

UNION ASSURANCE PLC  
ANNUAL REPORT 2018



# WINNING WAYS



# WINNING WAYS

At UA, we believe that every winning effort is founded on careful preparation. That's why we've been focused on a five-year strategic plan involving a transformation of our business and a significant investment into state-of-the-art digital technologies that will give thousands of customers instant access to our diverse insurance products and services. Over the past year we've also deepened our pool of talent and strengthened our Bancassurance partnerships to deliver even better value.

Your Company is also proud to note that the year under review saw us win several awards for business excellence, including our selection as the 'Most Trusted Life Insurance Company in Asia' at Asia's Most Trusted Brand Awards 2018 and a ranking in the Forbes Asia 'Best Under a Billion' list - the only Sri Lankan company to be so named this year.

Our goal is an ambitious one, for we want to be the number one digital Life insurance company in Sri Lanka by 2022. But we're confident that we will achieve the ranking we seek through the strength of our vision, determination and strategy; the winning ways that will deliver success in all that we choose to do.

# OUR INTEGRATED ANNUAL REPORT

## WINNING WAYS

We are pleased to present our sixth integrated annual report in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). The year under review we embarked on an ambitious five-year journey that will make our Company the number one digital insurance Company in the Life insurance industry. As the foundation to our journey many strategic investments and changes were made during the year under review. This inspired us to theme this Annual Report for the financial year ending 2018 as 'Winning Ways'.

As we become more environmentally attuned and digitally focused we have kept the report concise and pertinent to the year under review, commentaries in certain sections are limited to a high-level view of the events and progress within the year. Our website [www.unionassurance.com](http://www.unionassurance.com) will enable further information and insights into the Company regularly throughout the year.

## STANDARD AND PRINCIPLES

### Reporting

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

### Governance, Risk Management and Operations

- ▶ Laws and Regulations of the Companies Act No. 7 of 2007
- ▶ Listing Rules of the Colombo Stock Exchange (CSE) and subsequent revisions to-date
- ▶ Insurance Industry Act No. 43 of 2000 and subsequent amendments to-date
- ▶ Guidelines, Determinations, Rules and Regulations issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- ▶ Code of Best Practices on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CASL)

### Financial Reporting

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

## Sustainability and Corporate Social Responsibility Reporting

- ▶ This report has been prepared in accordance with the GRI Standards: Core option

### Reporting Scope and Boundary

The Union Assurance Annual Report reflects the Company's integrated approach of management during the period from 1 January 2018 to 31 December 2018. Material events post this reporting period, up to the sign off date by the Board of Directors on 27 February 2019, have been included in this Report, ensuring a more relevant and up to date Report

### Integrated Reporting Guidelines

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

## CONTENTS



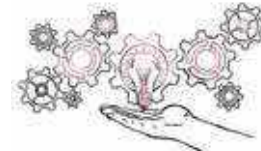
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### Contact with Stakeholders

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

### Our approach to Materiality

This report provides information that we believe is of material interest to current and prospective investors, and to any other stakeholder who wishes to make an informed assessment of UA's ability to generate value over the short, medium and long term. Rather than provide a simple listing of 'material issues', we have sought to ensure that all the information in this report relates to matters affecting value creation at UA. Our Business model (pages 20 to 21) and capital management review (pages 49 to 109) forms the basis for appreciating how UA creates value, and for identifying those issues impacting value. Our ability to create value is determined by our operating environment (pages 36 to 46) and by our response to the resulting risks and opportunities (pages 47 and 48). Making an

informed assessment of our response requires an appreciation of our strategy (pages 17), our performance (page 18 and 19), our leadership team (page 116), and our governance practices (page 118 to page 149).

### Internal and External Assurance

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

- ▶ The Board of Directors (page 114 to 115)
- ▶ The Executive Committee (page 116)
- ▶ The Board Audit and Compliance Committee (page 127 to 129)
- ▶ An independent Auditor's confirming the accuracy of the Annual Financial Statements (page 169 to 172)
- ▶ An independent Actuary confirming the Life fund valuation and liability adequacy (page 167)
- ▶ An independent assurance engagement for the non-financial information prepared in accordance with GRI Standards: Core Option (page 266 and 267)

### Our Endorsements

Our affiliations with the below establishments further extend our commitment to complete adaptation to industry guidelines, standards and codes

- ▶ Insurance Association of Sri Lanka (IASL)
- ▶ Ceylon Chamber of Commerce (CCC)
- ▶ Global Reporting Initiative (GRI)

### Disclaimer for the Publication of Forecast Data

This report contains information about the plans and strategies of the Company for the medium and long term and represent the Management's view. The plans are forward-looking in nature and their feasibility depends on several economic, political and legal factors which are outside the influence of the Company such as global and domestic financial, economic and political situations, the state of key markets, changes in tax, customs and environmental legislation and so forth. Given this, the actual performance of indicators in future years may differ from the forward-looking statements, published in this report. The reader is advised to seek expert professional advice in all such respects.



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### Online

Our report, with additional updated information is available on our website:  
[www.unionassurance.com](http://www.unionassurance.com)

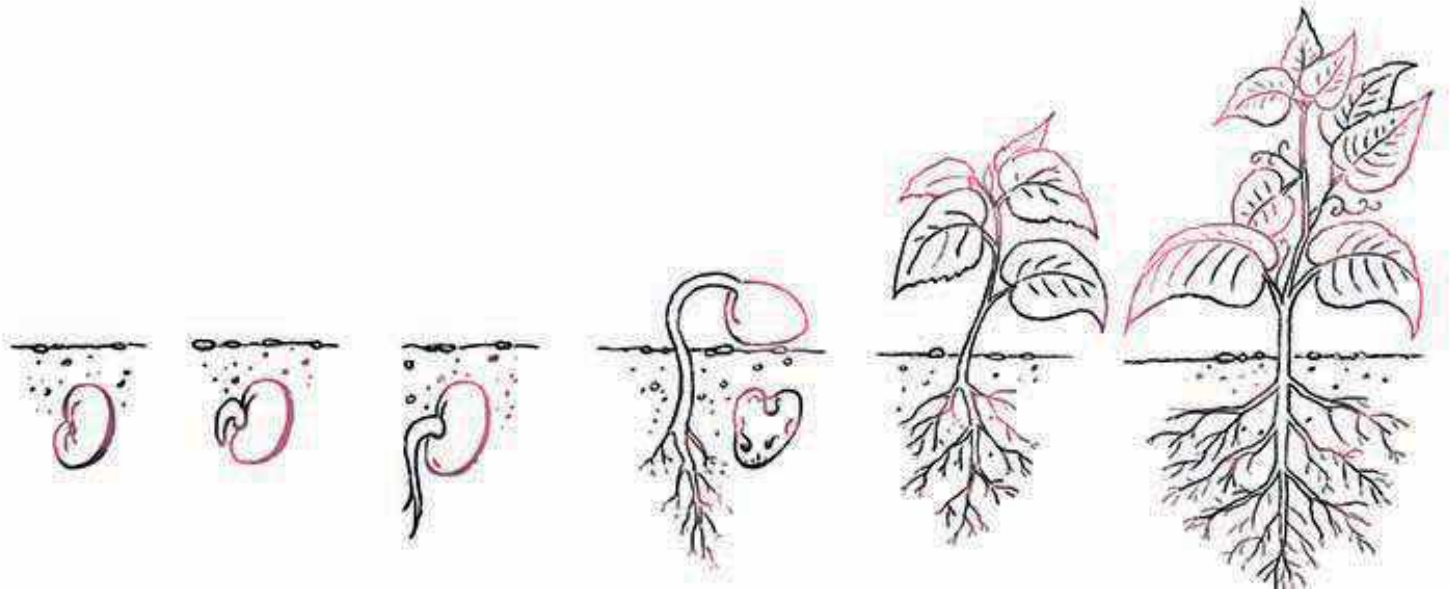


### CONTACT PERSON

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

**Asha Perera**  
 Chief Financial Officer  
 Union Assurance PLC  
 No 20, St. Michaels Road  
 Colombo 03.  
 011 2990302

"The year under review we embarked on an ambitious five-year journey that will make our Company the number one digital insurance Company in the Life insurance Industry. As the foundation to our journey many strategic investments and changes were made during the year under review."



GROWING TOWARDS OUR OBJECTIVES

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# YEAR AT A GLANCE

## FINANCIAL CAPITAL

### REVENUE

**Rs. 11.2Bn**

Growth of 11%

### RECURRENT OPERATING PROFIT

**Rs. 2Bn**

Degrowth of 48%

### RETURN ON EQUITY

**25%**

Degrowth of 61%



▶ Market Share 14%

▶ New Business Premium Market Share 14%

### NET ASSETS PER SHARE

**Rs. 232**

Growth of 14%

### MARKET CAPITALISATION IMPROVED

**Rs. 20.5Bn**

Growth of 157%

▶ Capital Adequacy Ratio 262 %  
2017 352%

## SOCIAL AND RELATIONSHIP CAPITAL



▶ Launched of Bancassurance operations with Seylan Bank



▶ Launched of Life Changing Partnership Campaign



SILVER AWARD for the Best Budget Advertising Campaign at Effie Awards 2018 under Health & Wellness category

### INVESTMENT ON COMMUNITY DEVELOPMENT

**Rs. 17Mn**

2017-Rs 13 Mn



▶ Inauguration of Preferred Bancassurance Partnership with Union Bank

▶ Inauguration of Preferred Bancassurance Partnership with Nations Trust Bank

'Be Active, Be Sugar Free'  
Diabetes Awareness Campaign in December

### NO OF LIVES TOUCHED

**720,290**

2017-392,991

## HUMAN CAPITAL

**GREAT PLACE TO WORK®**

Great Place to Work (GPTW) Awards 2018 – for the 6th Consecutive time

### TOTAL TRAINING HOURS

**14,074**

2017 - 9,996

### EMPLOYEE ATTRITION

**21.82%**

2017 - 19.92%

### TOTAL WORKFORCE

**5,237**

2017 - 4,808



▶ Annual Awards 2017 – Jakarta, Indonesia



▶ Life Changing Challenge Awards 2018

▶ 52 MDRT Winners  
2017 - 54

▶ 30 LIMRA Productivity Award Winners  
2017 - 30 winners

▶ 9 LIMRA Quality Award Winners  
2017 - 9 winners



INTELLECTUAL CAPITAL



- ▶ Launched of USH Plus Product
- ▶ Launched of customised digital policy books – 'Bring Your Policy Book to Life'
- ▶ Launched new policy administration system



- ▶ With an eco-system of partners promoting healthier lifestyles.

BRAND VALUE INCREASED

**Rs. 2.5Bn**

2017 - Rs 1.8 Bn

DIGITAL PROPOSAL SUBMISSION

**100%**

2017 - 87 %



NATURAL CAPITAL



CARBON FOOTPRINT

**1,426.30 tCO<sub>2</sub>e**

Growth 10%



- ▶ Chairman's Award for Sustainability (Office-Based Services)

WATER USAGE

**22,438 M<sup>3</sup>**

2017 - 20,258 m<sup>3</sup>

ENERGY CONSUMPTION

**6,386 GJ**

2017 - 6,474 GJ

TREES SAVED

**315**

2017 - 868



MANUFACTURED CAPITAL



- ▶ Upgraded Head Office and Branch infrastructure in line with long-term business plan

INVESTMENT IN MANUFACTURED CAPITAL

**Rs. 154Mn**

2017- Rs. 40 Mn

NUMBER OF BRANCHES

**88**

2017-97 branches

# CHAIRMAN'S MESSAGE

**"UA has made significant investments in many facets of it's business. We are confident that these investments will drive the next phase of growth, further enhancing stakeholder value."**

## Dear Stakeholder

On behalf of the Board of Directors, it gives me great pleasure to present the Integrated Annual Report for the financial year ended 31 December 2018.

## BUSINESS PERFORMANCE

Union Assurance PLC (UA) recorded an encouraging gross written premium of Rs 11.2 billion and a profit before tax of Rs. 2.1 billion despite the challenging operating environment in the year under review.

Favourably influenced by increased interest rates, net investment income saw a significant growth of 28% whilst claims and benefits increased compared to previous year mainly due to increase in maturity and surrender payouts. Maturity payments were made in accordance with the contractual obligations of the company and surrender payments increased due to a challenging economic environment. The Life fund increased by 14% to Rs. 30.6 billion as of reporting date.

UA maintains a healthy Capital Adequacy Ratio (CAR) under the Risk Based Capital (RBC) regime reflecting the strong financial stability of the company. Insurance liabilities are backed by reinsurers who have credit ratings of 'A+' or above from international rating agencies.

## ECONOMIC REVIEW

During the 9 months of 2018, the Sri Lankan economy recorded its slowest real GDP growth after 2001 of 3.3% due to external and domestic pressures.

We expect the economy to perform better in the new year due to improved agricultural output, favourable oil prices and increased demand conditions as a result of fiscal easing.

## REGULATORY REVIEW

We work closely with the Insurance Regulatory Commission of Sri Lanka to implement regulations that enable industry growth while safeguarding policyholder interests. During the year under review, the IRCSL issued 4 directions relating to recruitment, investments, one off surplus and corporate governance.

## SUSTAINABILITY

This Report has been prepared in accordance with the GRI Standards: Core option and obtained the GRI Materiality Disclosures check. The report contains the overall sustainability strategy, framework and performance of the company and has been independently assured by KPMG Sri Lanka.

I am pleased to announce that this year too we have made significant progress on the agenda items reported in last year's Integrated Annual Report. During the year under review many energy saving and emission management initiatives were undertaken. However, the company's carbon footprint increased by 10% to 1,426 Tonnes, due to higher level of operational activities

Our activities to add value to customers, employees, field staff, suppliers, community and shareholders is reflected in the management discussion and analysis section of this report.

## CORPORATE GOVERNANCE

I am pleased to state that there were no departures from any of the provisions of the Code of Best Practice on Corporate Governance advocated by the Institute of Chartered Accountants of Sri Lanka.

During the year under review, several initiatives were undertaken to strengthen the Company's corporate governance framework and controls. A new core IT system was implemented to enhance adaptability to global best practices and mitigate the threat of technological obsolescence. The Company's cyber security resilience was strengthened and streamlined through device management, user access and data protection related enhancements. Messrs. PricewaterhouseCoopers conducted an end to end process review of the investment function and several initiatives were implemented to further strengthen the internal controls of the unit.

With reference to Rule 7.13.2 of the Listing Rules of the Colombo Stock Exchange (CSE) governing the minimum public holdings of listed entities, the John Keells Group divested 2,305,982 ordinary shares of UA during the year under review. Based on which the public holding of UA moved up to 10% from 7%.

Further details can be found in the Corporate Governance Commentary section and management discussion and analysis section of this report.

## EMPLOYEES

The value creation process of the company has been built around our loyal and committed employees, and I wish to pay tribute to them for their contribution and commitment. We continue to engage and encourage our employees to perform to the best of their ability through a performance-oriented culture founded on ethical and transparent behaviour.

The Corporate Governance Commentary and the Human Capital section of this Report explain in further detail the best practices, policies and procedures that are in place to ensure that UA is a "Great Place to Work."

"We continue to engage and encourage our employees to perform to the best of their ability through a performance-oriented culture founded on ethical and transparent behaviour."



#### GROSS WRITTEN PREMIUM

**Rs. 11.2Bn**

2017 - Rs. 10.1 Bn



#### INVESTMENT INCOME

**28%**

Growth

#### CORPORATE SOCIAL RESPONSIBILITY

The Company's CSR initiatives are centred on one strongly championed objective - creating healthy communities around the country; as there is a strong linkage between this objective and UA's life insurance operations. Accordingly, we work together with the Ministry of Health to create awareness regarding critical health concerns such as dengue, diabetes and thalassemia.

During the year under review, with the support of the Public Health Department of the Colombo Municipal Council and the Public Health Inspector, UA successfully conducted a total of 15 dengue awareness campaigns, over 177 thalassemia awareness programmes and 69 diabetes prevention programmes touching the lives of over 720,000 people.

#### BUSINESS OUTLOOK

The outlook for the life insurance industry is extremely positive when considering current penetration levels in Sri Lanka, which are significantly lower than most other countries in the region. Rising consumer wealth and an ageing population will drive demand for protection and retirement solutions which life insurers are well positioned to provide.

The agency channel is expected to generate a significant share of our revenue and profit. UA has invested to expand and improve the quality of this channel. Branch and head office infrastructure was also upgraded to enhance customer experience and employee satisfaction. We are confident that these investments will drive the planned ambitious growth in this channel.

UA entered into exclusive bancassurance partnerships with Nations Trust Bank PLC and Union Bank PLC. These bancassurance arrangements leverage the banks' regional franchise, omnichannel network and UA's product capabilities to offer protection and wealth solutions to meet the fast-growing and changing needs of consumers. We will continue to invest in strategic partnerships and further improve our service delivery, product offerings and distribution capabilities.

The digital revolution is catching up to the life insurance industry. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business opportunities leading to improved marketing, underwriting and customer retention. The Company has invested Rs. 800 million to upgrade the core IT system to align with a digital first future. The new platform enables us to develop and launch new products across multiple distribution channels in a speedy and cost-effective manner and improve efficacy of policy issuance, policy administration, premium collection and claims & benefits payments.

We have embarked on an advanced analytics transformation journey for which we have established a data analytics team and are in the process of strengthening the unit with internal resources and external consultants.



#### MARKET CAPITALISATION

**Rs. 20.5Bn**

2017 - Rs. 8.0 Bn

#### DIVIDENDS

Your Board of directors has declared a first and final dividend of Rs. 20.00 per share subject to relevant regulatory adherence compared to the dividend of Rs. 18.00 per share declared for 2017. The total pay-out in the year under review is Rs. 1,178 million compared to Rs. 1,061 million in the previous financial year.

#### ACHIEVEMENTS

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

As a result of strong top and bottom-line track record, UA was listed in the Forbes Asia 'Best Under A Billion' list in August 2018. Union Assurance became the only Sri Lankan company to be part of this prestigious list comprised of 200 public companies in the Asia Pacific region.

We were adjudged winners in the Finance and Insurance sector at the sustainability awards conducted by the Association of Chartered Certified Accountants (ACCA). This was the 10<sup>th</sup> consecutive year the company's activities were recognised at this prestigious event.

Our reporting practices were also recognised by the Institute of Chartered Accountants of Sri Lanka, with the 2017 annual report receiving a silver award in the insurance category and a gold award for corporate social responsibility reporting.

We were recognised as a "Great Place to Work" for the 6<sup>th</sup> consecutive year by the Great Place to Work Institute® highlighting UA as a work place that is conducive to growth and personal development.

## CHAIRMAN'S MESSAGE

**"As a result of strong top and bottom-line track record, UA has been listed in the Forbes Asia 'Best Under A Billion' list in August 2018."**



### TOTAL ASSETS

**Rs. 49.1 Bn**

2017 - Rs. 43.1 Bn

Our excellent business practices were recognised by the National Chamber of Commerce with gold awards in the insurance category and for excellence in corporate governance. Further, UA was adjudged 2nd runner up overall in the extra-large category.

### APPRECIATION

On behalf of the Board I would like to thank Mr. Susantha Ratnayake for his dedicated service as the Chairman of the Company. I would also like to thank Mr. Ashan De Zoysa and Mr. Gerald De Saram for their valuable service to the Company over the last 9 years as Independent Non-Executive Directors. I would also like to welcome Mr. Dumith Fernando and Mr. Stephen Appleyard to the Board. We are confident that their experience and industry knowledge will be invaluable to the long-term journey the Company has embarked upon.

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

On behalf of the Board we also appreciate the efforts of the Insurance Ombudsman in providing an efficient, independent grievance handling mechanism.

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

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

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

**Krishan Balendra**  
Chairman

27 February 2019

# CHIEF EXECUTIVE OFFICER'S REVIEW

**“In 2018, UA strengthened distribution and operational capabilities to leverage the long-term growth opportunities in the Sri Lankan Life insurance market”**

We aim to be the number one digital life insurer in Sri Lanka by building the most productive agency and bancassurance sales channels in the industry, and leveraging digital technologies to improve operational excellence, customer service and engagement.

## BUILDING DISTRIBUTION CAPABILITIES

UA's agency channel generates the major share of our revenue and profits and several initiatives were undertaken to transform this channel. These include restructuring leadership to improve performance management, aligning compensation and benefits to grow regular new business premiums, aggressively recruiting high calibre advisors and driving a strong contract maintenance process. We believe that these initiatives will drive the ambitious growth and quality objectives set for this channel.

In the bancassurance channel we migrated our distribution agreements with Nations



### UPGRADE CORE SYSTEM

**Rs. 800Mn**



### Two Strategic Exclusive Partnerships

Trust Bank and Union Bank from an open architecture model to strategic, exclusive partnerships. These partnerships enable us to synergise the capabilities of both organisations to provide unique product and service solutions to untapped market segments. We also entered into a bancassurance partnership with Seylan Bank PLC and together with Commercial Bank and Sampath Bank, we have a strong bancassurance presence in the market. In terms of new initiatives, bancassurance leadership was restructured to ensure an appropriate match with bank counterparts. The profiles of insurance relationship officers was also aligned with bank branch potential. UA will continue to invest in this channel as we see strong upside potential in partnering with well established banks with island wide reach.

## DIGITAL FIRST

UA is committed to a “digital first” business model, and invested in people and other resources in order to achieve the vision of becoming the largest digital insurer in Sri Lanka. We have a multi-disciplinary team of experts forming a Digital Centre of Excellence which has been in operation for over five years, with access to global best practices including a close relationship with one of the leading experts on digital insurance.

UA invested Rs. 800 million to upgrade the core IT system which went live in August 2018. The new platform improves the efficacy of new product development, underwriting, policy administration, claims serving, billing, collection, payments and regulatory reporting.

