurance policy is generally issued for a period of one year or less. For example, a motor insurance policy is generally issued for a period of one year whereas; a marine insurance policy is issued for a lesser period to cover the duration of the voyage. The unearned premium is derived by deducting the earned premium from its related GWP figure. This figure is then transferred to the balance sheet. For a descriptive explanation on earned premium refer comment 3.
- The premium relevant to the reporting period which represents GWP collected from customers minus transfer of unearned premium to balance sheet.
- Reinsurance is the process whereby part of the risk/s undertaken by the insurance company is transferred to another entity called the reinsurance company, for which the insurance company pays a premium known as the Reinsurance Premium in non-life business, such reinsurance premium paid is recognised as an expense when the risk is transferred to the reinsurers.
- Reinsurance portion relevant to net change in reserve for unearned premium.
- The portion of premium which is applicable for the financial year and earned by the insurer.
- Investment income refers to interest income and dividend income received from investments maintained by the life and non life segment after deducting the costs of the related investments such as bank charges, custodian fees, brokerage fee etc.
- Net realised gains / losses illustrate the profit or loss arrived on selling of financial investments.
- Net fair value gains / losses incurred by company due to change in the market value of investments which are sensitive to market value change (Eg: Quoted equity)
- Net benefit and claim consist of 3 main categories which are presented below.
 

**Claim paid**  
Total amount of claims and claims related expenses incurred during the year.

**Reinsurance Recoveries**  
Part of the claim paid, recovered from reinsurers and net off against the claim expense.

**Incurred but not reported claims**  
A provision is also made in respect of claims incurred by policyholders but not informed to insurers.

In the case of life business benefits paid to life policy holders, such as gratuity, surrenders, policy maturities, annuities and interim payments are included.
- Net acquisition expenses consists of the following ;
  - Commission / franchise fees  
Insurance business is predominantly transacted through intermediaries such as brokers and direct

# Understanding Our Financials

agents. When policies are sold by intermediaries, the insurance company pays them a commission at a specified percentage of the premium which is a key expense item.

## 11.2 Reinsurance commission

The agreed risk transfer to a reinsurer takes place at the same rate as the rate charged for the policy. In view of this, the reinsurer offers a discount to the insurer to cover expenses incurred in acquiring the business. In insurance accounting this is known as the Reinsurance Commission, which is an income to the insurance company.

## 11.3 Deferred acquisition expenses

It describes the practice of deferring the cost of acquiring a new customer over the duration of the insurance contract. Insurance companies face large upfront costs incurred in acquiring new business, such as commissions to sales agents, underwriting, bonus interest and other acquisition expenses. Accounting process is similar to the explanation given in note 2 (UPR).

12. Other operating and administrative expenses e.g. staff, administration, sales and marketing costs related to the company.

### Statement of Financial Position.

Industry specific items are selected and explained below.

13. Financial Investments explains how the way company has invested its money received from policy holders to increase profitability of the company. In the case of life insurance business, income earned from such investments are accumulated to life fund.
14. Life policy holders can obtain loans from the company only up to a certain percentage of the surrender value of the policy. Loan granted under these criterias are presented here.
15. This is the portion receivable to the company from the reinsurers for the claims made by the policy holders.
16. In non life business premium receivable consist of receivable amount on policies raised on credit basis (Company norm is 60 days). Under life, GWP accrual is considered as premium receivable.
17. Differed expenses comprises of balance sheet provisions of un-expensed commissions which is explained in note 11.1 of the income statement.
18. In life insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policy holders' obligations. This is known as the "Insurance contract liabilities". The size of the fund that needs to be maintained is determined by the actuarial valuation which happens annually. This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as Life Surplus and its transferred as shareholders' funds in the financial statements.
19. Insurance contract liabilities - non life  
This is a combination of the following
- Provision for unearned premium**  
Same explanation as per note 2.
- Claim Reserve**  
Provision maintained to settle outstanding claims.
- IBNR Reserves**  
This is the provision for an estimated amount made for claims that is incurred as at the balance sheet date, not informed to the insurer as at the reporting date. This estimate is based on an actuarial valuation.
20. Same meaning as per the note 18 but related to the unit linked operation.
21. Payable amount to reinsurers and also explained in note no 4.
22. This comprises of balance sheet provisions for unearned commission income which is explained in note 12 of the income statement.