During the year under review, several initiatives were taken to improve operational excellence. The digital point of sales tool used by agency and bancassurance sales

staff was upgraded with dynamic proposal functionality, OCR technology and enhancing auto underwriting rules to ensure 100% digital submissions and straight through underwriting. Digital collection tools were also embedded to capture standing orders, direct credits and mCash remittances to increase cashless collections. UA has achieved 100% digital submissions, 96% cashless collection and 19% straight through processing rate as of 31 December 2018.

## DELIVERING SUPERIOR CUSTOMER SERVICE

At UA we have a comprehensive portfolio of products catering to all life stages covering investment, protection, healthcare and retirement needs of all customer segments.

We continually seek to develop innovative insurance solutions and introduced two new plans to market during 2018. 'Union Smart Health Plus' is a health rider with overseas cover, no claim bonus, cashless service, free fitness tracker, deductible options and reinstatement benefit (revival benefit) features. The rider caters to all customer segments including families. 'Investment Plus' product was launched to cater the short-term investment needs of customers.

UA continues to declare above market dividend rates to universal life policyholders. 10% dividend rate was declared for 2018.

We implemented a process to customise our policy documents. Hence each customer receives an unique policy document with details of benefits and terms and conditions pertaining to the specific covers they purchased. We also initiated an SMS service enabling customers to view an e-copy of their policy document on a smart phone / tablet device.

## CHIEF EXECUTIVE OFFICER'S REVIEW

"At UA we have a comprehensive portfolio of products from savings and investments, to protection, family healthcare and retirement, covering all life stages."



### INSURANCE CONTACT LIABILITIES

**Rs. 30.6 Bn**

2017 - Rs. 26.9 Bn



### DIVIDEND DECLARED TO POLICYHOLDERS

**10%**

Above Market Rate

### ENCOURAGING PERFORMANCE

UA recorded 11% Gross Written Premiums (GWP) in a challenging operating environment.

Profit after tax in 2018 was Rs. 3.2 billion against Rs. 7.3 billion recorded in 2017. The Rs. 7.3 billion profit after tax in 2017 includes the one off surplus transfer of Rs. 3.3 billion. The surplus transfer from Life fund amounted to Rs. 1.1 billion. Rs. 882 million was generated from the shareholder investment portfolio and Rs. 150 million was accounted as UA's share of profits from the general insurance business from Fairfirst Insurance Limited.

Total other revenue recorded a 1% degrowth. This is mainly due to increase in unrealised losses stemming from equities. The investment environment was impacted by various external and internal pressures in 2018. These factors caused volatility in equity and fixed income asset classes. The life fund recorded a weighted average return of 9.63% in 2018.

Net insurance benefits and claims paid increased by 9% mainly due to increase in maturity and surrender payouts. Maturity payouts are in line with UA'S contractual obligations and surrender payments increased due to the challenging economic environment. Underwriting and net acquisition cost increased by 12% to Rs. 2.1 billion due to increase in GWP and changes in incentive structure. Other operating, administrative and selling expenses increased by 41% as we invested in strengthening distribution and the UA brand.

With the implementation of the surplus based income tax in accordance with the New Inland Revenue bill, the Company has recognised a deferred tax asset amounting to Rs. 1.6 billion and notional tax credit amounting to Rs. 541 million. The deferred tax asset and notional tax credits will be utilised against future income tax liabilities.

As a result of the above life fund increased by 14% to Rs. 30.6 billion by year end.

### APPRECIATION AND CONCLUDING REMARKS

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

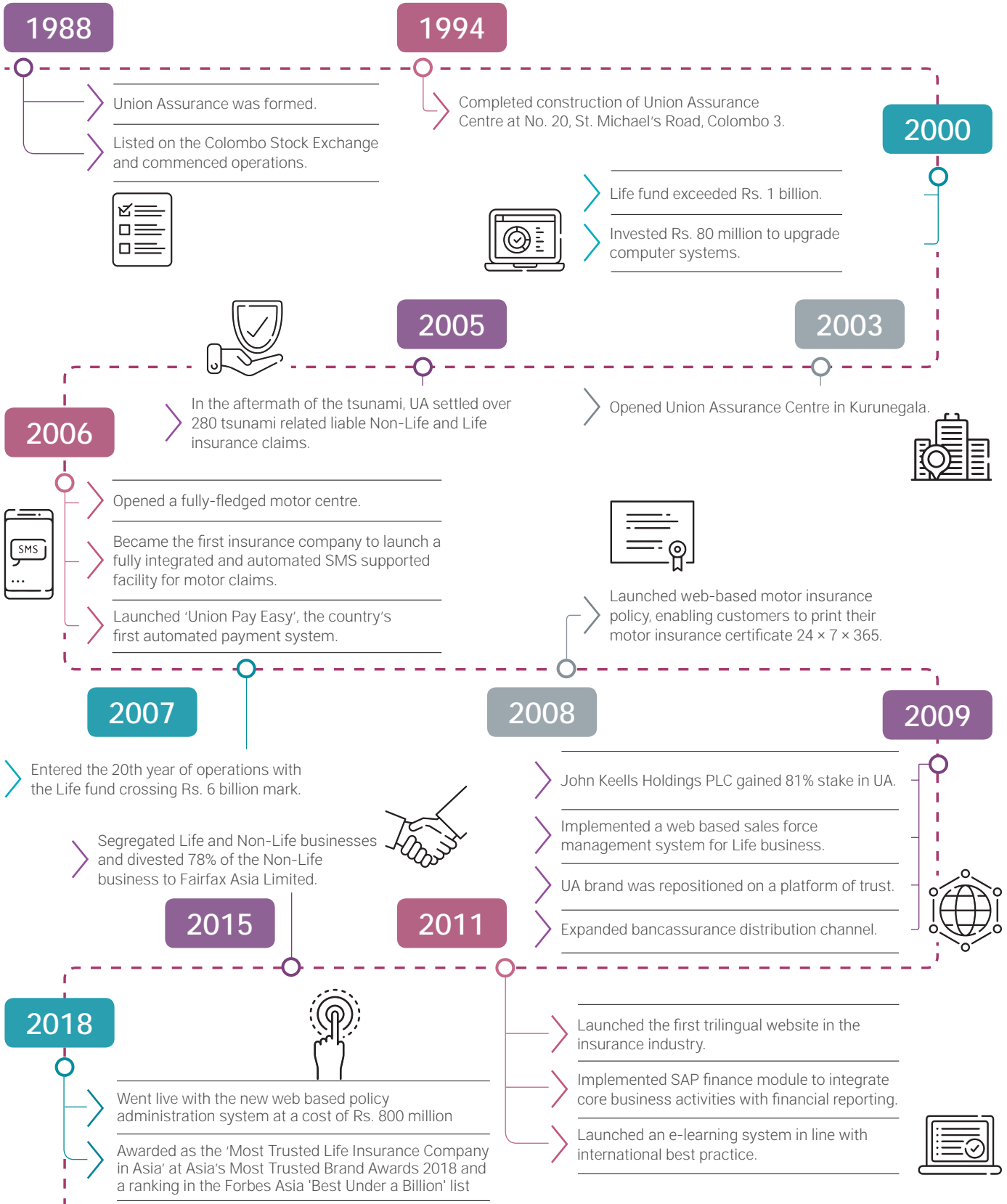
We have ended 2018 on a positive note and have an exciting year ahead of us.

UA has a strong brand, reputation for good governance, a professional team and performance driven culture. These aspects combined with our financial strength and customer focus, position UA to deliver sustainable value to all stakeholder in the years to come.

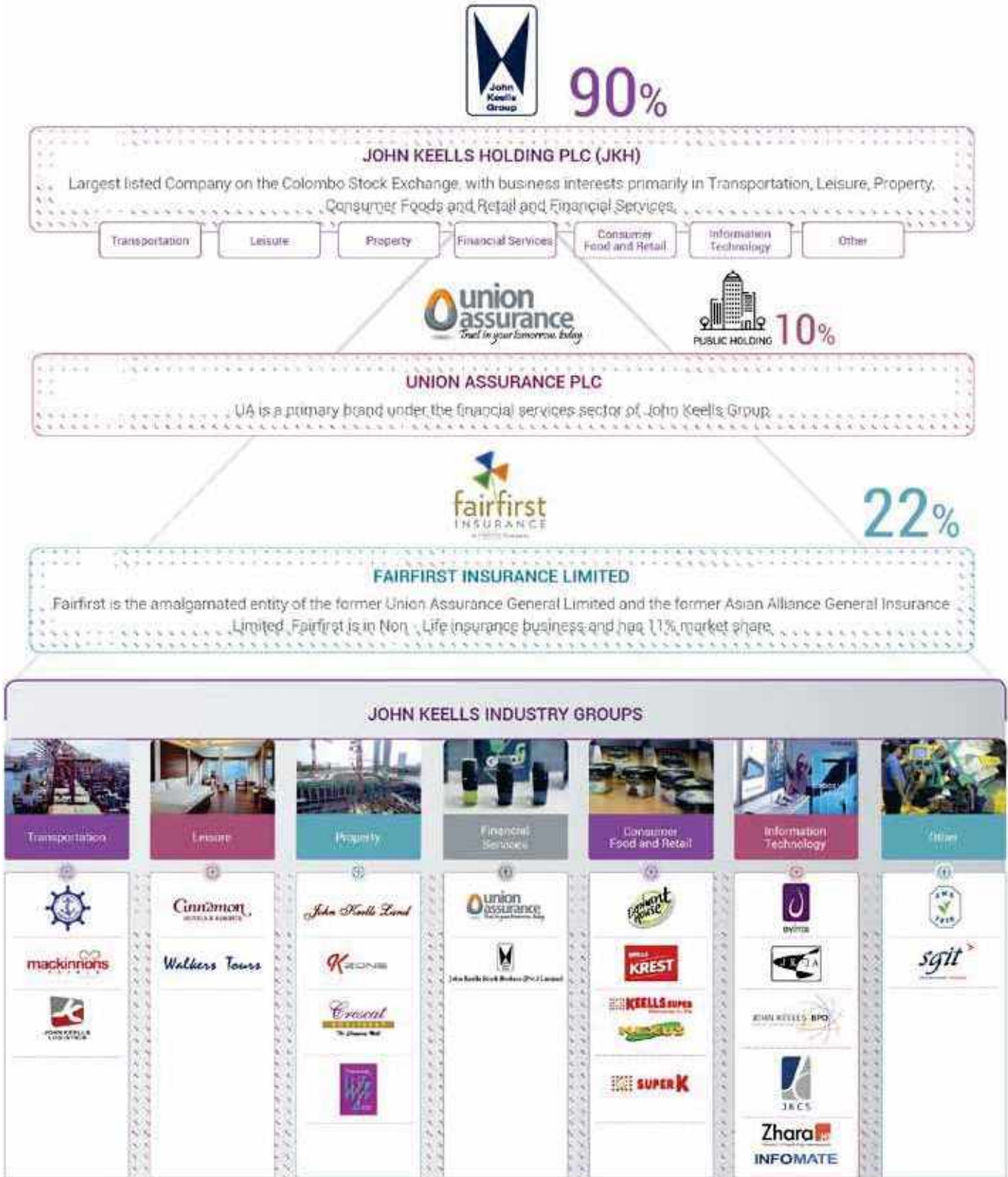
**Dirk Pereira**  
Chief Executive Officer

27 February 2019

# OUR HISTORY



# ORGANISATIONAL STRUCTURE



# PERFORMANCE HIGHLIGHTS

## FINANCIAL HIGHLIGHTS

		2018	2017	%	2016
<b>RESULTS FOR THE YEAR</b>					
Revenue	Rs. million	11,244	10,118	11%	8,271
Paid in benefits and claims to policyholders	Rs. million	3,351	2,674	25%	1,524
Profit from operations <sup>1</sup>	Rs. million	1,983	3,814	-48%	1,313
Profit after tax <sup>1</sup>	Rs. million	3,244	4,002	-19%	1,313
Earnings per share	Rs.	55.05	125.31	-56%	22.27
Recurrent earnings per share <sup>1</sup>	Rs.	55.05	67.92	-19%	22.27
Dividends	Rs. million	1,178	1,061	11%	619
Average annual premium per policy	Rs.	81,816	52,272	57%	48,312
Persistency - Year 1	%	84	83	1%	76
- Year 2	%	73	71	3%	70
- Year 3	%	66	67	-1%	64
Investment yield	%	9.63	12.48	-23%	11.56
Earning yield <sup>1</sup>	%	15.85	50.31	-68%	15.57
Total expenses ratio	%	82	74	11%	66
Recurrent return on equity <sup>1</sup>	%	25	64	-61%	36
Return on assets	%	7	19	-63%	4
Recurrent return on assets <sup>1</sup>	%	7	10	-30%	4
<b>FINANCIAL POSITION AT YEAR END</b>					
Total assets	Rs. million	49,117	43,067	14%	35,693
Financial investments	Rs. million	39,138	36,793	6%	30,847
Life fund	Rs. million	32,101	29,071	10%	30,267
Total shareholder funds	Rs. million	13,672	11,965	14%	3,866
Net asset per share	Rs.	232	203	14%	66
Net assets per share excluding restricted regulatory reserve	Rs.	175	146	20%	66
<b>MARKET / SHAREHOLDER INFORMATION</b>					
Market price per share as at 31st December	Rs.	347.30	135.00	157%	143.00
Highest market value per share	Rs.	364.00	165.00	121%	167.90
Lowest market value per share	Rs.	134.00	134.00	0%	127.00
Market capitalisation	Rs. million	20,466	7,955	157%	8,427
Total shareholder return	%	173	7.0	2371%	(9.4)
Price earning ratio <sup>1</sup>	times	6.3	1.99	217%	6.42
Dividend cover <sup>1</sup>	times	2.72	3.77	-28%	2.12
Dividend per share	Rs.	20	18	11%	10.50
Dividend payout / effective dividend rate	%	37	27	37%	47
Dividend yield	%	5.76	13.33	-57%	5.9
<b>STATUTORY REQUIREMENTS / RATIOS</b>					
Excess in approved assets	Rs. million	849	1,967	-57%	1,856
Capital adequacy ratio (CAR)	%	262	352	-26%	411

<sup>1</sup> Excluding one - off surplus transfer of Rs. 3.4 billion in 2017

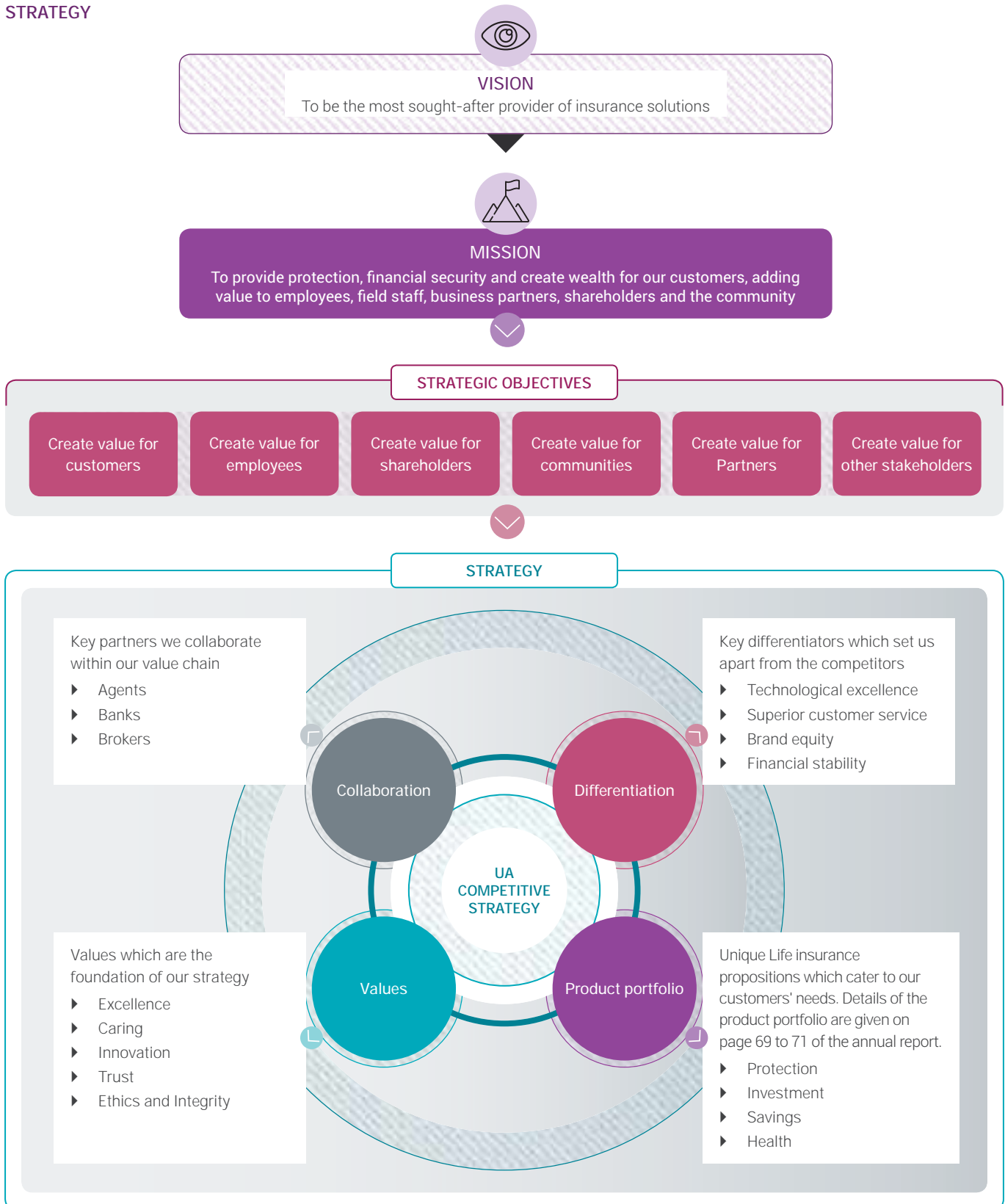
# PERFORMANCE HIGHLIGHTS

## NON-FINANCIAL HIGHLIGHTS

	Indicator		2018	2017	2016
<b>FINANCIAL CAPITAL</b>					
201-1	Direct economic value added	Rs. million	14,678	13,841	10,824
<b>MANUFACTURED CAPITAL</b>					
	Total number of branches	Number	88	97	107
<b>NATURAL CAPITAL</b>					
302-1	Energy consumption within the organisation	Gigajoules	6,386	6,474	7,874
	Direct energy consumption per Rs. million of revenue	Gigajoules	0.58	0.65	0.95
302-3	Energy intensity (in Gigajoules)	Per area	0.02	0.02	0.03
		Per full time employees	1.22	1.35	1.61
		Per branch	73	67	74
303-1	Total water withdrawal	Cubic metres	22,438	20,258	24,116
	Water withdrawal (m3) per Rs. million of revenue	Cubic metres	2	2	2.92
303-3	Percentage and total volume of water recycled and reused	%	0.59	0.65	1
305-1	Direct greenhouse gas (ghg) emissions (scope 1)	tonnes CO2e	93.17	85.35	3.95
305-2	Energy indirect greenhouse gas (ghg) emissions (scope 2)	tonnes CO2e	885	833	1,071
305-3	Other indirect greenhouse gas (ghg) emissions (scope 3)	tonnes CO2e	448	376	567
305-4	Greenhouse gas (ghg) emissions per Rs.1 million of revenue	tonnes CO2e	0.13	0.13	0.20
305-5	Total emissions	tonnes CO2e	1,426	1,295	1,642
306-2	Weight of waste recycled through 3rd party contractors	Kgs	22,340	28,010	17,773
307-1	Significant environmental fines	Rs. million	Nil	Nil	Nil
<b>HUMAN CAPITAL</b>					
201-3	Coverage of organisations defined benefit plan	Rs. million	116	123	108
401-1	Total workforce				
	Permanent cadre	Number	614	529	474
	Non-permanent cadre	Number	4,623	4,279	4,406
	Total number of new employees hired during the reporting period	Number	291	430	434
	Employee turnover during the period	Number	134	100	7
	Attrition of new hires (as a percentage of total new hires)	%	10	12	4
403-1	Percentage of workforce represented in management worker health and safety committees	%	Nil	Nil	3
403-2	Number of injuries	Number	Nil	Nil	32
404-1	Training per permanent staff member	No of hours	6	19	38
	Training per non-permanent staff member	No of hours	58	74	57
404-3	Percentage of employees receiving performance reviews	%	100	100	100
410-1	Percentage of security personnel trained in the organisation's human rights policies or procedures	%	100	100	100
414-1	Percentage of new suppliers that were screened using human rights criteria	%	100	100	100
<b>SOCIAL AND RELATIONSHIP CAPITAL</b>					
203-1	Investment in community and infrastructure projects	Rs. million	17	13	7
413-1	Community engagement (No. of persons impacted)				
	Dengue awareness programmes	Number	355,649	275,340	107,139
	Thalassemia awareness programmes	Number	255,893	24,354	14,761
	Diabetes prevention awareness programmes	Number	108,748	93,297	1,169
	Health awareness campaigns	Count	261	210	140
	Staff volunteerism	Count	253	942	2,014
419-1	Significant fines for violation of laws / regulations	Rs. million	Nil	Nil	Nil
417-3	Voluntary standards relating to advertising				
			Group policy / Internal code of conduct		
417-3	Number of customer complaints received	Number	254	528	503
	Number of customer complaints resolved	Number	203	467	194
	Disputes referred to Insurance Ombudsman	Number	Referred 7	Referred 18	Referred 26
419-1	Significant fines for product / service issues	Rs. million	Nil	Nil	Nil
<b>INTELLECTUAL CAPITAL</b>					
	Brand value	Rs. billion	2.5	1.8	1.23

# STRATEGY AND RESOURCE ALLOCATION

## STRATEGY



## STRATEGY AND RESOURCE ALLOCATION

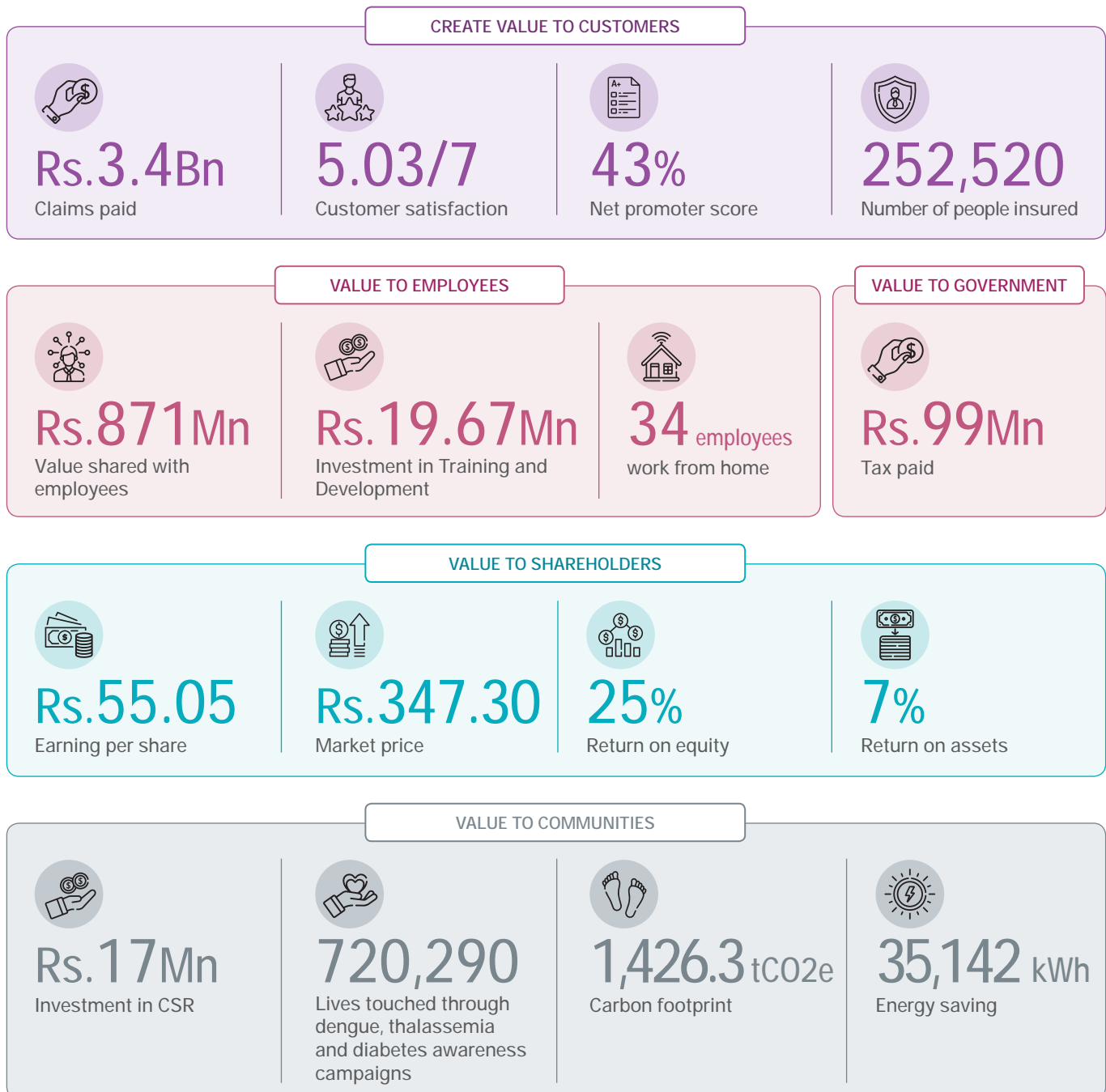
The UA corporate strategy builds on four key components and is guided by the vision and mission of the Company. Optimal performance of these aspects is critical to achieve the strategic objectives of the Company.

UA executes a differentiation strategy to compete. Our unique value propositions

broadly service four needs of customers such as protection, investment, savings and health. The bedrock of UA's corporate strategy is our values. Agents and banks are key capital input providers for us and work as distribution channels. We continue to focus on quality and consistent delivery in the agency channel. We also aim to grow the bancassurance channel by investing in strategic partnerships.

Progress on strategy, medium-term objectives and long-term objectives are discussed in the Capital Management Review section of the management discussion and analysis section of this report.

UA's short-term strategic objectives and progress are outlined below.





### Resource Allocation

Capital input requirement is determined based on the distribution channel, such as agency and bancassurance and key initiatives pursued under each distribution channel. Principle activities of the value chain comes under the distribution channels.

Life operation, information technology, finance and planning, marketing, actuarial and human resources are support activities of the value chain and commonly provide services to both of the channels. Information technology is the support service which the Company invested heavily in terms of the digital first agenda.

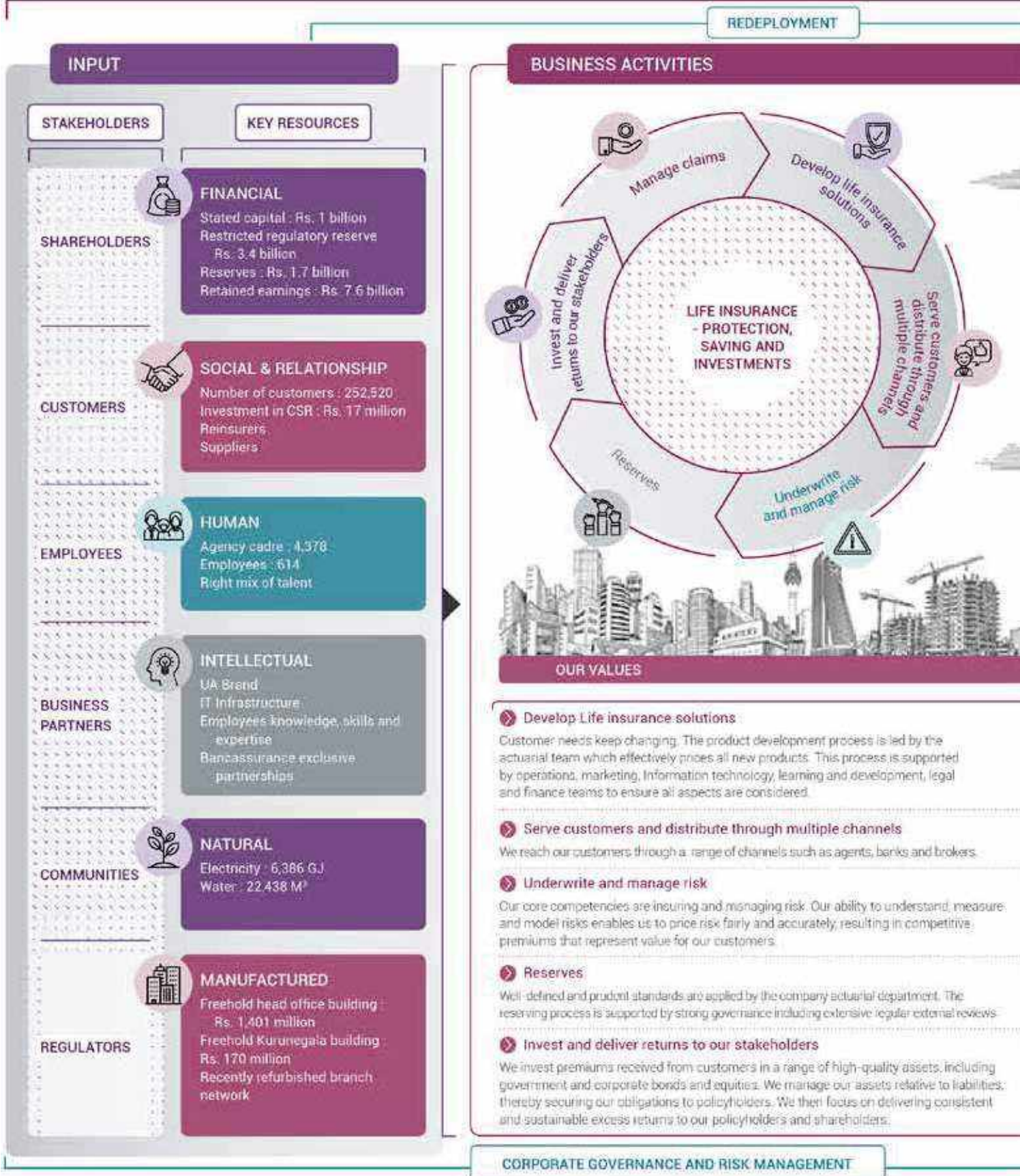
The Company strategies are funded principally through internally generated funds. This requires due consideration on factors such as regulatory measures (Capital Adequacy Ratio and Determination 1), dividend payout and asset and liability management.

The following illustration depicts the criticality of each capital for each value chain activity

Value chain activities		Principle activities / Distribution channel		Supporting activities					
		Agency	Bancassurance	Life operations	Information technology	Finance and planning	Marketing	Actuarial	Human resources
Capital	Finance	●	●	●	●	●	●	●	●
	Social and Relationship	●	●	●	●	●	●	●	●
	Human	●	●	●	●	●	●	●	●
	Intellectual	●	●	●	●	●	●	●	●
	Natural	●	●	●	●	●	●	●	●
	Manufactured	●	●	●	●	●	●	●	●

- Extremely critical
- Critical
- Less critical
- Not required

# OUR BUSINESS MODEL



AMBITION AND CORE PURPOSE

STRATEGY AND RESOURCE ALLOCATION

OUTPUT

PRODUCTS

**Union Advantage**  
Universal life product with long-term payment to build an investment for saving needs and protection

**Union Super investor**  
Universal life product with short-term premium payment to boost an investment for saving needs

**Union single premium advantage**  
Universal life product allowing customers to deposit a lump sum for higher investment benefits within a short period of time

**Pension Advantage**  
Universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age

**GDYO**  
A wearable device linked to an app which works as a personal health advisor

**Union Loan Protector**  
Decreasing term assurance policy to cover all loan types

WASTE AND BY PRODUCTS

Emissions, e-waste, paper recycled and waste recycled

OUTCOME

CAPITAL MEASUREMENT

STAKEHOLDERS

**FINANCIAL**  
Rs. 11.2 billion gross written premium  
Rs. 2 billion Recurrent operating profit  
Rs. 55.05 Earnings per share  
262% Capital adequacy ratio

**SOCIAL & RELATIONSHIP**  
83% Growth in lives covered  
2 New propositions for protection and investment needs  
52% Reduction in customer complaints  
720,290 Lives touched through dengue, thalassemia and diabetes awareness campaigns

**HUMAN**  
6th Consecutive year as a Great Place to Work  
38% increase in number of advisors earning higher income  
Attrition rate of 22%  
52 MDRT members produced

**INTELLECTUAL**  
Rs. 2.5 billion Brand Value  
100% of life insurance proposals received digitally  
19% Straight through processing  
163,129+ Largest Facebook fan base in the industry

**NATURAL**  
2,671,000 Litres of water saved  
315 Number of trees saved  
35,142 kWh Energy saved  
1,426.30 tCO2e Carbon footprint

**MANUFACTURED**  
88+ Locations across the country  
Rs. 152.1 million Revenue from new locations  
43,743 Square feet of training space

**Shareholders**  
We create value for our shareholders by paying an attractive and sustainable dividend, and seeking to increase the value of the company by implementing our strategy.

**Customers**  
We create value for our customers by helping them understand and manage their risks.

**Communities**  
We create value for communities and society both through our core insurance business, which supports economic growth and has a positive social impact, and by acting responsibly in everything we do.

**Employees**  
We create value for our people by investing in their skills and expertise so that each may fulfil his or her potential.

**Business partners**  
We create value for our business partners by honouring their payments on time and addressing their concerns. We want to be the business partner of choice.

**Regulators**  
We create value for regulators by providing their information requirements on time and assisting them to implement regulations to develop the industry.

Manage claims

We believe that sales, service and claims – the key touch points at which we meet our customers – are our greatest opportunity to differentiate ourselves from our competitors. For us, the most valuable form of innovation is finding new and better ways to serve our customers at these 'moments of truth'.

# OUR COMMITMENT TO THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Sustainable Development Goals (SDGs) were adopted in 2015 by the United Nations to agree on a World Future Treaty that defines a common agenda by 2030. Achieving the ambitious objectives for 2030 will require the commitment and co-operation of all stakeholders: business, policy making, science and civil society. UA has expressly contributed to 11 development goals of achieving global sustainable goals by 2030. These SDGs have been evaluated, chosen and integrated to the strategic sustainability direction of UA. Our reporting systems comply with the GRI standards and capital management. A summary of achievements during the year is listed below.



## FINANCIAL CAPITAL

Delivering Sustainable Financial Performance

### Our Initiatives

- ▶ Enhance IT infrastructure and improve customer service
- ▶ Diversify financial services and products
- ▶ Maintaining revenue growth
- ▶ Promote synergy, cross sale, and improve competitive capability
- ▶ Develop pension products, customised insurance package for critical illness
- ▶ Spread of revenue generation

### Our impacts

- ▶ Achieved GWP of Rs. 11.2 billion
- ▶ Recurrent profits for the year Rs. 3.2 billion
- ▶ Provision of employment for 614 permanent staff, 245 fixed term contract staff and 4,378 agency force



## MANUFACTURED CAPITAL

Providing a Better Customer Experience and Reach

### Our Initiatives

- ▶ Upgrading company's branch network with the modern architectural design and state of art facilities
- ▶ Facilitating sustainable usage of energy at head office and branch level

### Our impacts

- ▶ Upgraded 11 tier 1 branches and 10 tier 2 branches as of December 2018.



## NATURAL CAPITAL

Promoting Sound Environmental Practices and Conducting Operations in a Sustainable Manner

### Our Initiatives

- ▶ Managing energy usage to reduce green house effect
- ▶ Waste management initiatives
- ▶ Increase review of agreements on environment and society with suppliers and investment plans

### Our impacts

- ▶ 132,000 Litres of water recycled and reused, 11% increase in water usage
- ▶ 225 LED and florescent bulbs safely disposed
- ▶ Used 88,000 kWh less electricity compared to last year
- ▶ 15,940 kg of paper collected for recycling



## SOCIAL AND RELATIONSHIP CAPITAL

Creating Healthy Communities in Sri Lanka

### Our Initiatives

- ▶ Operating on a CSR platform focusing on health
- ▶ Invest 1% of profit after tax for community activities
- ▶ Implementation of flexi - hours and work from home facilities
- ▶ Engage employees with community activities

### Our impacts

- ▶ 48,282 protection, health, savings and investment products sold
- ▶ 15 dengue, 177 Thalassaemia and 69 diabetes awareness sessions
- ▶ 57 staff members on flexi work times, 34 staff members work from home full time / part time, 197 housewives / higher education students work part time as e-consultants



## HUMAN CAPITAL

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

### Our Initiatives

- ▶ Recruiting school leavers just after A/Ls as advisors and bancassurance agents and providing training and development opportunities
- ▶ Maintaining proper male to female ratio
- ▶ Providing sponsorships for various programs organised by schools
- ▶ Enhancing the e-consultant initiative mainly focusing on employability of housewives and inactive workable population.

### Our impacts

- ▶ Male: Female ratio in the
  - ▶ Management is 7.3 : 1
  - ▶ Permanent cadre is 1.3 : 1
  - ▶ Fixed term contract cadre is 0.3 : 1
  - ▶ Agency cadre is 1.2 : 1
- ▶ 29 positions filled internally
- ▶ 36 numbers of staff received personal education support
- ▶ 2,225 permanent and 4,378 field staff received 14,074 and 281,057 hours of training respectively
- ▶ 441 new suppliers assessed on HR practices



## INTELLECTUAL CAPITAL

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

### Our Initiatives


- ▶ Continuous investment on digitisation of business processes
- ▶ Further enhancing the capabilities of the data analytics team
- ▶ Driving towards the goal of paperless business

### Our impacts

- ▶ Replacement of 30-year-old core system with web based system
- ▶ Further development of GOYO product to disrupt traditional Life Insurance products
- ▶ Implementation of integrated distribution management system

# ECONOMIC VALUE-ADDED STATEMENT

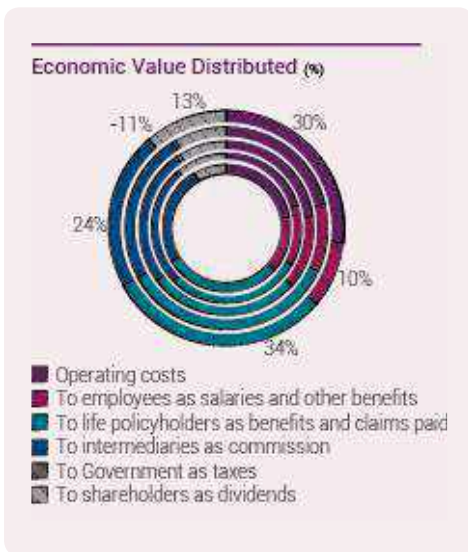
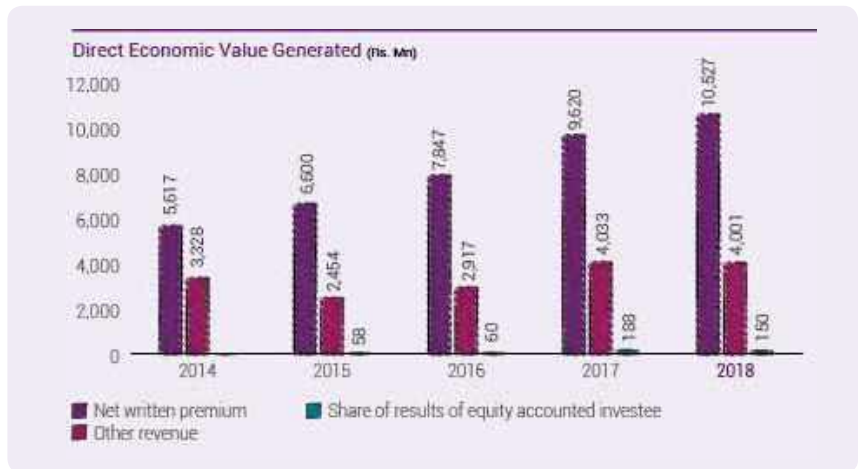
“Reflects the manner in which the Company has created and distributed wealth among various stakeholders throughout the value chain. It demonstrates the direct monetary value added to the local economy. The total value generated for the current year is Rs. 14,678 million.”



**ECONOMIC VALUE GENERATED**

**Rs. 14,678 Mn**



6% ▲ increase



**ECONOMIC VALUE DISTRIBUTED**

**Rs. 8,475 Mn**

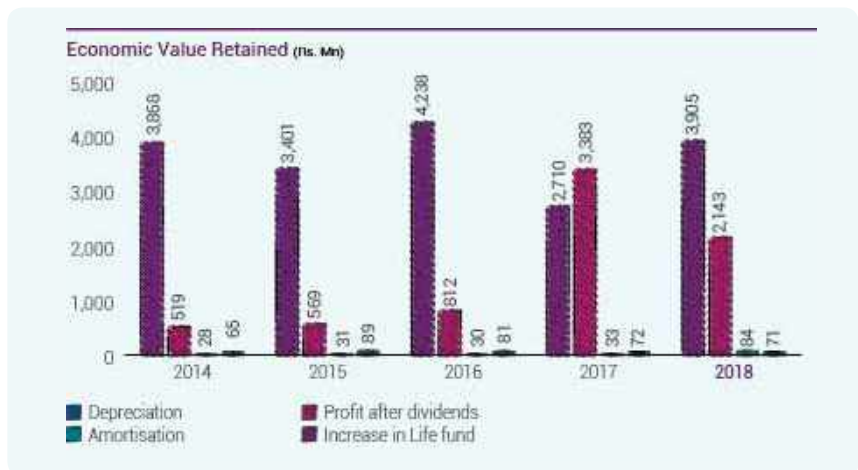
11% ▲ increase

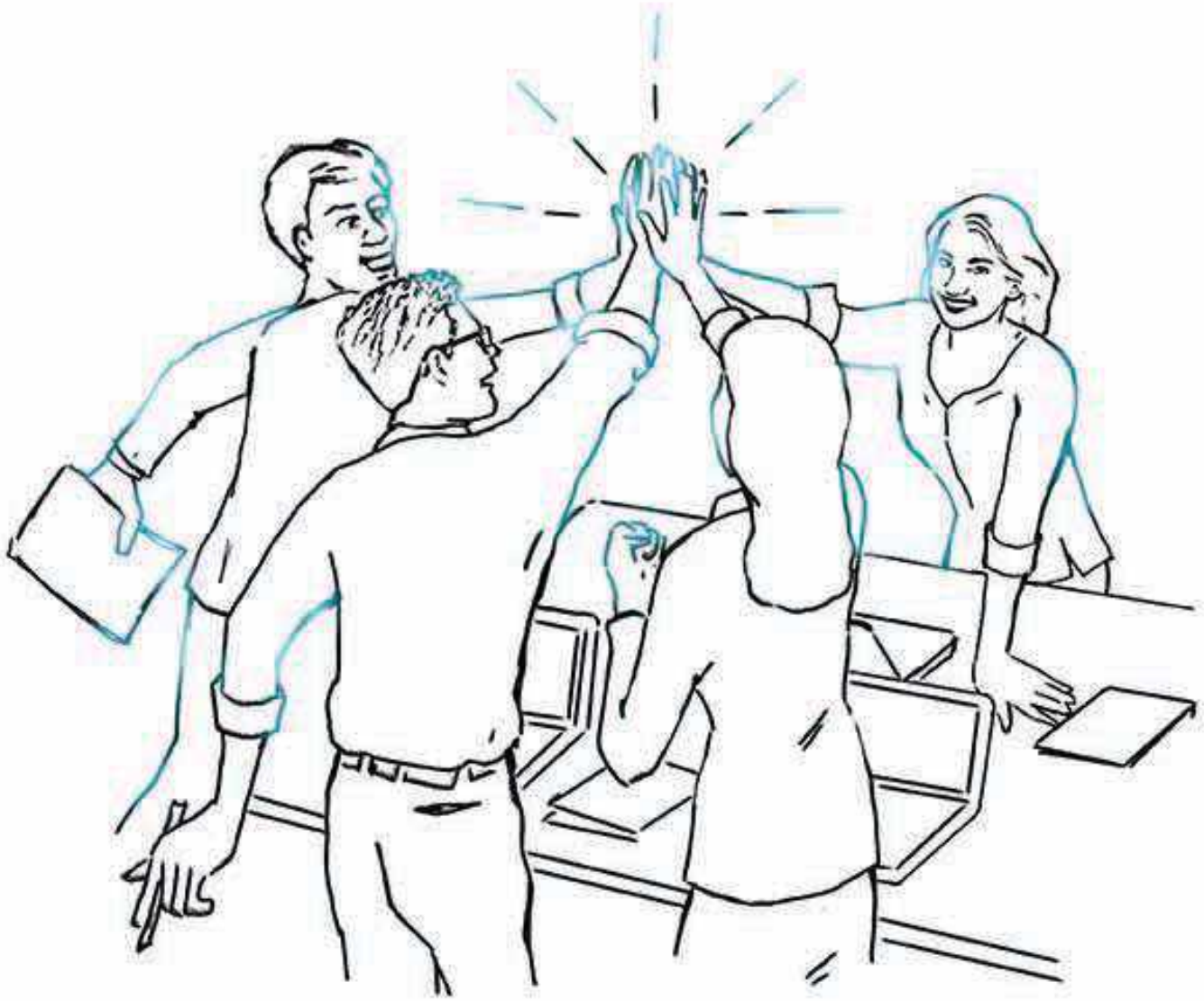
**ECONOMIC VALUE RETAINED**

**Rs. 6,203 Mn**

0.08% ▲ increase



"We have ended 2018 on a positive note and an exciting year ahead of us. We continue to implement our Long-Term Business Plans and roll out new initiatives and remain focused on execution towards achieving expected milestones."