# 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

**Bancassurance** - An arrangement whereby banks sell insurance and investment products to their customers on behalf of other financial providers.

**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.

**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 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 reporting 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.

# Glossary of Insurance Terms

## Cc

**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.

**Discretionary participation features (DPF) -** A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits;

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer;
- That are contractually based on;
- The performance of a specified pool of contracts or a specified type of contract;
- The realised and or unrealised investment returns on a specified pool of assets held by the issuer; and
- The profit or loss of the company, fund or other entity that issues the contract.

## Ee

**Earned Premium** - Written premium adjusted by the unearned premium reserve at the beginning and end of the accounting period

## Ee

**Endowment** - Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.

## Ff

**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.

## Gg

**General insurance business** - Insurance (including reinsurance) business falling within the classes of insurance specified as General Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000.

**Gross / net** - The terms gross and net mean before and after deduction of the portion attributable to reinsurance.

## Hh

**Healthcare** - An insurance contract which provides medical coverage to a policyholder.

## Ii

**Incurred but not reported (IBNR)** - Claims to be made by a policyholder, but not yet reported to the insurance company.

**Incurred But Not Enough Reported (IBNER)** - A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the Balance Sheet date.

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

**Insurance risk** - Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

**Ii** **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.

**Insurance provision – Life** - The fund or funds maintained by an insurer in respect of its life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

**Investment contract** - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance

**Investment management services** - The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.

**LI** **Lapsed Policy** - A policy terminated at the end of the grace period because of non payment of premiums.

**Liability adequacy test (LAT)** - An annual assessment of the sufficiency of insurance and/or investment contract with DPF liabilities, to cover future insurance obligations.

**Life Surplus** - The excess of the assets over the liabilities as determined by the actuary and after the distribution of dividends to policyholders

**Life insurance business** - Insurance (including reinsurance) business falling within the classes of insurance specified as Long Term Insurance Business under the Regulation of Insurance Industry Act No. 43 of 2000.

**Longevity** - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

**Loss ratio** - Percentage ratio of claims expenses to earned premiums.

**Mm** **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.

**Nn** **Net** - Refer Gross / net

**Net asset value** - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

**Nn** **Net combined ratio** - Indicates the profitability of a general insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income.

**Net earned premium** - In the case of general insurance business, net earned premium is the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

**Net 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.

**Net expense ratio** - A formula used by general insurance companies to relate net earned premium to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).

**Net loss ratio** - A formula used by general insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurance).

**Non-participating business** - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

**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.

**Oo** **Outstanding claims provision** - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.

**Pp** **Participating business** - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

**Policyholders' bonuses** - In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

# Glossary of Insurance Terms

## Pp

**Policy loans** - A loan from the insurer to a policyholder on the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

**Premiums** - The installments paid by the customers

**Primary insurers** - Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

**Proportional reinsurance** - Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

**Provision for outstanding claims** - Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

**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.

**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.

## Rr

**Reinsurance** - An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

## Rr

**Reinsurance commission** - Commission received or receivable in respect of premiums paid or payable to a reinsurer.

**Reinsurance insurance risk** - that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

**Reinsurance inwards** - The acceptance of risks under a contract of reinsurance.

**Reinsurance outwards** - The placing of risks under a contract of reinsurance.

**Reinsurance profit commission** - Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

**Retention** - That part of the risk assumed which the insurer / reinsurer does not reinsure / retrocede, i.e. retained net for own account.