PLANNING OUR JOURNEY TOGETHER

# MANAGEMENT DISCUSSION AND ANALYSIS

26   Sustainability
29   Stakeholder Relationship
33   Materiality
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50   Capital Management Summary
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98   Natural Capital
106   Manufactured Capital
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# SUSTAINABILITY

"We believe success can be achieved only if we create value internally and externally, maintain an effective governance system and sustainability framework which address the economic, social and environmental needs of the key stakeholders."

## SUSTAINABILITY INTEGRATION AND MATERIALITY

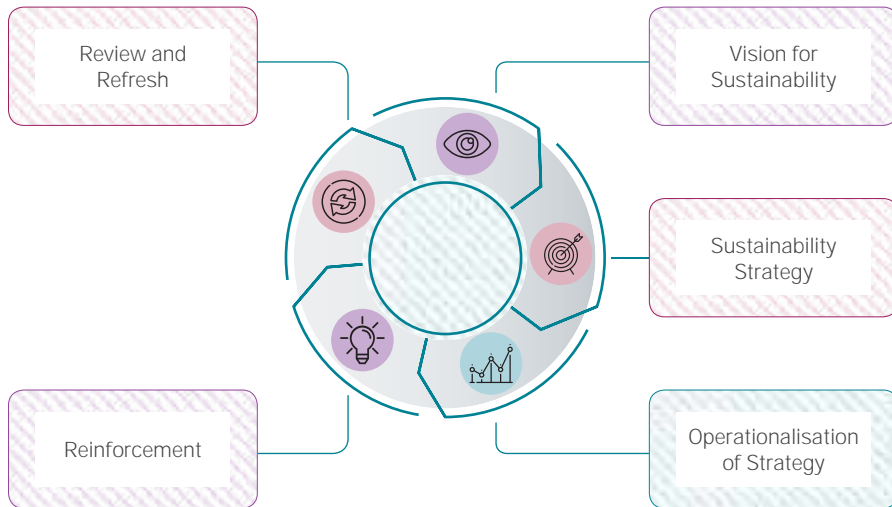
Sustainability is a crucial part of our business and a key element of our value proposition and business model. Sustainability is also evident in our agreement with stakeholders and the selling process. We believe success can be achieved only if we create value internally and externally, maintain an effective governance system and sustainability framework which address the economic, social and environmental needs of key stakeholders. We recognise the importance of having an integrated approach towards sustainability which considers not only economic performance but also the impact from indirect

economic indicators, environmental aspects, quality human resource, customer service excellence and social responsibility.

The following section of the report provides an overview of the Company's strategies for enhancing sustainability, the policies and methodologies in place for monitoring sustainability aspects, the process for defining materiality, the boundaries and management approach to sustainability.

### Building a Citizenship Culture

Building a citizenship culture is a continuous journey for UA. Our model for building a citizenship culture can be depicted as follows:

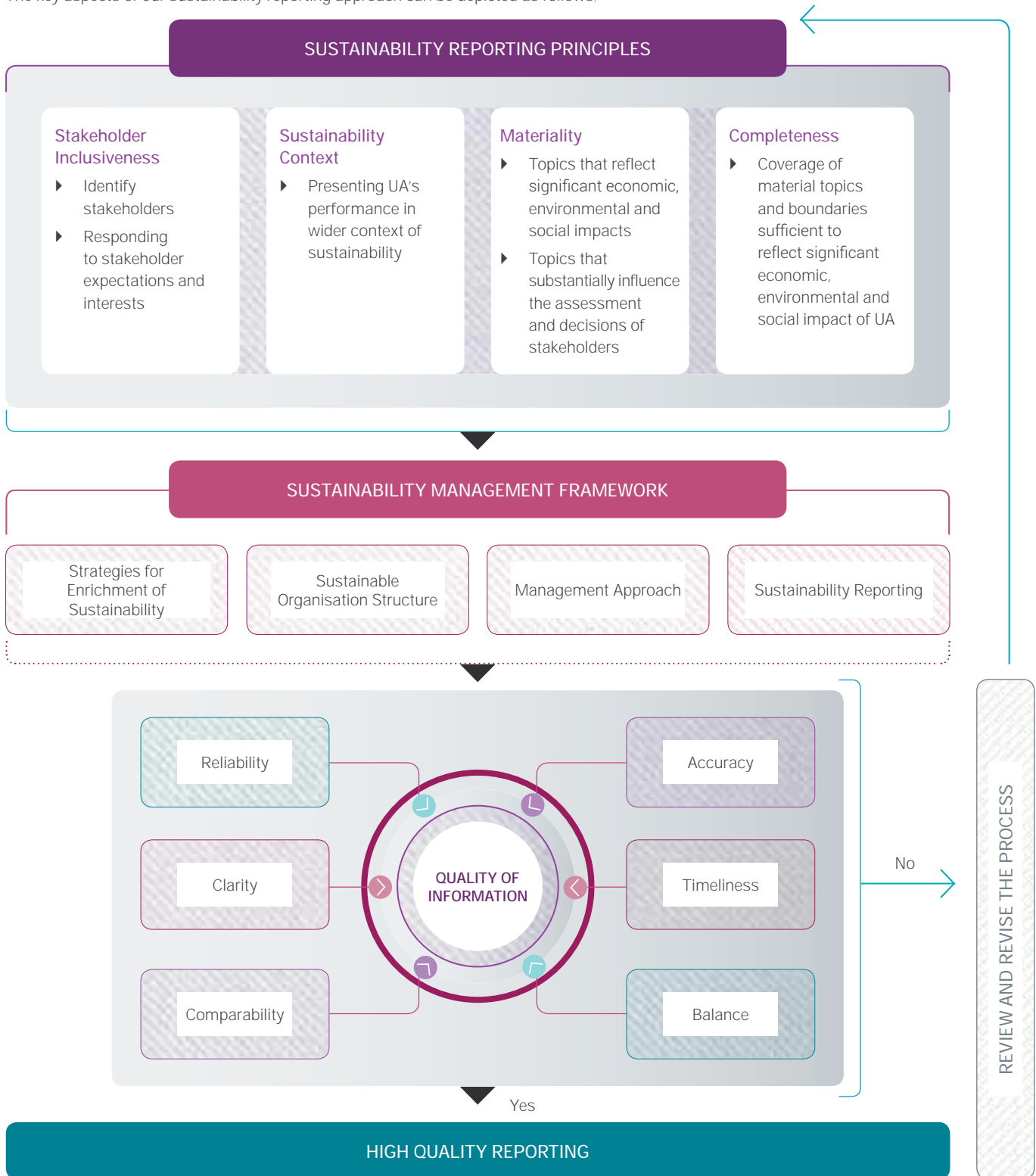


Building a citizenship culture is a continuous journey for UA.



### SUSTAINABILITY REPORTING APPROACH

The key aspects of our sustainability reporting approach can be depicted as follows;



# SUSTAINABILITY

## SUSTAINABILITY REPORTING PRINCIPLES

### Stakeholder Inclusiveness

Stakeholders are those entities or individuals that can reasonably be expected to be significantly affected by UA's activities, products, or services; or whose actions can reasonably be expected to affect the ability of UA to implement its strategies or achieve its objectives. At Union Assurance stakeholders include customers, shareholders, suppliers and business partners, environment, employees / advisors, community, government and regulators. When reporting on sustainability we have considered reasonable expectations and interests of stakeholders. We are accountable to stakeholders who have material impact on UA internally, as well as externally. The stakeholder engagement process has been used as the main tool for identifying stakeholder interests and expectations.

### Sustainability Context

This involves presenting UA's performance in the wider context of sustainability. Throughout the report Company performance has been categorised based on economic, environmental and social aspects. It has also focused on the limits and demands placed on these aspects by the resource utilisation of the Company.

### Materiality

Materiality is a major element in the sustainability reporting principles. We include those aspects that can be reasonably considered important to reflect UA's economic, environmental, and social impacts, or influence the decisions of stakeholders.

### Completeness

Under this element UA will include reporting on material topics and boundaries which is sufficient to reflect significant economic, environmental and social impacts. Under this aspect, the main focus has been enabling stakeholders to assess the Company performance for a given reporting period.

## SUSTAINABILITY MANAGEMENT FRAMEWORK

### Strategies for Enrichment of Sustainability

The sustainability management framework of the Company mainly focus on building a citizenship culture with the aim of enabling internal and external stakeholders to form opinions and make informed decisions. This framework mainly consists of strategies to enhancement of sustainability, implement a sustainable organisation structure, generating management information for monitoring and benchmarking purposes, internal and external objective setting gap analysis, reporting and external assurance.

### Sustainable Organisation Structure

The sustainability strategy of the Company is mainly in line with the group sustainability strategy as formulated by the Group Sustainability Committee. The Company has sustainability champions in different departments who are responsible for the economic, environmental and social impacts created by each department. These, departments include logistics, marketing and communication and human resource management. Additionally, the Executive Committee of UA provides significant guidance on sustainability, emphasising on the importance of implementing various initiatives. Considerable attention is also paid to material aspects identified during the annual planning cycle and where relevant budgets have been allocated to facilitate various initiatives.

### Management Approach

Management approach mainly consists of a detailed description of strategies and approaches adopted by the Company in managing the material topics identified under each of the capital. The Company's management approach under each of the sections have been described under each capital report.

### Sustainability Reporting

As the Company complies with the Integrated Reporting guidelines, sustainability reporting mainly forms a part of the non-financial reporting. The Company's annual report can be considered as one of the primary methods used for responding to stakeholder concerns. The process of recognising significant stakeholders, assessment of material topics based on relative importance to both the Company and stakeholders, and formulating policies and management approaches to manage and mitigate these topics has become an integral part of this report.

### Quality of Information

This mainly includes principles for defining report quality. We focus on providing sufficiently accurate and detailed information to stakeholders which will enable them to assess UA's performance. The underlying assumptions have also been stated wherever possible to improve clarity. We also ensure the reported information reflects both positive and negative aspects of UA. This will enable stakeholders to perform a rational assessment of overall performance. Additionally, we focus on providing information in a manner which is understandable and accessible to all material stakeholders. Comparability of the information is also ensured by providing consistent information. Information is presented in a manner that enables stakeholders to analyse the changes in UA performance over time. Information reported in the report has been collected in a way that is subject to examination. External assurance from KPMG Sri Lanka is obtained on the non-financial information on annual basis.

# STAKEHOLDER RELATIONSHIP

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

## STAKEHOLDER ENGAGEMENT

Being in the Life insurance business we initiate different stakeholder engagements as part of our regular routine. Given the nature of the business and the operational footprint, we interact with different categories of stakeholders. Since expectations of stakeholders are diverse, we mainly focus on stakeholders who have a significant impact the Company and influence business decisions. The method of identifying and describing stakeholders are summarised in the sections to follow.

We maintain regular dialogues with our stakeholders and are responsive to their expectations and material issues to ensure the sustainability of our operations. UA is also mindful of the risk of not meeting their needs and aspirations and has mitigation strategies in place to ensure that there is an unbroken relationship between the Company and its stakeholders.

### Stakeholder Identification

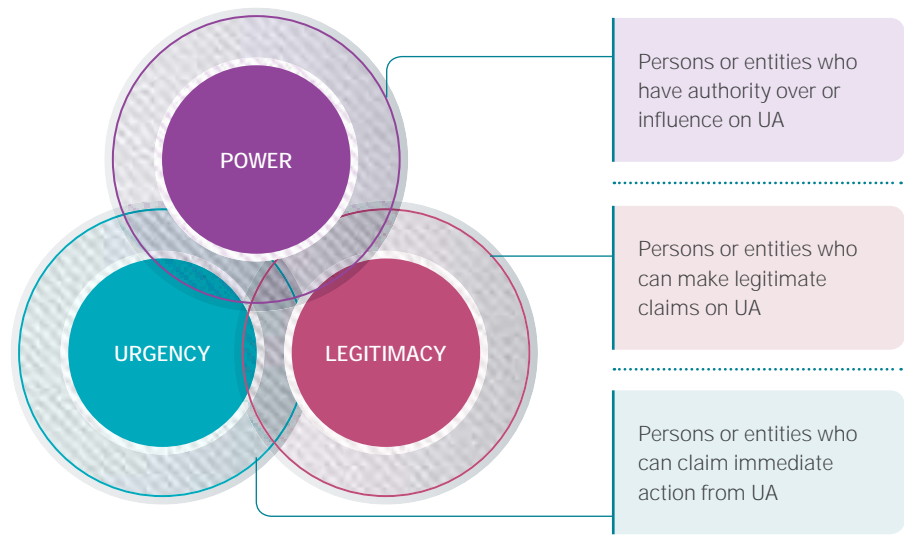
UA's stakeholders are identified by the Company's Executive Committee by comprehensively analysing the data collected from various stakeholder groups. The stakeholder identification process is revisited every five years to determine whether there are any new stakeholders to be added. The identified stakeholders are categorised based on power, legitimacy and urgency as described below:

- ▶ **Power** - Power can be identified as the authority or influence the stakeholders have on achieving the objectives of the Company.

- ▶ **Legitimacy** - This describes the legitimacy of the stakeholders' relationship with the firm. If the actions of the Company affect norms, values, beliefs and definitions of a particular stakeholder group the stakeholder has a legitimate relationship with the firm. This further considers how

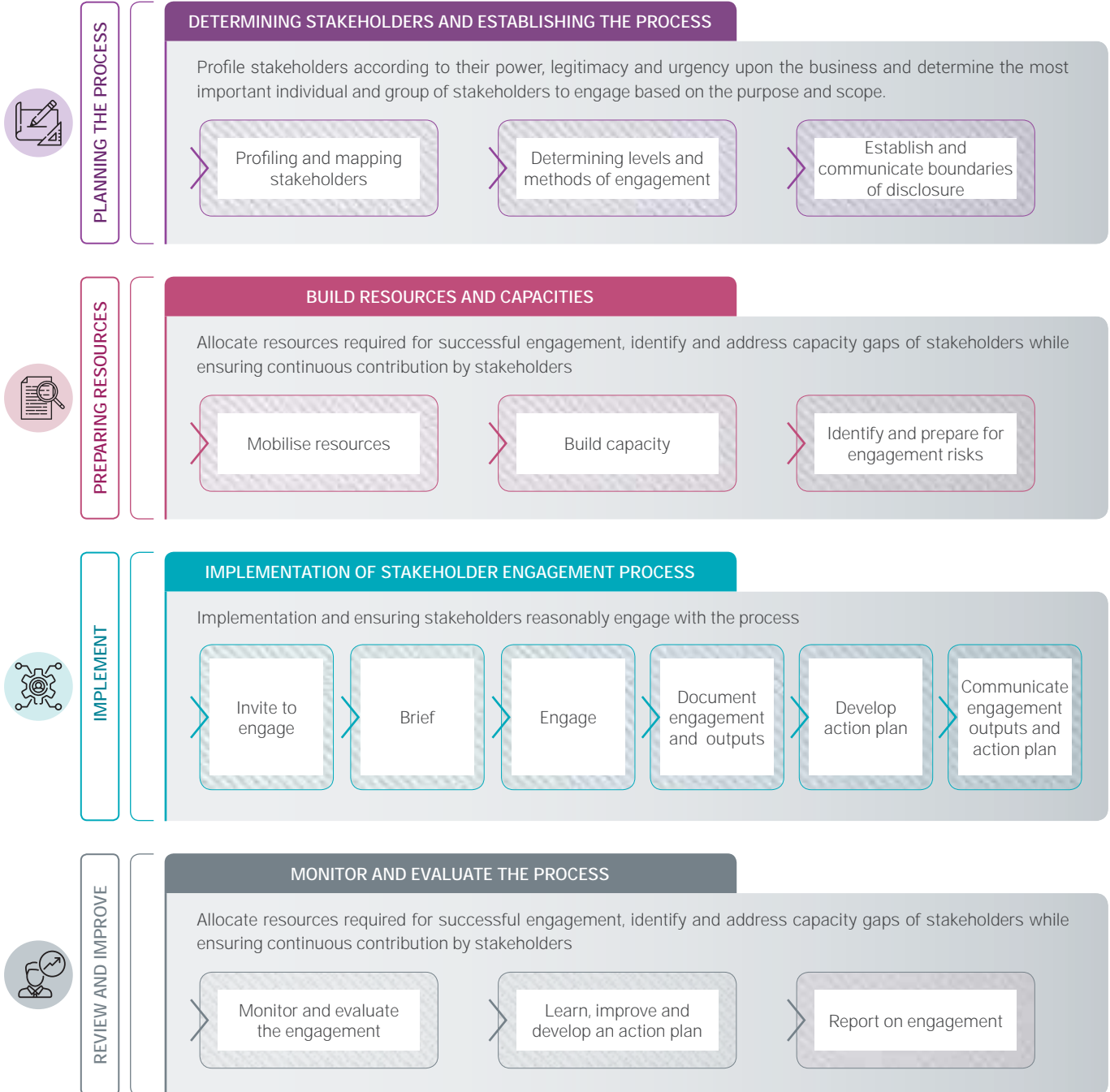
legitimate and appropriate the claim of the stakeholder is.

- ▶ **Urgency** - This can be defined as the degree to which stakeholders can claim immediate action. This will indicate how time sensitive the requirements are from stakeholders.







# STAKEHOLDER RELATIONSHIP

## STAKEHOLDER ENGAGEMENT PROCESS






## UA'S APPROACH TO STAKEHOLDER ENGAGEMENT

We use a number of methods to engage with stakeholders. The level and methods of engagement of each stakeholder group will depend on the circumstances and can be changed over time as relationships deepen and mature. When selecting the mode of engagement, we consider the capacity and expectations of the relevant stakeholders and we have used different methods concurrently and sequentially to engage them. The methods we have used and level of engagement are detailed as below:

Stakeholder	Levels of Engagement	Mode of Engagement	Frequency
 <p><b>CUSTOMERS</b></p> <p>Customers are our main source of income and they include both individual and corporate policyholders. Regular engagement with them is vital for the success of the Company</p>	Consult	Customer satisfaction surveys	Monthly
	Consult	Customer research	As required
	Consult	One-to-one meetings	Monthly and as required
	Involve	Welcome calls	All new policies
	Involve	Complaint management	On-going
	Passive	Corporate website	On-going
	Advocate	Social media	On-going
	Passive	Media advertisements	As required
 <p><b>SHAREHOLDERS</b></p> <p>Providers of the financial capital and owners of the Company. This category mainly includes parent, retail and institutional investors</p>	Collaborate	Customer get-together programmes	Annually
	Inform	Annual report	Annually
	Inform	Interim financial statements	Quarterly
	Consult	Annual and extraordinary general meetings	AGMs annually and EGMs as required
	Inform	Announcements to CSE	As required
	Inform	Media releases and press conferences	As required
	Involve	Investor relation hotline	On-going
	Passive	Corporate website	On-going
 <p><b>EMPLOYEES</b></p> <p>Providers of the human capital and the key resource of the Company. This stakeholder category includes permanent and fixed term contract employees and sales advisors.</p>	Consult	One-to-one meetings	As required
	Consult	Employee satisfaction survey	Annually
	Involve	Skip level meetings	On-going
	Empower	Brainstorming sessions with all business units when reviewing medium to long-term strategies	Annually
	Inform	Corporate communication via emails, intranet, newsletters, etc.	On-going
	Consult	Management meetings	Quarterly
 <p><b>SUPPLIERS AND BUSINESS PARTNERS</b></p> <p>Form a part of the relationship capital and vital in maintaining the Company's supply chain.</p>	Collaborate	Recreation club activities	On-going
	Consult	On-site visits and meetings	As required
	Consult	Formal interactions with reinsurers	On-going

## STAKEHOLDER RELATIONSHIP

Stakeholder	Levels of Engagement	Mode of Engagement	Frequency
 <p><b>COMMUNITY</b></p> <p>This includes communities and community-based organisations who would expect positive impacts to be created by the Company.</p>	Collaborate	Interactions with community representatives and institutes	On-going
	Passive	Corporate website and social media	On-going
	Collaborate	CSR projects	On-going
	Passive	Press releases	As required
	Collaborate	Public events	As required
 <p><b>ENVIRONMENT</b></p> <p>Forms part of the natural capital and includes the providers of resources to the Company as well as environmental authorities.</p>	Passive	Employee training on environmental impacts	On-going
	Passive	Careful resource consumption	On-going
	Passive	Environmental performance	On-going
 <p><b>GOVERNMENT AND REGULATORY INSTITUTIONS</b></p> <p>The category mainly includes the Insurance Regulatory Commission of Sri Lanka, Inland Revenue Department, Ministry of Finance, Ministry of Health, etc. Mainly focus on the compliance mechanism and stability of the system.</p>	Consult	On-site surveillances	As required
	Inform	Filing of returns	Periodic deadlines
	Involve	Directives and circulars	As required
	Passive	Press releases	As required

# MATERIALITY







"Reporting on materiality is important for UA to make sound decisions and take decisive actions."

Material matters identified through the stakeholder engagement process have been given due attention by management and it has enabled the understanding of significant economic, environmental and social impact of conducting business. These issues were defined by mapping stakeholder concerns and our business priorities. It can be identified as those that could make a major impact on the Company's ability to deliver its promises to various stakeholders. The main considerations are on what and how they matter to the business. Reporting on

materiality is important for UA to make sound decisions and take decisive actions

## MATERIAL ASPECTS

The identification, prioritisation and validation of material issues were conducted in line with GRI Standards and therefore it is a reflection of best practice in defining report content. In determining the report content, the Company sought to prioritise material impacts based on the relative importance to internal and external stakeholders. The results of the stakeholder assessment can be summarised as below;

GRI Standard No.	GRI Topic	Boundary	Impact to UA	Impact outside UA	UA response
<b>ECONOMIC</b>					
201	Economic performance	UA	High	High	Financial Capital
202	Market presence	UA	High	High	 Page 52
203	Indirect economic impacts	Community	High	High	
204	Procurement practices	Suppliers	High	High	Social and Relationship Capital
205	Anti-corruption	UA	Medium	Medium	
206	Anti-competitive behaviour	UA	Low	Low	 Page 66
<b>ENVIRONMENTAL</b>					
301	Material	UA	Low	Low	Natural Capital
302	Energy	UA	Medium	Medium	 Page 98
303	Water	UA	Medium	Medium	
304	Bio diversity	UA	Low	Low	
305	Emissions	UA	Medium	Medium	
306	Effluent and waste	Environment	Medium	Medium	
307	Environmental compliance	Environment	Medium	Medium	
308	Supplier environmental assessment	Supplier	Low	Low	
<b>SOCIAL</b>					
401	Employment	UA	High	High	Human Capital
402	Labour/Management relations	UA	High	High	 Page 80
403	Occupational health and safety	UA	High	Low	
404	Training and education	UA	High	High	
405	Diversity and equal opportunity	UA	High	Medium	Social and Relationship Capital
406	Non-discrimination	UA	High	Medium	
407	Freedom of association and collective bargaining	UA	Low	Low	 Page 66
408	Child labour	UA and suppliers	Low	Low	
409	Forced or compulsory labour	UA	Low	Low	
410	Security practices	UA	Medium	Medium	Social and Relationship Capital
411	Rights of indigenous people	UA	Low	Low	
412	Human rights assessment	UA	Low	Low	 Page 66
413	Local communities	Community	High	Medium	
414	Supplier social assessment	Suppliers	Low	Medium	
415	Public policy	UA and Government	High	High	
416	Customer health and safety	Customers	High	High	

# MATERIALITY

GRI Standard No.	GRI Topic	Boundary	Impact to UA	Impact outside UA	UA response
417	Marketing and labelling	UA and community	High	High	Intellectual Capital
418	Customer privacy	Customers	High	High	Page 92
419	Socioeconomic compliance	Community	Medium	High	Social and Relationship Capital Page 66

## Materiality Matrix

Issues and expectations identified through the materiality assessment have been summarised as per the diagram indicated in the following section. The importance of issues to our stakeholders was assessed against the importance of issues to our business. The issues were rated, assigned and prioritised to identify those which are most material to the Company. The level of categorisation and reporting has been conducted as per below:

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










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

- |                                |                                       |  |                                |
|--------------------------------|---------------------------------------|--|--------------------------------|
| 201 Economic performance       | 304 Bio diversity                     | 404 Training and education                           | 412 Human rights assessment    |
| 202 Market presence            | 305 Emissions                         | 405 Diversity and equal opportunity                  | 413 Local communities          |
| 203 Indirect economic impacts  | 306 Effluent and waste                | 406 Non-discrimination                               | 414 Supplier social assessment |
| 204 Procurement practices      | 307 Environmental compliance          | 407 Freedom of association and collective bargaining | 415 Public policy              |
| 205 Anti-corruption            | 308 Supplier environmental assessment | 408 Child labour                                     | 416 Customer health and safety |
| 206 Anti-competitive behaviour | 401 Employment                        | 409 Forced or compulsory labour                      | 417 Marketing and labelling    |
| 301 Material                   | 402 Labour/Management relations       | 410 Security practices                               | 418 Customer privacy           |
| 302 Energy                     | 403 Occupational health and safety    | 411 Rights of indigenous people                      | 419 Socioeconomic compliance   |

### Material Stakeholder Issues and their Status

Material matters and stakeholder expectations identified through the stakeholder engagement process have been considered under the Company's strategies and annual planning cycle. The progress towards fulfilling these stakeholder expectations have been monitored regularly to ensure that the expectations have been met on a timely basis. The key expectations of our commitment towards those expectations can be categorised as follows:

Stakeholder Category	Key topics and concerns raised	Our commitment to meet stakeholder expectations
 <b>CUSTOMERS</b>	Long-term promise of protection and wealth accumulation Demand for prompt, convenient and high-quality service Promoting island-wide accessibility	Leverage technology and enhance knowledge of internal staff and third party service providers, regular service standard review, expanding customer service points and fair pricing of the products
 <b>SHAREHOLDERS</b>	Financial performance Sustainable growth Healthy liquidity position Transparent reporting	Growing premiums in sustainable manner, regular review and update of corporate governance practices and implementation of effective performance management systems. Additionally, building on the confidence in the leadership and further investment in UA
 <b>EMPLOYEES</b>	Demand for attractive remuneration packages Demand for job security Personal development and career progression A sound social environment	Transparent recruitment process, invest in learning and development, developing conducive work culture and implement competitive compensation process
 <b>SUPPLIERS AND BUSINESS PARTNERS</b>	Forming long-term and reliable partnerships Contractual performance	Maintaining principle discipline, effective management of risk and building sustainable relationships
 <b>COMMUNITY</b>	Demand for multi-pronged community development initiatives	Operate through a health awareness platform and partner with national level institutions to implement various CSR projects
 <b>ENVIRONMENT</b>	Demand for sustainable business practices Minimising the impact on the environment	Regular monitoring of carbon footprint and leverage technology to minimise the impact on the environment.
 <b>GOVERNMENT AND REGULATORY INSTITUTIONS</b>	Compliance with rules and regulations Active participation and contributing to the development of industry and regulatory working groups	Proactive communications with regulatory institutions, adherence to all the regulations and active contribution towards developing industry specific standards

# OUR OPERATING ENVIRONMENT

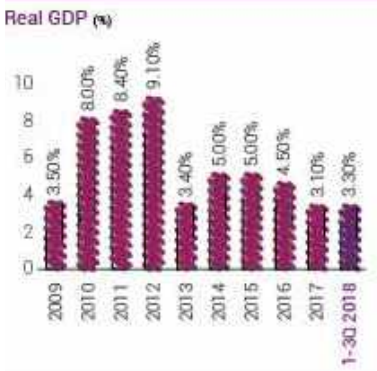
"Lower inflation rate helped the economy to improve spending and real growth. This also enhance consumer spending which was beneficial to the insurance industry."

## ECONOMIC REVIEW

Year 2018 was greatly shaped by political events such as the formation of coalition parties, constitutional calamity, local election results, multiple cabinet reshuffles, no confidence motions, etc. These events amplified uncertainty and created policy turmoil, which impacted the economic activities of the country.

Launching the Moragahakanda multi-purpose development project, enacting new Inland Revenue bill and introduction of the fuel pricing formula were other noteworthy developments. During the year the country faced other challenges from global economic and financial developments such as trade sanctions, increase in US fed rate, increased fuel prices, slowdown in global economy, etc.

## Economic Growth



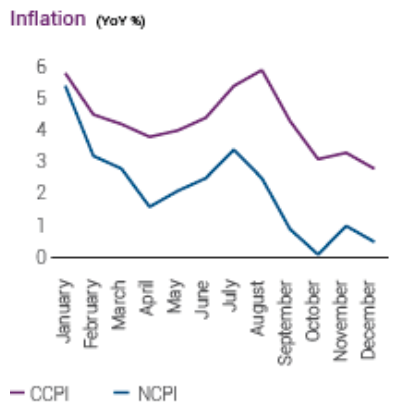
During the nine months of 2018, Sri Lanka had its slowest real GDP growth of 3.3% after 2001 (-1.5%).

The slow growth in 2018 could be largely attributable to the slowdown in the industrial sector. Agricultural sector rebounded from the fourth quarter of 2017 onwards. In the industry sector, manufacture of food, beverages and tobacco products rebounded from the fourth quarter of 2017, while textile,

wearing and leather and construction slowed. In the third quarter the industry sector's growth stood at 1.9% YoY while services grew by 3.9% YoY.

The slowing down of GDP growth could hinder consumer spending on non-essential items which could reduce cash flows from new business. A slowdown will result in the economy in slow corporate earnings growth of cyclical companies that will negatively influence share prices and equity investment. Investors invest in safe assets such as Government securities, which increase prices (push yields down).

## Inflation



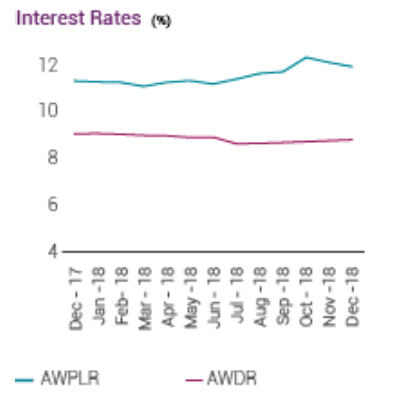
Inflation measured on a year-on-year basis remained low and declined continuously during 2018 which is positive for the economy to reach its potential level. According to CCPI, inflation in December stood at 2.8% YoY and NCPI index increased by 0.4%. On a 12 months moving average basis inflation increased by 4.3% and 2.1% in 2018 as per CCPI and NCPI respectively.

This is broadly in line with the Central Bank's plan to implement flexible inflation targeting by 2020 and maintain low inflation environment. Food inflation continued to decrease while nonfood inflation increased from the Second

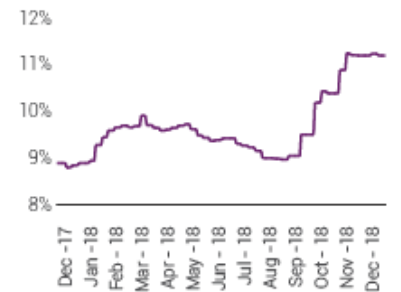
half of 2018. Increase in education, health, transport, housing, electricity, gas and other fuel, etc; contributed to this increase.

The lower inflation rate helped the economy to improve spending and real growth. This also enhanced consumer spending which was beneficial to the insurance industry. Operating and administrative cost increase occurred at a slower place and enabled UA to improve margins by pricing services efficiently. Further, as UA continuously identifies ways to reduce cost, in a low inflation environment cost savings improved margins.

## Interest Rate



## Treasury Bill Rate - 364 Days (%)





**ECONOMIC GROWTH**

**3.3%**

Nine months ended 31 December 2018



**TREASURY BOND YIELD**

**12% - 12.5%**

Secondary market

During the year under review Average Weighted Prime Lending Rate (AWPLR) increased marginally by ~61 basis points (bps) from last year while Average Weighted Deposit Rate (AWDR) declined by ~26 bps. Treasury bill yield increased during the year. Treasury bill yield at the primary auction increased sharply from the third quarter of 2018, reaching a top of 11.25%. Treasury bond yield in the secondary market continued the same trend and long-term rates reached above 12.00-12.50% levels.

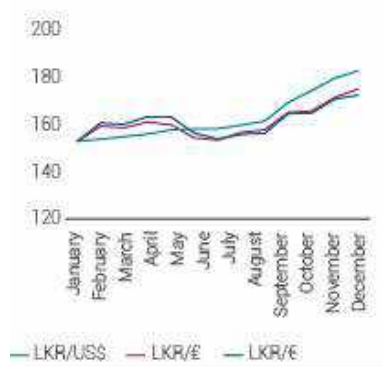
The Central Bank continued with tight monetary policies to slow credit growth during the year. The Central Bank reduced the Standing Lending Facility Rate (SLFR) by 25 bps in April 2018 given the low inflation and slow economic growth. In November the Central Bank increased the Standing Deposit Facility Rate (SDFR) by 75 bps, SLFR by 50 bps and reduced the statutory reserve ratio by 150 bps. Further, the increase in US reserve rates and political uncertainty caused foreign investors to exist from the market. This has caused secondary market treasury security prices to decline and yields to increase. Foreign investors sold net Rs.160 billion worth of Government securities in 2018.

Increased interest rates improved the reinvestment rate of new fresh investments. UA was able to invest at higher rates in long-term securities. The drawback of higher interest rates

is that it lowers the prices of existing marked to market value fixed income securities which has resulted in an unrealised loss. As a significant part of UA's financial assets are valued at amortised cost, the impact is significantly managed.

**Exchange Rate**

**Exchange Rate (rs.)**



The rupee depreciated ~19.6% against US \$ in 2018 with most of the depreciation occurring from September to November. The rupee also depreciated ~12.8% and ~14.5% against the British pound (£) and Euro (€) respectively in 2018.

The main reasons for rupee depreciation were due to normalised US treasury rates which forced capital outflows from countries, strong dollar, increased oil prices, increased importation of gold and motor vehicle and political uncertainty. Gold import increased significantly during the first four months and declined thereafter, with the impose of custom duty. Motor vehicle importation increased by 120.9% YoY in the 10-month period ending November 2018. Outflow from Government securities and equities in 2018 amounted to Rs. 160 billion and Rs. 23.2 billion respectively. Due to political instability and high debt repayment in 2019 and 2020, few ratings agencies have downgraded Sri Lankan financial status.

The depreciation of rupee has increased the cost of reinsurance and other expenses paid in foreign currency.

**Equity Market**

**Equity Market Performance**



**Foreign Transactions- Equities (rs. Mn)**



Equity in 2018 did not perform as expected due to various local and global factors. In 2018 the ASPI and S&PSL 20 index plunged by 5.56% and 15.15% respectively. The market price earning ratio (PE ratio) declined to 9.65X from 10.6X at the beginning of the year. Market capitalisation stood at Rs. 2.84 trillion.

The tightening cycle of the US Federal Reserve caused funds to flow out of emerging and frontier markets; the constitutional calamity at the latter part of 2018 and slow global and local economic growth contributed towards the negative performance of capital market.

The decline in equities in 2018 resulted in unrealised losses of Rs. 799.91 million on UA's equity portfolio. As the Life fund is positioned for the long run, drop in equities enabled UA to accumulate undervalued stocks

# OUR OPERATING ENVIRONMENT

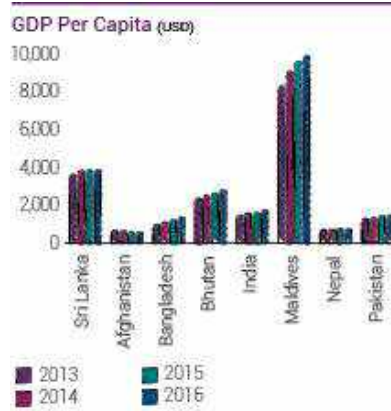
"Among the SAARC countries, Sri Lanka is placed second after Maldives, based on the expectation of life at birth."

which are expected to provide better dividend yields and capital gains in the long-term horizon.

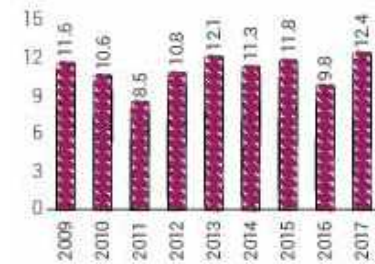
## SOCIAL ENVIRONMENT REVIEW

### Population

Sri Lanka is experiencing a rapid increase in the elderly population due to advanced medical facilities, developed health services and a dip in births. Among the SAARC countries, Sri Lanka is placed second after Maldives, based on the expectation of life at birth. The growing trend in elderly population has built a burden on the working population as they support an increasing number of dependents. These changes create demand for health, pension and retirement products.



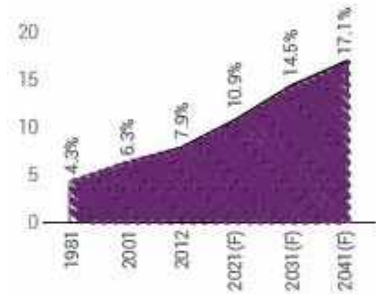
### Unemployed Population Aged 40 and Above (40+YRS)



Source: Sri Lanka Labour Force Survey Annual Report 2017 - Department of Census and Statistics

The proportionate rate of Sri Lanka's population aged 40 and above has rapidly increased in the FY17 due to better access to advanced health care facilities.

### Rapid Growth of Ageing Population 65+ Years (%)



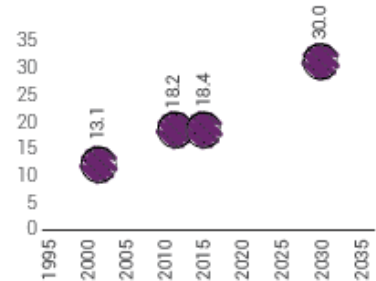
Source: Sri Lanka Paradigm shifts in population, W. Indralal De Silva, World Bank

### Trend of Urbanisation in Sri Lanka and Forecast for 2030

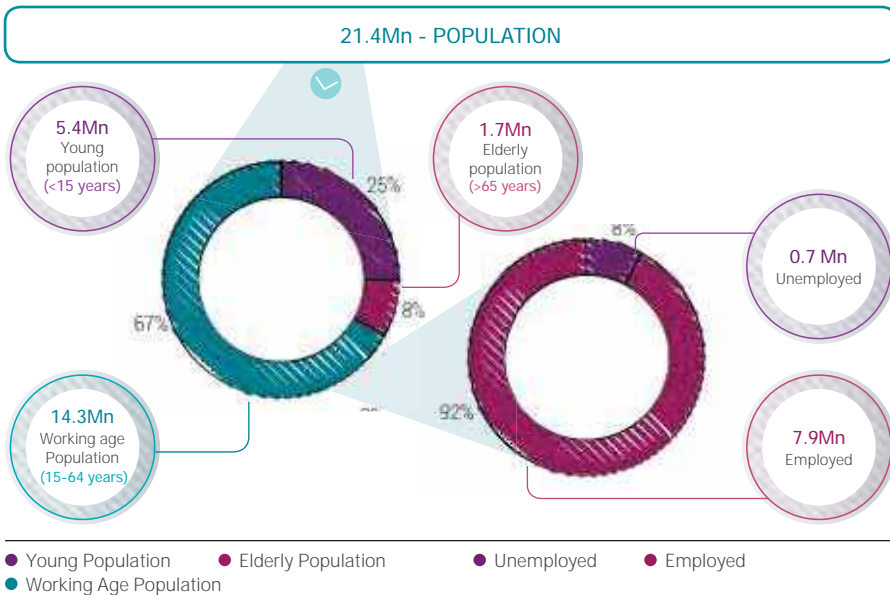
Among the SAARC countries the urban population in Sri Lanka amounts to 19.3% exceeding Afghanistan. However, there are indications that as much as one-third of Sri Lanka's population may be living in areas that possess urban characteristics, but are classified as rural.

Since villagers move to cities, their ability to depend on rural financial means diminishes eventually. To maintain an urban lifestyle, the bread winner of the family is inclined to obtain a Life insurance cover to protect the financial wellbeing of family members. The boom in apartments around city limits and the low unemployment rate have contributed towards expanding opportunities in the Life insurance industry.

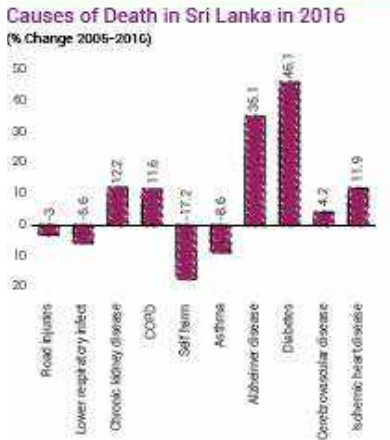
### Trend of Urbanisation in Sri Lanka and Forecast for 2030 (%)



Source: World Bank CDSL



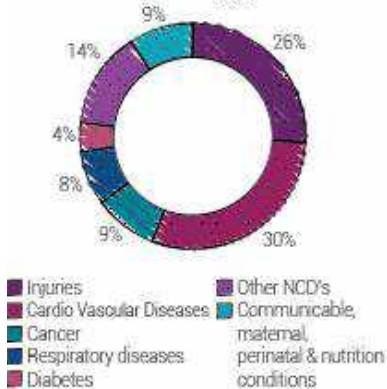
Non-Communicable Diseases



Source: IIME celebrating 10 years of measuring what matters Institute of Health Metrics and Evaluation Sri Lanka

Non-communicable Diseases (NCDs) are the highest ranking cause of premature deaths in Sri Lanka, with cardiovascular diseases in the lead. However due to the increase in life expectancy rates and elderly population, we believe that people have become more aware of the risks associated with NCDs and thereby looking for life / health covers providing an impetus for the industry.