**Retrocession** - The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

## Ss

**Scenario analysis** - Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

**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.

**Ss**

**Solvency margin – life** - The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on life insurance business (Long Term Insurance) as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

**Stress test** - A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations, tail dependencies. The result of risk drivers interacting in exceptional situations.

**Surrender value** - The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in life insurance).

**Tt**

**Technical provisions** - Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

**Uu**

**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.

**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.

**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).

**Unit-linked life insurance** - A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

**Vv**

**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.

**Variable annuities** – A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

**Ww**

**Written premium - Non life insurance business** - Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

**Written premium - Life insurance business** - Premiums to which the insurer is contractually entitled and received in the accounting period.

# Distribution Network

## CORPORATE OFFICE

### Union Assurance Centre

20, St. Michael's Road, Colombo 3.  
Customer Service: 011-2428000  
General Line: 011-2428428  
Fax: 011-2343095

### Motor Centre

33, St. Michael's Road,  
Colombo 3.  
General Line: 011-2462462, 011-2462100  
Fax: 011-2462222

## Aa

### Akkarapaththu

155, Ampara Road, Akkaraipaththu.  
Tel: 067-2279385/ 067-3696287

### Akuressa

64, Matara Road, Akuressa.  
Tel: 041-2283393

### 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

### Ampara

Kandy Road, Ampara.  
Tel/ Fax: 063-2224668

### Anamaduwa

149, 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

No: 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

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

217, Trincomalee Road, Batticaloa.  
Tel/ Fax: 065-2224574

### Bibile

'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

### Chavakachcheri

Kandy Road, Chavakachcheri.  
Tel: 021-2270073

### Chenkalady

191, Main Street, Chenkaladi.  
Tel: 065-5611422

### Chilaw

1, Jetty Street, Chilaw.  
Tel/ Fax: 032-2222104

### Chunnakam

160, K. K. S. Road, Chunnakam.  
Tel: 021-2241844

**Cc****Colombo South**

No: 57 2/1, High Level road, Kirullapona.

**Dd****Dambulla**

661, Anuradhapura Road, Dambulla.

Tel/ Fax: 066-2284628

**Dehiwala**

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**

36B, Victoria Golf Road, Digana, Rajawella.

Tel: 081-2376580

**Ee****Elpitiya**

44A1/1, Ambalangoda Road, Elpitiya.

Tel: 091-2291957

**Embilipitiya**

Main Street, Pallegama, Embilipitiya.

Tel: 047-2230463

Fax: 047-2261946

**Gg****Galewela**

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****Hanwella**

133/8D, Hanwella Avissawella Road, Hanwella.

Tel: 036-2254095

**Hatton**

199/B/2/1, Dimbulla Road, Hatton.

Tel: 051-2223820

**Hingurakgoda**

Airport Road, Hingurakgoda.

Tel: 027-2246581

Fax: 027- 2245299

**Homagama**

119/2, Katuwana Road, Homagama.

Tel: 011-2892802 – 3

Fax: 011-2892804

**Horana**

161, Ratnapura Road, Horana.

Tel/ Fax: 034-2264182

**Ii****Ingiriya**

3, 1st Floor, "Phandra" Building,

Main Street, Ingiriya.

Tel: 034-2268095

**Jj****Ja-Ela**

1 /17, 1st Floor, Negombo Road, Ja-Ela.

Tel/Fax: 011-2243633

**Jaffna**

139, Stanley Road, Jaffna.

Tel/Fax: 021-2223753

**Kk****Kadawatha**

211, Ehala Biyanvila, Kadawatha.

Tel/Fax: 0113071596

**Kaduwela**

76/A/2, New Kandy Road, Kothalawala,

Kaduwela.

Tel: 011-2548338

**Kalawana**

46 1/1, Mathugama Road, Kalawana.

Tel: 045-2255772

**Kalawanchikudi**

7,46 1/1, Rajahs Building, Main Street,

Kaluvanchikudy.