Distribution of Mortality (%)



Source: WHO Country Profiles 2011



NON COMMUNICABLE DISEASES

30%

Cardio Vascular Diseases

TECHNOLOGICAL ENVIRONMENT REVIEW

The insurance industry has evolved with well-developed content, often accompanied by the application of artificial intelligence or robo-advice. These are intended to deliver an improved customer experience and charge a lower commission fees when products are sold, although the initial fixed cost will likely be higher. It is predicted the number of insurance employees will drop as a result of a digital insurance evolution. Life insurance firms are increasingly reliant on Information Technology (IT) to maintain and enhance operating efficiency as well as to pursue new strategies such as direct delivery, customer segmentation, and product innovation.

Development of Fitness Applications and Partnerships

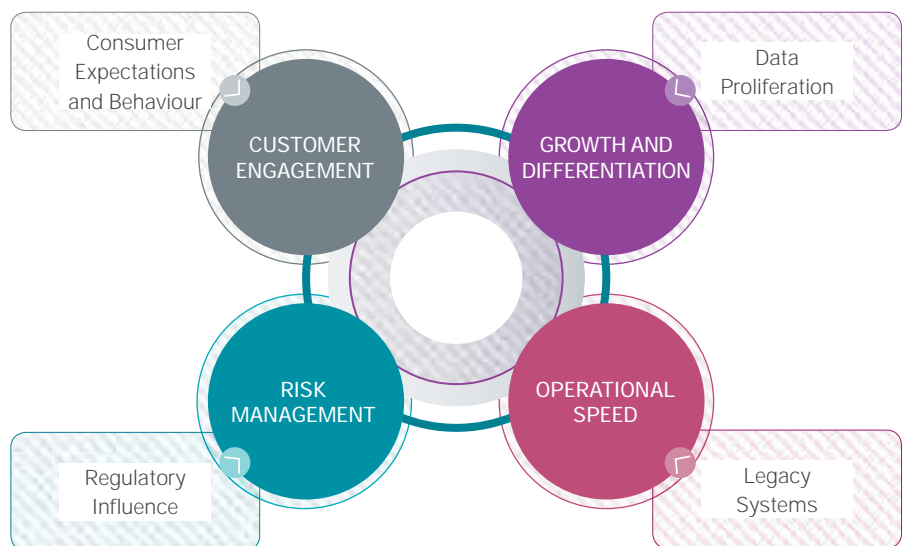
The network effect of mobile phones and development of fitness applications has led insurance sectors to reach a wider customer base. Many insurance firms have developed wellness programs and policy riders that offer discounts and other rewards to incentivise healthy behaviours. Customers are rewarded for regularly visiting their doctors, for exercising, maintaining healthy weight and even for purchasing healthy food. These

"Life insurance firms are increasingly reliant on information technology (IT) to maintain and enhance operating efficiency as well as to pursue new strategies such as direct delivery, customer segmentation, and product innovation."

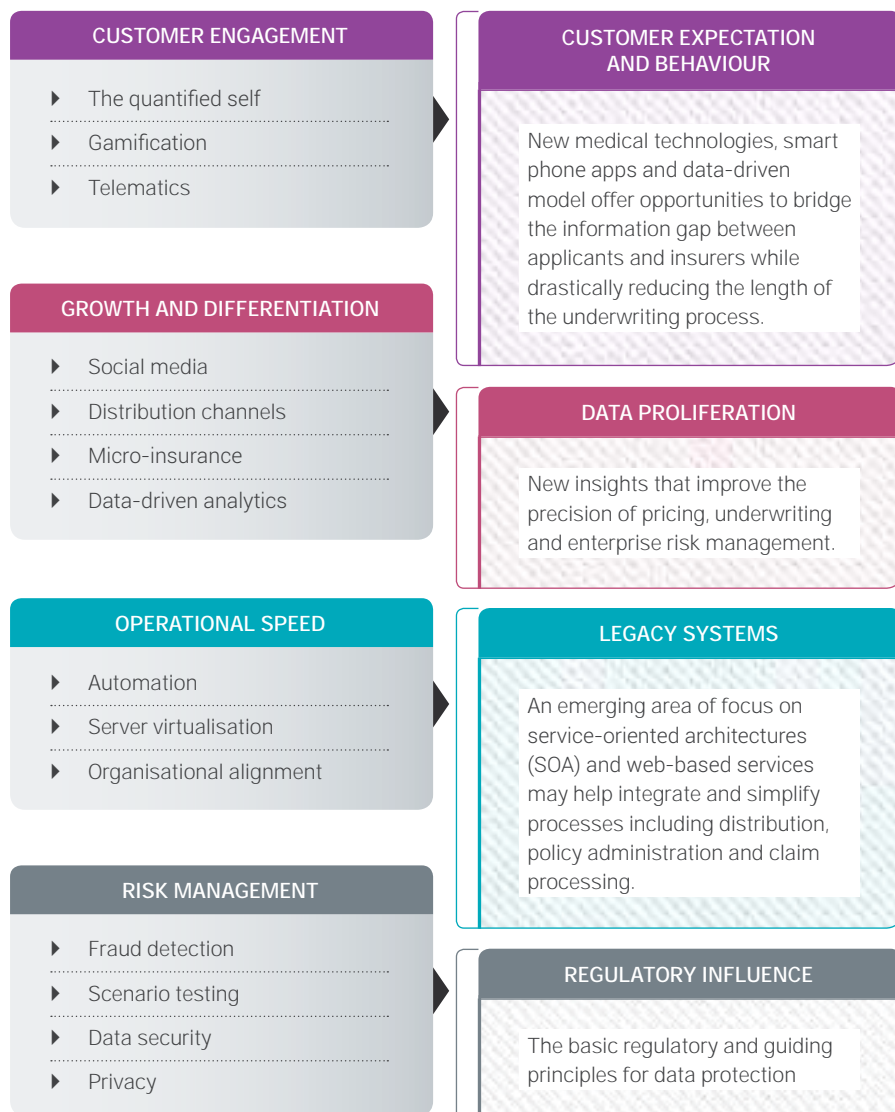
programs aim to reduce claim costs, but they also align with the customers' own goals of a higher quality of life with lower morbidity and improved longevity. As the market for activity monitors and more-advanced wearable devices expands, the opportunities for insurers to integrate these technologies into insurance products to incentivise healthy lifestyles will continue to grow.

Technological Drivers in Insurance Sector

For the insurance industry, the non-stop wave of technological change creates both challenges and opportunities, but the ultimate success of incorporating new technologies is influenced by a number of internal and external factors.



## OUR OPERATING ENVIRONMENT



### Looking Ahead

Technology will continue to transform the insurance industry. Private investments have encouraged innovations in mobile-phone-size diagnostic tools. Advances in quantum computing will someday increase the feasibility of dealing with even larger volumes of Big Data and transform the traditional risk selection process in the insurance industry. Despite a perception of conservative stagnation, the insurance industry has taken steps toward embracing

technology-driven innovation. Insurers are able to leverage technological advances to engage with customers, mitigate risks, communicate more effectively, refine pricing and underwriting. The companies that are able to use the advancements to increase efficiency and to develop new products will lead the way through the next era of technological progress.

UA digital journey is discussed under the Intangible Asset section of this report.

### REGULATORY REVIEW

We operate in a highly-regulated industry and maintaining good relationships with all regulators is critical. UA works through the Insurance Association of Sri Lanka (IASL) to lobby regulators and other policy makers to implement rules which will develop the market while safeguarding policyholders' interests. Such discussions help us to emphasise on the key industry concerns relating to proposed regulatory changes and any challenges with regards to the existing laws and regulations. UA places on record appreciation to the IRCSL for the consultative approach they continue to adopt in balancing the interests of all stakeholders involved in this dynamic industry.

During the year under review, the following changes took place.

#### Insurance Regulatory Commission of Sri Lanka

##### Direction 14 -Recruitment

This directs the industry to refrain from employing persons terminated on the grounds of financial misappropriation or fraud. UA screens all candidates prior to recruitment. Recruitment activities have been automated via implementation of distribution management system.

##### Direction 15 - Investments

Procedures on Management of Insurance Funds have been introduced to ensure attribution of assets and return on assets, liabilities and expenses to long-term insurance business through appropriate segregation of insurance funds, proper attribution assets and return on assets, liabilities and expenses to insurance funds and withdrawal from insurance funds. New policy administration system has been implemented to maintain the funds separately. We have engaged the help of a consultant to segregate the investment portfolio into separate funds. The segregation project is scheduled to be completed by second quarter of 2019.

##### Direction 16 - Identification and Treatment for One Off Surplus

The direction provides guidelines with regards to identification, transfer, maintenance

**"The companies that are able to use the advancements to increase efficiency and to develop new products will lead the way through the next era of technological progress."**

and distribution of one-off surplus. Further this direction has specified the accounting treatment for one-off surplus. UA is in compliance with the direction and in the process of developing appropriate policies and procedures mandated by the direction in terms of distribution of one-off surplus.

**Direction 17 - Corporate Governance Framework**

With the intention of ensuring greater transparency in the conduct of the affairs of insurance companies, the IRCSL has issued the direction on Corporate Governance Framework, in terms of Section 96A of the Regulation of Insurance Industry Act, No. 43 of 2000. UA is in compliance with the framework.

**Inland Revenue Department**

**Inland Revenue Act No. 24 of 2017**

The gains and profits from the Life insurance business on which tax is payable shall be ascertained by taking the aggregate of-

- (a) the surplus distributed to shareholders from the life insurance policyholders fund as certified by the Appointed Actuary.
- (b) the investment income of the shareholder fund less any expenses incurred in the production of such income.

Surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in the business of Life insurance shall be deemed as gains and profits of that person from the business, and will be subject to tax accordingly.

The Company will have taxable profits based on its past records and business plans as per surplus based income tax method. Therefore,

deferred tax assets amounting to Rs. 1,572 million arising from tax losses and notional tax credit amounting to Rs. 541 million has been recognised. The deferred tax asset and notional tax credits will be utilised against future income tax liability.

**Institute of Chartered Accountants of Sri Lanka**

**SLFRS 17 Insurance Contracts**

The new accounting standard creates a standardised and more transparent approach to measure insurance liabilities. Implementation of the standard has been delayed by one year by the global authorities and new implementation year is 2022. UA has appointed a project team constituting members from Finance, Actuarial and IT departments to execute the implementation of the standard. Requirements of the standard have been considered in the new front-end system development.

**Financial Intelligence Unit**

The Guidelines on Money Laundering and Terrorist Financing Risk Management for Institutions, No. 01 of 2018

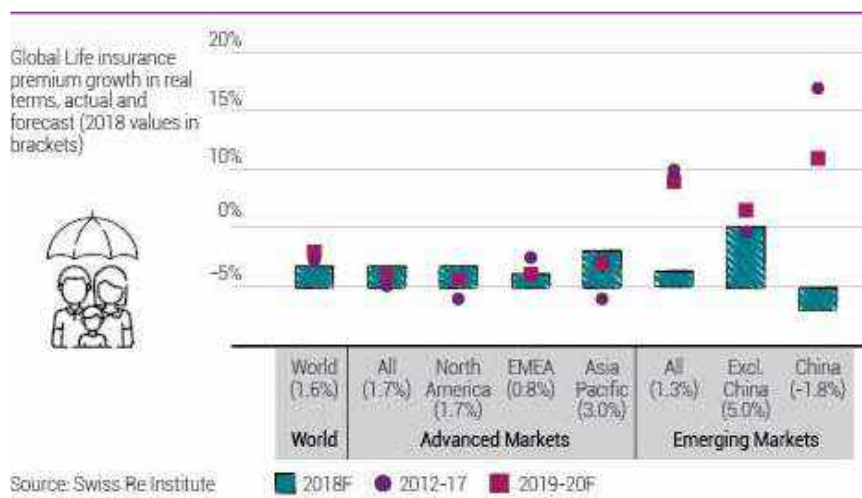
The guideline sets out the minimum measures and indications to identify and assess the risk of Money Laundering and Terrorist Financing (ML&TF) in businesses. UA is in the process of carrying out a gap analysis between the guidelines and current practice. Recommendations will be implemented by second quarter of 2019.

**COMPETITIVE LANDSCAPE**

**Global Life Insurance Industry**

Swiss Re estimates that global life insurance premiums are expected to grow by 1.6% in real terms this year, slightly slower than the average annual growth rate of the last five years. Premiums in the advanced markets will grow by 1.7%, while emerging market premium growth will likely be much slower than usual forecast +1.3%. In recent years, emerging markets have accounted for most of the acceleration in global Life premium income, but their contribution will be much lower in 2018. The reason is China, which remains the engine of growth for the Life industry. What happens in China has a large impact on the emerging market aggregate. Part-year data indicates that there will be a substantial contraction (-1.8%) in Life premiums in China in 2018, due mostly to tighter regulation of Wealth-Management-Product (WMP) types since the beginning of the year.

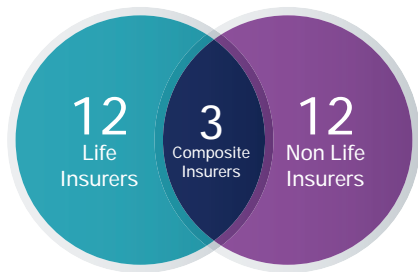
Excluding China, Swiss Re forecasts emerging market Life premiums to increase by 5% this year. For the next two years, the outlook for different regions is mixed. Emerging market premiums will accelerate again to around 9%. There will be a rebound in China, where the economic backdrop remains strong and as the one-off effect of this year's wealth management product (WMP) shock fades. Advanced market premiums are expected to remain stable.



# OUR OPERATING ENVIRONMENT

## Sri Lankan Insurance Market Structure

The Sri Lankan insurance industry is highly-dynamic with escalated competition amongst industry players. The composition of the insurance companies (insurers) registered with the Insurance Regulatory Commission of Sri Lanka (IRC SL) is as follows. There are 59 insurance brokering companies registered with the IRC SL.



## LIFE INSURANCE INDUSTRY PERFORMANCE

### Overview

Despite the challenging operating environment, year 2018 ended with a positive note for the Sri Lankan insurance industry with the sector generating GWP amounting to Rs. 80,276 million in 2018, up by 12% against the GWP of Rs. 71,497 million generated in 2017. This significant growth is attributable to increased awareness regarding Life insurance, introduction of new Life insurance products catering to customer requirements such as retirement and investments, enhanced customer service, etc.

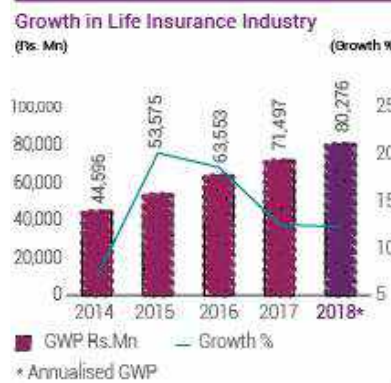
The Life industry is expected to record a significant growth in next three years as opposed to 11% growth historically. Penetration is estimated to be 0.65% (premium / GDP) by 2019. Sri Lanka is a country largely characterized by collectivism and dependency where the need for a Life insurance policy is yet to be realised, the industry still remains under-penetrated compared to its regional peers (Vietnam, Indonesia and Philippines).

The Life insurance industry has seen a higher growth compared to the GDP growth of the country.

Higher growth is a derivation of estimated GDP per capita growth, estimated population growth, premium added on higher industry growth over per capita GDP growth and premium added for higher urbanisation and ageing population.

Although low per capita income which is common for a developing country like Sri Lanka and higher cost of living have historically been deterrent factors in obtaining Life insurance policies, its present direction of achieving upper middle-income status is likely to provide a convenient platform for more people to spend on life policies.

Sri Lanka 's Gen. Y is more interested in risk-based insurance products compared to Gen. X due to complexities in their lifestyle. Gen Y will find it difficult to accumulate wealth to finance emerging needs, especially with decreasing real interest rates. Accordingly, new Life policies have grown at a faster pace of 5% CAGR than population growth of 0.9% to support this industry growth, distribution channels have also seen a strong growth.



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



### LIFE INSURANCE GWP

**Rs. 80.3 Bn**

2017 - Rs. 71.5 Bn

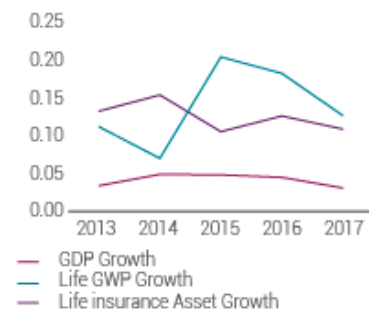
## Composition of Industry GWP (Rs. Mn)



## Life GWP Growth vs GDP Growth

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

## Insurance Industry Performance Vs. GDP (Growth %)



## Market Competition

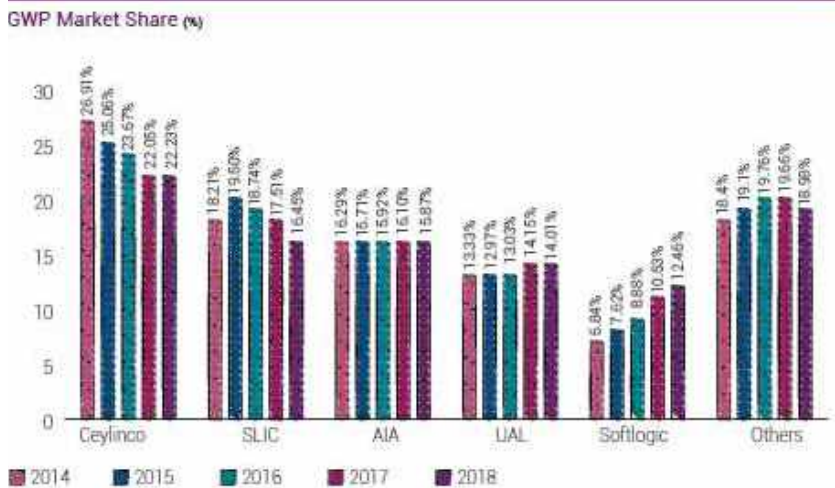
As illustrated below, Ceylinco Life, SLIC, AIA Life, Union Assurance and Softlogic Life together contributed 81.02% to total long-term insurance GWP in 2018 almost similar to the 80.33% recorded in 2017. The other 10 players generated 18.98% of GWP in 2018 (2017: 19.67%).



### LIFE INSURANCE PENETRATION

**Rs. 0.54%**

\*2017 Values



**Life Insurance Penetration**

Insurance penetration reflects insurance premium as a percentage of GDP. In 2017, penetration ratio of Life insurance business was recorded as 0.54% (2016: 0.53%) reflecting improvement in penetration level.

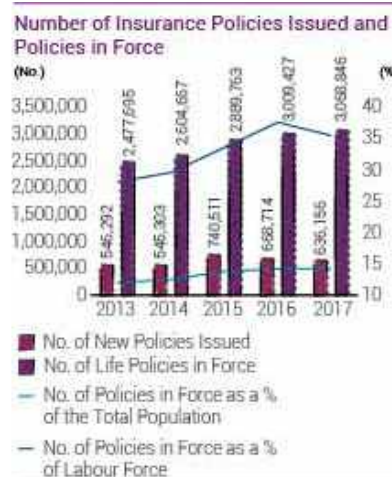
The expected regulatory developments in the medium term in relation to micro insurance, targeting needs of the low income population, will have potential to enhance the insurance penetration level of the country. This indicates the growth potential for the Life insurance industry.



In 2017, Life insurers have issued 636,156 new policies, a decrease of 4.87% compared to 668,714 new policies issued in 2016.

The total Life insurance policies in force has gradually increased over the last five years reflecting that the Life insurance business is continuously expanding in the country. Number of life insurance policies as a percentage of the total population was 14.31% in 2017 recording a slight increase compared to 14.19% in 2016. The number of Life insurance policies as a percentage of the labour force reflects the low level of Life insurance penetration in the country and the potential that Life insurers have to further develop and expand.

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

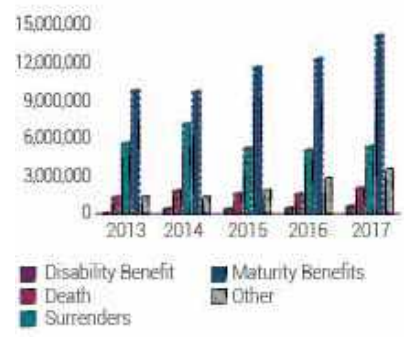


"The expected regulatory developments in the medium term in relation to micro insurance, targeting needs of the low income population, will have potential to enhance the insurance penetration level of the country."

**Claims and Benefits Paid by Life Insurance Industry**

Life insurers incurred Rs. 25,967 million in total claims and benefits, an increase of 15.49% YoY increase compared to Rs. 22,485 million incurred in 2016. The total comprised disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders. Out of the total claims incurred, maturity benefits represented 54.84% of total claims and benefits paid in 2017, recording a slight decrease compared to 55.01% in 2016.

**Claims and Benefits Paid by Life Insurance Company (Rs. '000)**

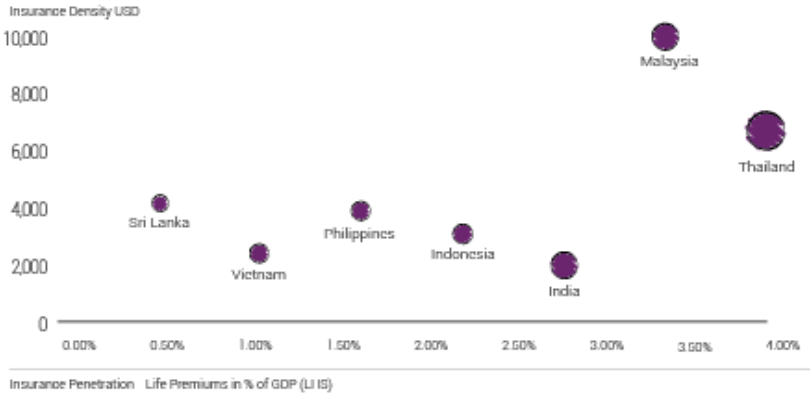


**Insurance Density**

Insurance density reflects the Life insurance premium income per person of the population and amounts to Rs. 3,334 in 2017. Insurance density remained the same in 2017 compared to 2016. Insurance density of Sri Lanka is lower compared to regional markets.

# OUR OPERATING ENVIRONMENT

## Insurance Density



## Life Industry Distribution Channels (%)



## INDUSTRY ISSUES

### Number of Policies Lapsed

Lapsation of policies is a key issue in the local insurance industry compared to developed markets. Policy lapses are due to varied reasons and some of them include fluctuations in disposable income, agents' misappropriations, product mismatch, inefficiencies in policy administration, etc. During the year under review insurance companies educated their sales force through training and development and improved service standards. In addition, in September 2017, the insurance industry conducted an islandwide awareness campaign on the need for protection.

### No. of Policies Lapsed



### Recruitment of Quality Sales Advisors

Recruiting agents with the required skills set is a challenge especially in agency channel. Insurers use distribution channels such as agency, brokers, direct marketing, bancassurance and other channels to reach their customers. Agency is the dominant distribution channel in the Life insurance industry, while the potential of Bancassurance is yet to be exploited despite deeper penetration of the bank branch network in the country.

### Bancassurance Penetration

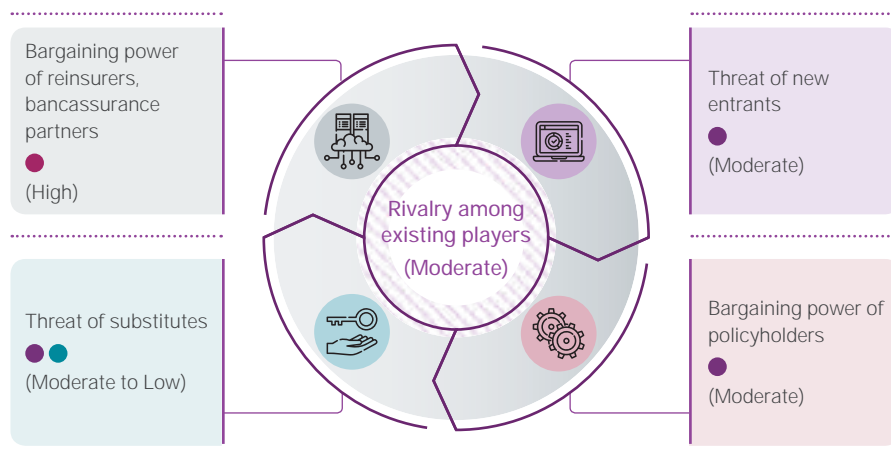
Sri Lankan bancassurance channel is under penetrated compared to other regions of the world despite having a strong banking sector. Sri Lankan total bank branch density (17 branches per 100,000 people) is much greater than its peers and therefore insurers can leverage the branch network of the banking industry to increase productivity and reduce acquisition cost.




### SL's Bank Branch Network has Deeper Penetration over Peers (No.)





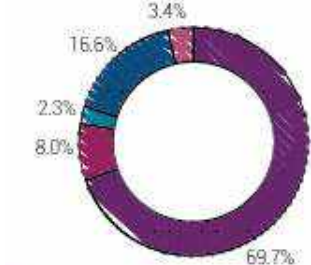
"Agency is the dominant distribution channel in the life insurance Industry, while the potential of Bancassurance is yet to be exploited despite deeper penetration of the bank branch network in the country."

### Competitor Analysis - Life Insurance Industry



Factor	Influence / Bargaining power	Commentary
 <b>RIVALRY AMONG EXISTING PLAYERS</b>	<p>● Moderate</p>	<p>Rivalry is moderate due to the following:</p> <ul style="list-style-type: none"> <li>▶ The life insurance industry comprises 15 players. Two are multinationals. Nine of these insurers are listed on the Colombo Stock Exchange. The industry is dominated by the five largest players accounting for approximately 85.62% of total industry assets and over 81.02% of market share.</li> <li>▶ Relatively low penetration level indicates that the market is far from saturated and there exists significant growth opportunities with increasing disposable income and ageing population.</li> <li>▶ This is reflected in the 12% to 19% growth rates the industry has achieved in the past two years.</li> <li>▶ Entry barrier due to a regulated industry</li> </ul>
 <b>THREAT OF NEW ENTRANTS</b>	<p>● Moderate</p>	<p>Threat is moderate due to:</p> <ul style="list-style-type: none"> <li>▶ High cost of entry with the introduction of a minimum capital requirement of Rs. 500 million under Risk-Based Capital framework.</li> <li>▶ The complexity of the business.</li> <li>▶ The need to attract / recruit, retain and administer a large agency force.</li> <li>▶ Opportunities for moving to online insurance solutions.</li> <li>▶ Size of the market is not very attractive to foreign insurers in terms of relatively lower population in the country and level of Life insurance premiums being Rs. 80,276 million in 2018 (approximately USD 448 million in 2018).</li> </ul>
 <b>BARGAINING POWER OF POLICYHOLDERS</b>	<p>● Moderate</p>	<p>Bargaining power is moderate due to:</p> <ul style="list-style-type: none"> <li>▶ Customers having a wide range of insurance providers to choose from.</li> <li>▶ Unlike other products, switching cost is high as there is no surrender value in the first three years while surrender charges are significant after year three.</li> <li>▶ Life insurance being sold mainly to individual customers, the impact of switching may not be significant to the insurer.</li> </ul>





## OUR OPERATING ENVIRONMENT

Factor	Influence / Bargaining power	Commentary												
 <p><b>BARGAINING POWER OF SUPPLIERS</b></p>	<p>● High</p>	<p>Bargaining power is high due to;</p> <ul style="list-style-type: none"> <li>▶ The primary suppliers to the insurance industry being reinsurers and the regulatory guidelines encouraging all insurance companies to partner with rated reinsurers.</li> <li>▶ Lack of an alternative solution for reinsurance.</li> <li>▶ Rated insurers being multinationals and size of the Sri Lankan market being relatively small.</li> <li>▶ Highly-rated reinsurers could impact by adding / amending clauses contained in existing insurance contracts / products.</li> <li>▶ Given the size of insurance companies, banking partners are more dominant.</li> </ul>												
 <p><b>THREAT OF SUBSTITUTES</b></p>	<p>● ● Moderate to Low</p>	<p>Threat is moderate to low as;</p> <ul style="list-style-type: none"> <li>▶ There is no direct substitute for Life insurance products.</li> <li>▶ Products such as investment plans, pension schemes, child education plans and other long-term financial solutions offered by non-insurance companies that address the need for savings, annuities and investment plans may be viewed as indirect substitutes to insurance products.</li> <li>▶ Banks issuing complementary insurance covers for certain deposits through an insurance partner could be considered as a positive development.</li> <li>▶ Insurance companies account for only 3.4% of the financial services sector assets.</li> </ul> <p><b>Distribution of Total Assets of Major Financial Sector as at 31st December 2017 (%)</b></p>  <table border="1"> <thead> <tr> <th>Financial Institution Type</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Banking Sector</td> <td>69.7%</td> </tr> <tr> <td>Contractual Savings Institutions</td> <td>16.6%</td> </tr> <tr> <td>Other Deposit taking Financial Institutions</td> <td>8.0%</td> </tr> <tr> <td>Insurance Companies</td> <td>3.4%</td> </tr> <tr> <td>Specialised Financial Institutions</td> <td>2.3%</td> </tr> </tbody> </table>	Financial Institution Type	Percentage (%)	Banking Sector	69.7%	Contractual Savings Institutions	16.6%	Other Deposit taking Financial Institutions	8.0%	Insurance Companies	3.4%	Specialised Financial Institutions	2.3%
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## RISK AND OPPORTUNITIES

During the year under review the operating environment remained challenging due to political turmoil, slowdown of economic growth and depreciation in exchange rate, impacting consumer confidence negatively. Within this environment our strategies guided us to manage risks and material issues as well as to capitalise opportunities that ensure we deliver on our short-term, medium-term and long-term objectives.

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

Risk Factors	Our Response
 <p><b>ECONOMIC ENVIRONMENT</b></p> <p>Political stability and consistent economic policies are key for economic growth. Political uncertainty will slow down economic growth.</p> <p>Lower economic growth and low purchasing power of households impacts negatively on the interest for life insurance products.</p> <p>External and internal pressures have created a greater demand for treasury securities and interest rates have increased during the year under review.</p>	<p>Best-in-class products and services are being offered at competitive rates which meets customer needs. Through innovation and design of product and services we improve customer experience. UA is able to improve persistency, retain and grow its customer base. UA provides customers with additional value through health and lifestyle benefits and product integration via eco-systems.</p> <p>UA was able to reinvest and invest funds at higher interest rates. This has led to increase in investment income.</p> <p>UA's risk of unrealised loss arising from marked to market instruments is managed, since lower portion of investments is classified for marked to market valuation.</p>
 <p><b>REGULATORY ENVIRONMENT</b></p> <p>Inconsistencies in regulatory environment will have a negative impact on operations and profitability of the industry.</p>	<p>UA maintains good relations with the Insurance Regulatory Commission of Sri Lanka (IRCSL). We work closely with the Insurance Association of Sri Lanka (IASL) to lobby regulators and other policymakers to implement rules which will develop the market while safeguarding policyholders' interests.</p>
 <p><b>SOCIAL ENVIRONMENT</b></p> <p>Ageing population, urbanisation and increase in non-communicable diseases create greater demand for retirement, health and other insurance products.</p>	<p>UA has launched a health rider with advanced features and considers demographic changes in product development pipeline.</p>
 <p><b>TECHNOLOGY</b></p> <p>Technological advancement is catching up on the insurance industry and there is a greater use of advanced analytics in underwriting, customer retention and servicing. Further big data and advanced analytics can be leveraged to improve customer experience and efficacy of processes.</p>	<p>UA has embarked on its digital first agenda and has implemented a new policy administration platform and commenced advanced data analytics project.</p>

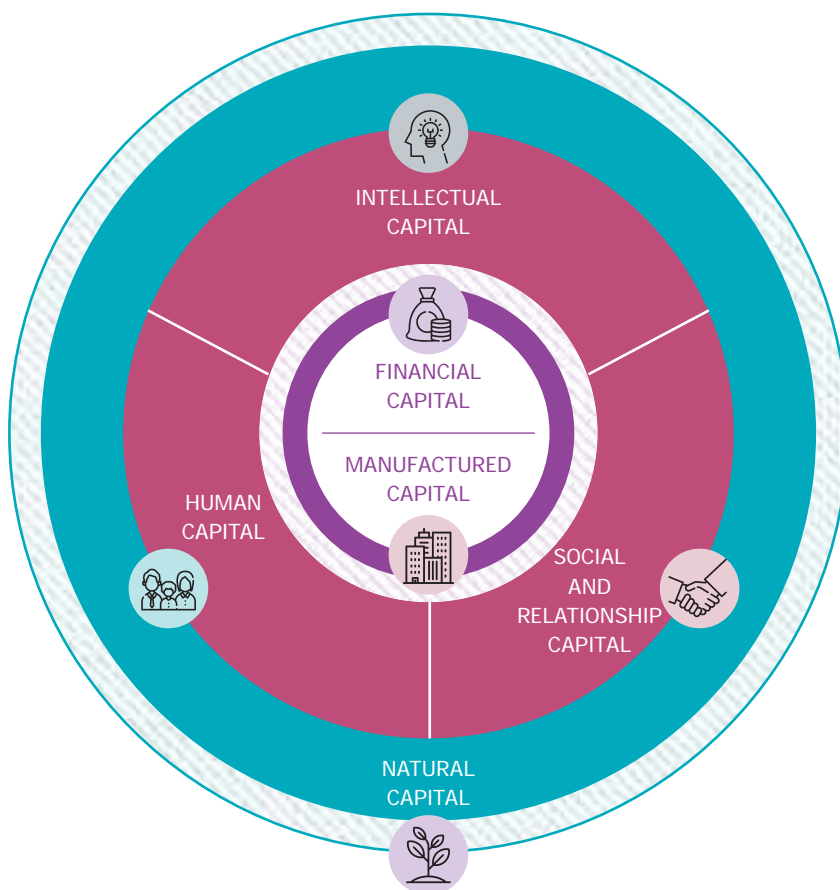
## OUR OPERATING ENVIRONMENT

Risk Factors	Our Response
 <p><b>COMPETITIVE LANDSCAPE</b></p> <p><b>Low Penetration</b> Market penetration of the Life insurance industry continues to remain at lower levels compared to other regional peers where the need for a life insurance policy is yet to be realised among majority of the people living around the country.</p> <hr/> <p><b>Protection gap</b> There is a sizeable and expanding mortality protection gap within Sri Lanka.</p> <hr/> <p><b>Bancassurance penetration</b> Compared to the other South Asian countries, Sri Lanka has higher banking penetration where the island-wide branch network in the sector is well in place for a growth in the bancassurance channel where penetration still remains lower compared to other regional markets.</p> <hr/> <p><b>Sales force</b> Recruitment and retention of talent specifically for distribution-related activities are challenging.</p> <hr/> <p><b>Market share</b> The rise in industry competition has resulted in lowering of margins to offer attractive products which is challenging.</p>	<p>Lower penetration and greater protection gap indicate strong upside potential for the industry. UA will drive long-term strategies to take full advantage of this opportunity.</p> <hr/> <p>UA has entered into two exclusive bancassurance agreements and one open architecture agreement during the year under review. We continue to build strategic relationships with banks to leverage the greater upside potential of this distribution channel.</p> <hr/> <p>UA focuses on strategies to improve cost efficiencies and productivity ensuring the best quality of products and services offered at competitive rates. UA relies on its culture of customer-centricity and innovativeness, its well-established brand and technical expertise to maintain and grow revenue and margins. Key strategies are formulated to improve case size, productivity and persistency to drive market share.</p>

# CAPITAL MANAGEMENT REVIEW

"Our portfolio of capitals can be classified broadly into Financial, Social and Relationship, Human, Intellectual, Natural and Manufactured Capitals. Together, these capitals have become the basis of UA's value creation and it has an impact on our ability to create value in short, medium and long term."

This segment looks into the six capitals of UA and analyses how they are used to add sustainable value to our stakeholders. The review includes the following:

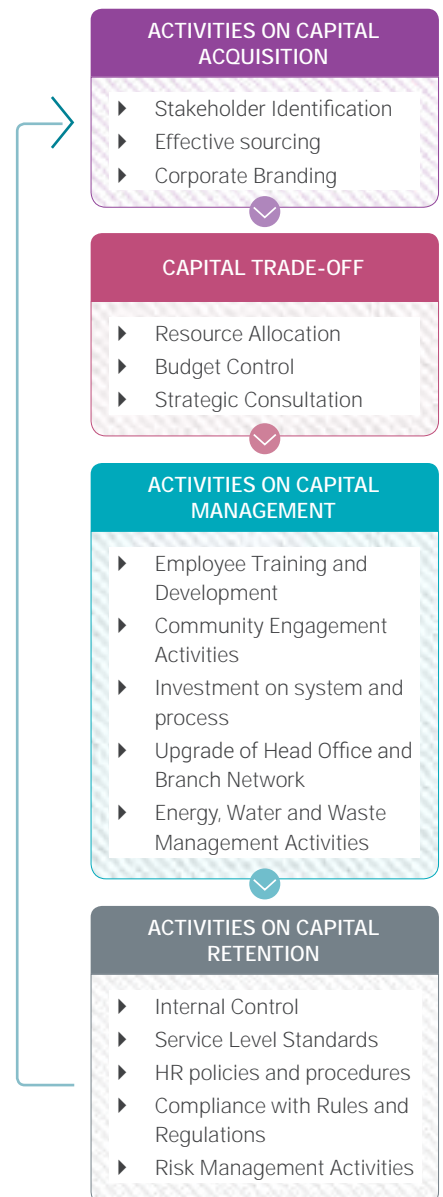


Capital refers to the accumulated resources and relationships used for the production and storage of value. Value can be created and destroyed using these capitals, and therefore it is crucial for UA to keep track of their increase, decrease and transformation.







Our portfolio of capitals can be classified broadly into Financial, Social and Relationship, Human, Intellectual, Natural and Manufactured

Capitals. Together, these capitals have become the basis of UA's value creation and it has an impact on our ability to create value in short-term, medium-term and long-term. The effective management of these capitals can be considered as pre-requisite for the success of the Company. In the following section, we have used quantitative and qualitative indicators to explain UA's uses of and effects on these capitals.

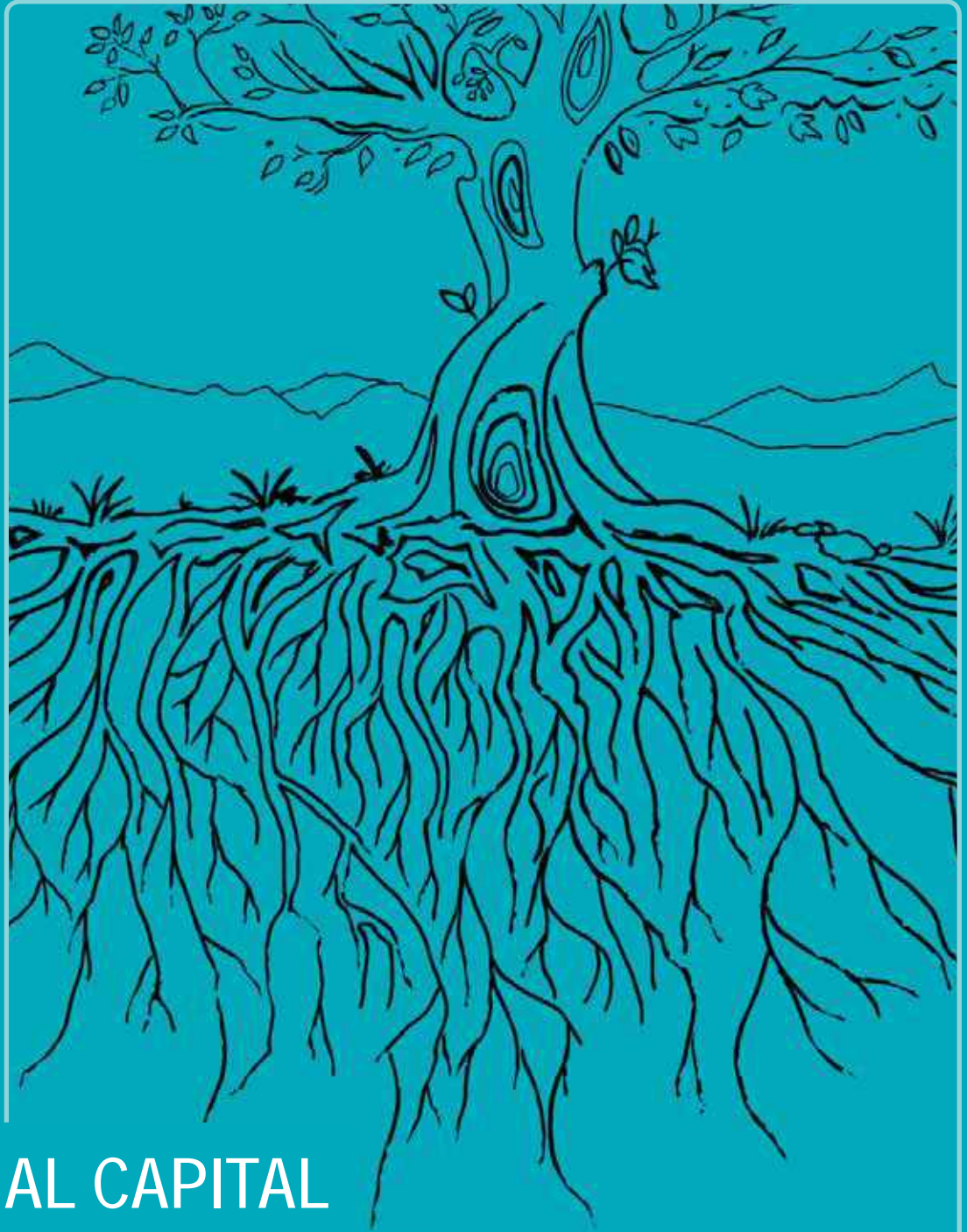
## KEY FACETS OF CAPITAL MANAGEMENT



# CAPITAL MANAGEMENT SUMMARY

CAPITAL	INPUTS	MANAGEMENT ACTIVITIES
 <p><b>FINANCIAL CAPITAL (FC)</b></p>	<p>As at 1<sup>st</sup> January 2018</p> <ul style="list-style-type: none"> <li>▶ Stated Capital Rs 1 billion</li> <li>▶ Financial Investments Rs 36.8 billion</li> <li>▶ Cash &amp; Cash Equivalents Rs 0.6 billion</li> <li>▶ Property plant &amp; Equipment Rs 2 billion</li> <li>▶ Net Asset Per Share Rs 203.04</li> </ul>	<ul style="list-style-type: none"> <li>▶ Efficient management of fund base to achieve higher investment income</li> <li>▶ Life fund invested Rs. 2.4 billion in government securities and Rs. 2.6 billion (face value) in corporate debentures.</li> <li>▶ Equity investment during the year amounted to a net of Rs. 250 million.</li> <li>▶ Capital expenditure for the year amounting to Rs. 154 million</li> </ul>
 <p><b>SOCIAL AND RELATIONSHIP CAPITAL (SRC)</b></p>	<p>Customers (252,520)</p> <ul style="list-style-type: none"> <li>▶ Retail customers</li> <li>▶ Loan customers</li> <li>▶ Corporate customers</li> </ul> <p>Business Partners (441)</p> <ul style="list-style-type: none"> <li>▶ Bancassurance partners</li> <li>▶ Reinsurers</li> <li>▶ Suppliers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Held committee meetings 12 times a year to discuss customer complaints</li> <li>▶ Maintaining an easily accessible customer portal</li> <li>▶ Conducted a total of 261 programs for raising awareness of Dengue, Thalassemia and Diabetes</li> <li>▶ Entered into bancassurance partnerships with Nations Trust Bank PLC, Union Bank PLC and Seylan Bank PLC in 2018</li> </ul>
 <p><b>HUMAN CAPITAL (HC)</b></p>	<p>Workforce of 5,237 as at the year-end comprising of</p> <ul style="list-style-type: none"> <li>▶ 614 employees</li> <li>▶ 245 fixed term contract employees</li> <li>▶ 4,378 sales advisors</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implemented state-of-the-art human resource information system during the year</li> <li>▶ 14,072 hours of employee training</li> <li>▶ Rs. 14.4 million contributed to ETF and Rs. 57.8 million contributed to EPF</li> <li>▶ Introduction of recruitment based on profile mapping in certain business segments</li> <li>▶ 145 promotions during the year</li> <li>▶ 24 individuals identified as top talent in the leadership pipeline where as 7 of them have been identified as top talent in JKH group</li> </ul>
 <p><b>INTELLECTUAL CAPITAL (IC)</b></p>	<p>04 facets of intellectual capital</p> <ul style="list-style-type: none"> <li>▶ Brand value</li> <li>▶ Technology</li> <li>▶ New products</li> <li>▶ Employee know-how</li> </ul> <p>Brand value of Rs. 2.5 billion accumulated over 30 years</p> <ul style="list-style-type: none"> <li>▶ ISO 27001:2013 certification for cyber security</li> </ul>	<ul style="list-style-type: none"> <li>▶ Migrated into a new policy administration system</li> <li>▶ Introduction of a new ticketing system</li> <li>▶ Automated recruitment process</li> <li>▶ Initiatives to retain employees</li> <li>▶ Implementation of programmes such as brain waive to improve employee innovativeness</li> </ul>
 <p><b>NATURAL CAPITAL</b></p>	<ul style="list-style-type: none"> <li>▶ 1,426.30 tCO<sub>2</sub>e of Carbon emission</li> <li>▶ 22,438 m<sup>3</sup> of water consumption</li> <li>▶ 6,386 GJ of energy consumption</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implemented "Go Green" concept</li> <li>▶ Partnered with Carbon Consulting Company (Pvt) Ltd for the 7th consecutive year to measure carbon footprint</li> <li>▶ 125 used bulbs recycled</li> <li>▶ Partnered with Think Green (Pvt) Limited, Neptune Papers (Pvt) Limited and Ewis Peripherals to manage waste</li> <li>▶ Enhanced internal communications to raise employee awareness on environmental protection</li> <li>▶ Invested in information technology applications to carry out paper less operations</li> </ul>
 <p><b>MANUFACTURED CAPITAL</b></p>	<ul style="list-style-type: none"> <li>▶ 88 branches</li> <li>▶ 43,743 square feet of training space</li> <li>▶ 361 customer touch points</li> <li>▶ Total land ownership: Head office 93.4 P Kurunegala 32.3 P</li> </ul>	<p>Upgrade of Head Office and Branch network with modern infrastructure facilities.</p>