Tel: 065-2251402

**Kalmunai**

74, 1st Floor, Main Street, Kalmunai.

Tel: 067-2222636, 067-2222633

Fax: 067-2222320

**Kalutara**

340, Main Street, Kalutara.

Tel: 034-2228964, 034-2223132

Fax: 034-2228963

**Kamburupitiya**

No: 314, Akuressa road, Kamburupitiya.

Tel: 041-2294580/ 041-2294581

**Kandy**

28, Hill Street, Kandy.

Tel: 081-2227443, 081- 2232731

Tel/Fax: 081-2233291

**Katugastota**

185/4, Galagedara Road, Katugastota.

Tel: 081-2500286

**Katunayake**

16,2A, Plaza Complex,

Phase 1, IPZ, Katunayake.

Tel: 011-2251131

Fax :011-2251132

**Kegalle**

134, 1st Floor, Kalugalle Mawatha, Kegalle.

Tel: 035-2232829

Tel/ Fax: 035-2230363

**Kelaniya**

342 / 2/1, Dalugama, Kelaniya.

Tel: 0112-905582

**Kilinochchi**

83 & 85, 1st Floor, Kandy Road, Killinochchi.

Tel: 021 2280117-8

Fax: 021 2280119

# Distribution Network

## Kk

### Kiribathgoda

94, 2nd Floor, Makola Road, Kiribathgoda.  
Tel: 011-2916924, 011-2916925  
Fax: 011-2916852

### Kirindiwela

153/2, Wijaya Building, Gampaha Road,  
Kirindiwela.  
Tel: 033-2247411

### Kolonnawa

250/1/1, Kotikawatta Road, Gothatuwa, New  
Town.  
Tel: 011-2410044

### Kotahena

76, Srimath Bandaranayke Mawatha, Colombo12.  
Tel: 011-3135427

### Kottawa

197 /1 E, Horana Road, Kottawa.  
Tel: 011-2178008

### Kuliyapitiya

245 A, Hettipola Road, Kuliyapitiya.  
Tel/ Fax: 037-2281904

### Kurunegala

Union Assuarance Centre  
6, Rajapihilla Road, Kurunegala.  
Tel: 037-2224252, 037-2222474,  
037-2222282  
Tel/Fax: 037-2227585

## Mm

### Madampe

87, Walawatta, Kurunegala road, Old  
Town, Madampe.

### Mahaoya

Wijethunga Building, Mahaoya.

### Maharagama

5, Elhena Road, Maharagama.  
Tel: 011-2896474

### Mahawa

No: 193, Moragollagama road, Maho.

### Mahiyangana

5, Kandy Road, Mahiyangana.  
Tel: 055-2258244, 055-2258255  
Fax: 055-2258200

### Mannar

43, Ward No.2, Pallimuni Street, Mannar.  
Tel/Fax: 023-3238255

### Matale

553 F 1/1, Trincomalee Road, Matale.  
Tel/ Fax: 066-2231536

## Mm

### Matara

13, 1st Floor, Station Road, Matara.  
Tel: 041-2223024, 041-2222953  
Fax: 041-2223026

### Mathugama

Agalawattha Road, Mathugama.  
Tel/Fax: 034-3944339

### Mawanella

157, New Mawanella Road, Mawanella.  
Tel: 035-2247351

### Medirigiriya

5, Main Street, Madirigiriya.  
Tel: 027-2248310

### Melsiripura

105/18, Siripura Estate, 15 Mile Post,  
Melsiripura.

### Minuwangoda

85, Veyangoda Road, Minuwangoda.  
Tel: 011-2281923

### Monaragala

5, Wellawaya Road, Monaragala.  
Tel/ Fax: 055-2276290

### Moratuwa

472 1/1, Galle Road, Rawathawathe, Moratuwa.  
Tel: 011-2641666, 011- 2641800  
Fax: 011-2641811

### Mullaitivu

P.W.D road, Vannankulam, Mullaitivu.

### Muttur

92/A Ward No:7, Market road, Muttur.

## Nn

### Narammala

209, Kuliyapitiya Road, Narammala.  
Tel: 037-2248511

### Nawalapitiya

31/A, Dolosbage Road, Nawalapitiya.  
Tel: 054-2224088

### Negombo

147, St. Joseph Street, Negombo.  
Tel: 031-2235042-3, 031-2224264  
Fax: 031-2224243

### Nikaweratiya

71, Puttalam Road, Nikaweratiya.  
Tel/ Fax: 037-2260367

### Nittambuwa

538/3, Near the 38 k.m Post,  
Malwatta, Nittambuwa.  
Tel: 033-2293924

**Nn****Nugegoda**

376, High Level Road, Gangodawilla.  
Tel: 011-2815511-3  
Fax: 011-2815515

**Nuwara Eliya**

36, 2nd Floor, Park Road,  
Nuwara Eliya.  
Tel/ Fax: 052-2223017

**Pp****Padawiya**

2, New Town, Padawiya.  
Tel/Fax: 025-3770757

**Padukka**

76A, Horana road, Padukka.

**Panadura**

571/3, Galle Road, Panadura.  
Tel / Fax: 038-3392217

**Pannala**

2nd floor, Peoples Bank, Negombo road, Pannala.

**Passara**

203/A2, Main Street, Passara.  
Tel: 055-2288898

**Pelmadulla**

No: 228, Ratnapura road, Pelmadulla.

**Piliyandala - 1**

48/1/1, Colombo Road, Piliyandala.  
Tel: 011-2619550

**Piliyandala - 2**

329/3A, Colombo road, Piliyandala.  
Tel: 011-2609105/ 011-2609106/ 011-2619550

**Point Pedro**

357, Main Street, Point Pedro.  
Tel / Fax: 011-3158153

**Polgahawela**

Colombo road, Polgahawela.  
Tel: 037-2244575

**Polonnaruwa**

5, Batticaloa Road, Polonnaruwa.  
Tel/ Fax: 027-2223261

**Pottuvil**

2/1, Market Road, Pottuvil.  
Tel: 067-3696286

**Puttalam**

Yard No.02, Kurunagala Road, Puttalam.  
Tel/ Fax: 032-2265980

**Rr****Rambukkana**

87/14 1/2, Mawanella Road, Rambukkana.  
Tel: 035-2264646

**Ratmalana**

228, Galle Road, Ratmalana.  
Tel: 011-2726612-3  
Fax: 011-2726611

**Ratnapura**

53 ½, Senanayake Mawatha, Ratnapura.  
Tel: 045-2230739  
Fax: 045-2223525

**Rr****Ruwanwella**

185.5, Avissawella Road, Ruwanwella.  
Tel: 036-2266631  
Fax: 036-2268747

**Tt****Talawathugoda**

1114/1, Wicramasinghepura Junction,  
Talawathugoda.  
Tel: 011-2796311-2  
Fax: 011-2796310

**Tambuttegama**

319, Rajina Junction, Tambuttegama.  
Tel/ Fax: 025-2276060

**Tangalle**

61/1, Beach Road, Tangalle.  
Tel: 047-2241841

**Tissamaharama**

Main Street, Tissamaharama.  
Tel: 047-2237711  
Fax: 047 2239644

**Trincomalee**

83, Main Street, Trincomalee.  
Tel: 026-2227530  
Fax: 026-2226455

**Vv****Valaichchenai**

830 B, Main Street, Valaichchenai.  
Tel: 065-5671422

**Vavuniya**

113 A, Kandy Road, Vavuniya.  
Tel/ Fax: 024-2223138

**Ww****Warakapola**

198 B, 1/1, Wilvara Complex,  
Kandy Road, Warakapola.  
Tel/ Fax: 035-2267441

**Wariyapola**

273/3, Chilaw Road, Wariyapola.  
Tel: 037-2267206

**Wattala**

146 2/3, Pearl Park Complex,  
Negombo Road, Wattala.  
Tel: 011-3037591

**Weligama**

No: 314, Old Galle road, Weligama.  
Tel: 041-2250821/ 041-2250831

**Welimada**

34, Old Post Office Road, Welimada.  
Tel / Fax: 057-3585615

**Wellawaya**

210, Moneragala Road, Wellawaya,  
Tel / Fax: 055-3600031

**Wennappuwa**

6, Colombo Road, Wennappuwa.  
Tel/ Fax: 031-2255844

# Notice of Meeting

Notice is hereby given that the 27<sup>th</sup> Annual General Meeting of Union Assurance PLC, will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 on Monday 31<sup>st</sup> March 2014 at 9.00 a.m for the following purposes;

1. To read the Notice convening the meeting
2. To receive and consider the annual report and financial statements of the company for the year ended 31<sup>st</sup> December 2013 with the report of auditors thereon
3. To re-elect as a Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Articles of Association of the Company
4. To re-elect as a Director, Ms. Dilani Champika Alagaratnam who retires in terms of Article 84 of the Articles of Association of the Company
5. To re-appoint auditors Messrs. KPMG Chartered Accountants 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  
25 February 2014

*Note:*

- a. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him / her
- b. A proxy need not be a member of the company. The form of proxy is attached to the annual report
- c. The completed form of proxy should be deposited at the registered office of the company not less than 48 hours before the time appointed for the holding of the meeting

# Proxy Form

I/We..... of .....being  
 a member/s of Union Assurance PLC hereby appoint ..... of  
 ..... or failing him/her.

- Mr. Ajit Damon Gunewardene of Colombo, or failing him
- Mr. Gerald Fredrick Christopher De Saram of Colombo, or failing him
- Mr. Ashan Suresh De Zoysa of Colombo, or failing him
- Mr. Suresh Rajendra of Colombo, or failing him
- Ms. Dilani Champika Alagaratnam of Colombo, or failing her
- Mr. Harin Amendra Joseph De Silva Wijeyeratne of Colombo,

as my/our proxy to represent me/us and vote on my/our behalf at the 27<sup>th</sup> Annual General Meeting of the Company to be held on Monday 31<sup>st</sup> March 2014 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 "✓" in the appropriate cage;

	For	Against
To re-elect as a Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director, Ms. Dilani Champika Alagaratnam who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint 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 Fourteen.

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 abstain from voting.
-

# Corporate Information

## NAME OF COMPANY

Union Assurance PLC

## LEGAL FORM

A public limited liability company incorporated in Sri Lanka on 8 January 1987 and registered under the Companies Act No. 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

Ajit 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  
117, Sir Chittampalam A. Gardiner Mawatha,  
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  
65 Chulia Street, 37-07/08 OCBC Centre, 049513  
Singapore

## 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 Bank PLC  
DFCC Vardhana Bank PLC  
Hatton National Bank PLC  
Hongkong and Shanghai Banking Corporation  
Housing Development Finance Corporation Bank of Sri Lanka  
National Development Bank PLC  
National Savings Bank  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
Union Bank of Colombo PLC

## REINSURANCE PANEL

ARIG  
Asia Capital Reinsurance Group Pte Ltd  
Asian Re  
AWAC  
BEST Reinsurance  
General Insurance Corporation of India  
Hannover Re  
Korean Re  
Lloyds  
Malasian Re  
Mapfre  
Munich Reinsurance Company  
National Insurance Trust Fund  
Partner Re  
SCOR Reinsurance Asia Pacific Pte Ltd  
Sirius Reinsurance  
Swiss Reinsurance Company Ltd  
Toa Reinsurance Company Ltd  
TRUST 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 011-2428859



Union Assurance Centre  
20, St. Michael's Road, Colombo 3,  
Sri Lanka.  
[www.unionassurance.com](http://www.unionassurance.com)