OUTPUT	OUTCOME	CAPITAL TRADE-OFF
<ul style="list-style-type: none"> <li>▶ GWP of Rs. 11.2 billion</li> <li>▶ Operating profit of Rs. 2 billion</li> <li>▶ Increase in total asset base by 14% to Rs. 49 billion</li> <li>▶ Net cash generated from operating activities of Rs. 5,170 million</li> </ul>	<ul style="list-style-type: none"> <li>▶ Return on Equity of 25%</li> <li>▶ EPS of Rs. 55.05</li> <li>▶ ROA of 7%</li> <li>▶ Increase in total value added by 6%</li> <li>▶ Capital Adequacy Ratio of 262%</li> <li>▶ Life fund return of 9.63% in 2018</li> </ul>	<ul style="list-style-type: none"> <li>▶ Payment of Rs. 147 million to new relationships (FC to SRC)</li> <li>▶ Payment of Rs. 2,608 million to suppliers (FC to SRC)</li> <li>▶ Payment of Rs. 740 million to reinsurers (FC to SRC)</li> <li>▶ Invested Rs. 17 million in CSR activities (FC to SRC)</li> </ul>
<ul style="list-style-type: none"> <li>▶ 87% claims settled within a day</li> <li>▶ 441 business partners</li> <li>▶ Touched 720,290 lives through our CSR programs</li> <li>▶ Increasing traffic in the UA website 489,933 page reviews</li> </ul>	<ul style="list-style-type: none"> <li>▶ 34% increase in standing order usage in agency and bancassurance channels</li> <li>▶ Needs of 96% of walk in customers met within 15 minutes</li> <li>▶ 83% increase in number of lives touched through CSR programs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Improved trust and loyalty among the staff members. (SRC to HC)</li> <li>▶ Sustainable sourcing (SRC to NC)</li> <li>▶ Potential through current customer references (SRC to FC)</li> </ul>
<ul style="list-style-type: none"> <li>▶ Employee attrition rate of 21.82%</li> <li>▶ 38% increase in higher income advisor category</li> <li>▶ 291 (number) of new recruits</li> </ul>	<ul style="list-style-type: none"> <li>▶ Produced 30 International Award for Productivity (IAP) winners</li> <li>▶ Produced 9 LIMRA International Quality Award (IQA) winners</li> <li>▶ UA Toastmaster club achieved "Smedley" membership building award for the year 2018/2019</li> <li>▶ 'Great Place to Work' for the 6th consecutive year</li> <li>▶ 52 MDRT Award winners</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implementation of employee retention initiatives to safeguard the tacit knowledge (HC to IC)</li> <li>▶ The revenue generated per permanent staff of Rs. 23.91 million (HC to FC)</li> <li>▶ 3,691 staff were trained on selling skills (HC to RC)</li> <li>▶ 253 of staff volunteerism. (HC to SRC)</li> </ul>
<ul style="list-style-type: none"> <li>▶ 163,129 followers in social media</li> <li>▶ 100% Life insurance proposals received digitally</li> <li>▶ Introduced two products to enhance the value proposition to customers in 2018.</li> <li>▶ Increase in brand value of Rs. 700 million</li> </ul>	<ul style="list-style-type: none"> <li>▶ Forbes Asia's 200 Best Under A Billion 2018</li> <li>▶ Largest FB fan base in the industry</li> <li>▶ UA brand was ranked 40th (3rd in the life insurance industry) in the LMD list of most valuable brands 2018</li> <li>▶ 1<sup>st</sup> Runner up for Best Digital Enabled product and Best Digital Integrated Campaign under Small budgets category awarded by Sri Lanka Telecom for GOYO</li> </ul>	<ul style="list-style-type: none"> <li>▶ New key features of new health rider and short-term investment product. (IC to SRC)</li> <li>▶ Financial value creation through increased brand reputation (IC to FC)</li> <li>▶ Newly introduced Customer relationship Management System enhances the customer loyalty (IC to RC)</li> </ul>
<ul style="list-style-type: none"> <li>▶ 6,386 GJ of energy consumed</li> <li>▶ 10% growth in carbon footprint</li> <li>▶ 11% increase in water usage</li> <li>▶ 1% decrease in energy consumption</li> </ul>	<ul style="list-style-type: none"> <li>▶ 315 trees saved</li> <li>▶ Improved air quality in office compounds from oxygen-emitting plants</li> <li>▶ Saved 60,000 paper sheets and 300 printer toners due to automation of underwriting</li> </ul>	<ul style="list-style-type: none"> <li>▶ Energy saving initiatives to reduce the impact on the community. (NC to SRC)</li> <li>▶ Efficient usage of energy, water to provide cost-efficiencies (NC to FC)</li> <li>▶ Proper disposal of wastage to reduce the impact on the community ( NC to SRC)</li> </ul>
<p>Upgraded 11 branches to tier 1 level and 10 branches to tier 2 level</p>	<p>Rs. 154 million Investment on infrastructure development</p>	<p>Increased customer reachability (MC to SRC)</p>




## FINANCIAL CAPITAL

"In our approach to manage financial capital, we seek to establish guidelines and procedures to manage our assets in a manner it creates long term value. Our financial resources are mainly managed through strategic planning, budgetary control, cost control, disbursement policies, liquidity management, investment management, internal audit, management information system and information security."


# CAPITAL MANAGEMENT REVIEW


## FINANCIAL CAPITAL

### KEY PERFORMANCE MEASURES

 **Rs. 11.2Bn**  
Gross Written Premium

 **262%**  
Capital Adequacy Ratio

 **Rs. 2.0Bn**  
Operating Profit

 **25%**  
Return on Equity

### MATERIAL DRIVERS

- ▶ Delivering consistent policyholder value
- ▶ Delivering consistent shareholder value
- ▶ Efficient management of cost
- ▶ Delivering top line growth

### 2018 OBJECTIVES AND ACHIEVEMENTS

Achieve GWP of Rs. 12.5 billion

Achieved GWP of Rs. 11.2 billion

Maintain a CAR in excess of 160%

Achieved CAR of 262%

Return on equity above 20%

Achieved ROE of 25%

Achieve 15% increase in Life fund

Achieved 14% growth in Life fund

Profits to grow at 20% over the year

20% degrowth in profits

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Achieve GWP of Rs. 14 billion	2019
Maintain a CAR in excess of 160%	2019 and beyond
Return on equity above 20%	2019 and beyond
Achieve 15% increase in Life fund	2019 and beyond

### CHALLENGES-2019

- ▶ Increasing market share amidst intense competition
- ▶ Generating higher ROE with increasing cost structure
- ▶ Inconsistent economic and political environment impacting business performance

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL

### MANAGEMENT APPROACH

Financial Capital refers to the resources which are stated in the financial statements of the Company. In our approach to manage financial capital, we seek to establish guidelines and procedures to manage our assets in a manner it creates long-term value. Our financial resources are mainly managed through strategic planning, budgetary control, cost control, disbursement policies, liquidity management, investment management, internal audit, management information system and information security.

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

### OVERVIEW OF FINANCIAL RESULTS

UA recorded 11% growth in revenue to report a Rs. 11.2 billion GWP with the primary contributor been the agency channel. Our recurrent PBT has a degrowth of 48% year-on-year with a net profit attributable to shareholders amounting Rs. 3.2 billion. Profitability has impacted by the losses on marked to market equities and static regular new business premiums.

With the application of surplus-based income tax method, the Company has taxable profits from 2018 based on brought forward tax passed records and future plans. Therefore, the Company has recognised deferred tax asset amounting to Rs.1.1 billion and notional tax credits amounting to Rs. 541 million. The deferred tax asset and notional tax credit will be utilised against the future income tax liability.

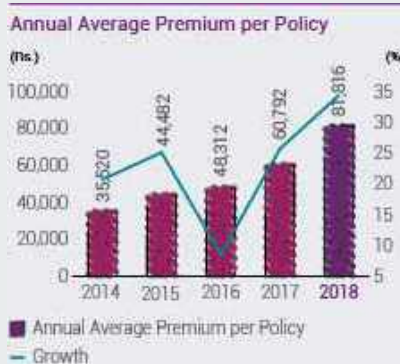
Other revenue has slightly decreased by 1% mainly due to net increase of unrealised losses from equities as a result of negative performance of the capital market and recognition of notional tax credits. We have secured shareholder wealth by producing an earning per share of Rs. 55.05 during the year under review. Our Life fund and total asset base grew during the years to report Rs. 30.6 billion and Rs. 49.1 billion respectively as at reporting date.

Our healthy Capital Adequacy Ratio and dividend payout ratio indicate financial stability and quality of our earnings. These fundamentals will deliver sustainable value to all our partners in the short term as well as long term.

### Key Value Drivers

#### ▶ Annual Average Premium Per Policy (AAPP)

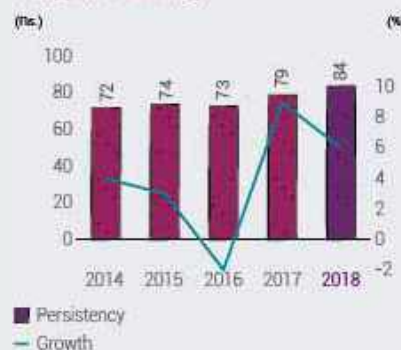
The growth of average annual premium per policy is mainly due to the increase of minimum premium per policy to Rs. 3,000. In addition, the priority has been given to high value policy premiums. The increase in AAPP the lapsation. We continue to improve the AAPP as it will contribute to achieve higher GWP levels. However unstable macro-economic factors will dampen our efforts on improving the AAPP which would eventually have an effect on the growth of revenue.



#### ▶ Premium persistency

Premium persistency is considered as crucial from the standpoint of customer retention and profitability. This is calculated as a percentage of the insurer's total insurance policies that remain in force without being lapsed. The Company was able to improve 13 months premium persistency from 79% in 2017 to 84% in 2018. The movement in mode mix from monthly policies to annual policies and increase in AAPP have resulted in an improvement in persistency.

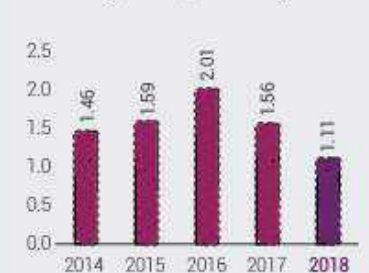
#### Premium Persistency



#### ▶ Productivity ratio

Productivity is measured as an average number of policies sold by an advisor for a month. Over the year productivity has dropped due to the change in strategy and aligning compensation structures to focus on persistency and higher case value. However, we will focus to improve productivity as it is one of the key factors in achieving our long term objectives.

#### Productivity Ratio (No. of Policies)



## REVIEW OF FINANCIAL PERFORMANCE

Review of financial performance includes value creation activities including operating efficiency and effective asset utilisation.

## INCOME STATEMENT

### Gross Written Premium (GWP)

GWP has increased by 11% to Rs. 11.2 billion. The GWP growth has been impacted by the static regular new business premiums. Renewal premiums and single premiums have driven the growth this year.



### Premium Ceded to Reinsurers

Premium ceded is the charge for portion of risk that UA transfers to a reinsurer. This enables UA to reduce its exposure to insurance risk whilst providing access to different market segment through competitive pricing. During the year under review, premium ceded to reinsurers has increased due to a change in reinsurance arrangement.



### Investment and Other Income

Despite the unrealised loss from equities of Rs 655 million, we were able to secure investment and other income of Rs. 4,001 million which was slightly lower than the previous year. During the year under review interest income from Government securities has increased due to increase in interest rates as a result of greater demand for treasury securities stemming from higher Government debt payments and external pressures. The performance of the equity market was negative due to unstable political conditions, inconsistent economic policies and adverse global developments for emerging markets.

The Life fund was able to provide a weighted average return of 9.63% and the shareholders' weighted average return for the year stood at 11.81%

### Investment and Other Income (Rs. Mn)



### GROSS WRITTEN PREMIUM

**Rs. 11.2Bn**

2017 - Rs. 10.1 Bn



### LIFE FUND AVERAGE YIELD

**9.63%**

### Net Insurance Benefits and Claims

We have made Rs 2,908 million net claims and benefits to customers compared to Rs 2,679 million in 2017, recording a 9% growth. This has increased mainly due to the increase in policy surrenders by 70% due to challenging economic conditions.

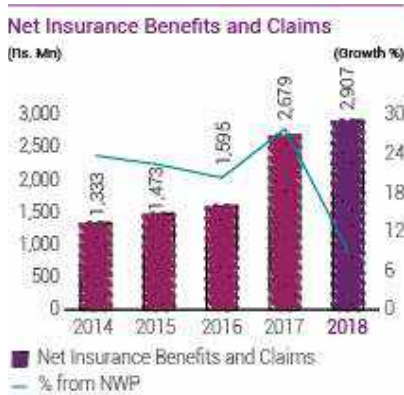
Net claims as a percentage of net written premium remained static at 28%.

Claim Type	2018	2017	Growth
Maturities	1,654,841	1,882,229	-12%
Policy Surrenders	869,044	509,552	267%
Death Disability and Hospitalisation	214,635	273,888	-22%
Annuity Payments	169,319	13,366	1,167%
<b>Total Net Claims and Benefits</b>	<b>2,907,839</b>	<b>2,679,035</b>	<b>9%</b>

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL

"Total asset base of the Company has increased by 14% to Rs. 49.1 billion mainly due to the increase in financial investments as a result of investing inflows from life fund."



### Underwriting and Net Acquisition Costs

Underwriting and net acquisition costs has increased by 12% during the year in line with the GWP growth.

In addition, underwriting and net acquisition cost accounts for 73% of new business premium earned.



### Operating, Administration and Other Expenses

Operating, administration, and other expenses which includes staff cost, administration, transportation, selling, marketing and other costs has increased by 41% approaching the value of Rs. 3,523 million. The growth was mainly due to the initiatives that were strategically implemented in line with the long-term business plan of the company.



### Operating Profits

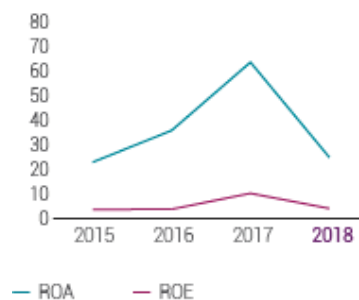
Recurrent operating profits have decreased by 48% mainly due to reduction in surplus transfer by Rs. 2,542 million in 2018. Surplus transfer in 2018 has been impacted by the losses from marked to market equity investments and static regular new business premiums.



### Return on Assets (ROA) and Return on Equity (ROE) (Recurrent)

The Company recorded a ROA and a ROE of 7% and 25% against 10.2% and 64% in 2017 respectively. Decrease in both ratios was a result of degrowth in profits.

### ROA and ROE (%)



### OTHER COMPREHENSIVE INCOME

Other comprehensive income mainly consists of gain or losses arising from available for sale financial assets (AFS), actuarial gains or losses on defined benefit plan, change in fair value of available for sale financial assets and of equity accounted investee. Valuation loss arising from available for sales financial instruments amounted to Rs. 488 million this mainly contributed to reduction in the total other comprehensive income. The valuation loss has arisen from marked to market instruments as a result of increase in interest rates.



**FINANCIAL ASSETS**

**Rs.39.1Bn**

2017 - Rs. 36.8 Bn

**REVIEW OF FINANCIAL POSITION**

Review of financial position details the strength of the Company's financial assets.

**Total Assets**

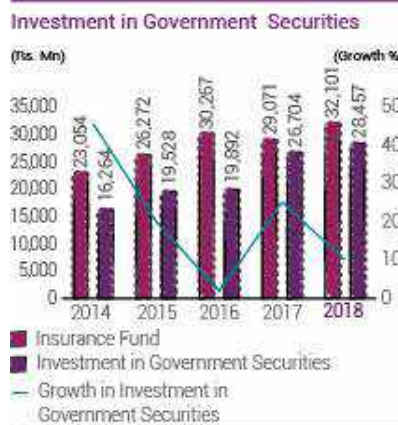
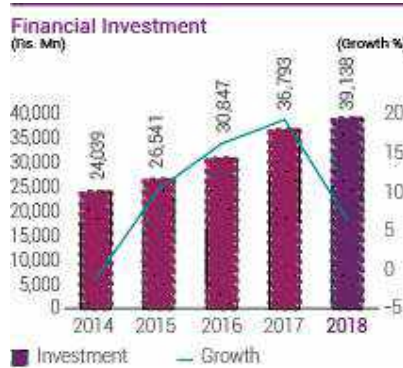
Total asset base of the Company has increased by 14% to Rs. 49.1 billion mainly due to the increase in financial investments as a result of investing inflows from life fund.



**Financial Investments**

Financial investments which account for 80% of the total asset base have reported a 6% growth. Growth of revenue and efficient management of expenses has resulted in the availability of a stable fund base for investment. This has mainly resulted in the growth of investment on financial assets. Held to maturity investments mainly consists of treasury bonds which accounts for 71% of the total financial assets. This is in line with the IRCSL guidelines on investments to safeguard the interests of policyholders. Financial investments under loans and receivable category encompasses bank deposits, quoted debentures and reverse

repurchase agreements under which quoted debentures form a significant portion of 80%. Available for sale consists primarily treasury bonds which represents 22% of total financial assets. The management of financial assets are monitored by the investment committee on a regular basis as detailed in the corporate governance section to the annual report.



**Intangible Assets and Property Plant and Equipment**

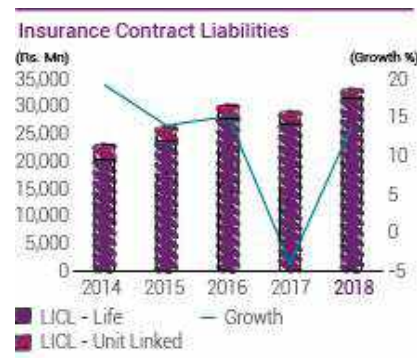
Intangible assets have increased due to the investment in the new core IT platform (policy administration system) and up front payments made to our bancassurance partners for obtaining distribution rights to offer our insurance products to bank customers.

Property, plant and equipment has increased mainly due to upgrade of Head Office and branch infrastructure to align with our five-year strategy.



**Insurance Contract Liabilities**

Insurance contract liabilities are maintained to ensure that future obligations of the policyholders are being met. These are the reserves set aside to meet future claims and maturities of life insurance policyholders. There is a 14% increase in insurance contract liabilities mainly due to net inflow of funds amounting to Rs. 5,005 million and surplus transfer of Rs. 1,100 million.



**Shareholders' Funds**

UA is a fully equity funded Company and retained earnings are the main source of capital for future strategic investments. Shareholder fund has increased by 14% due to current year profits of Rs. 3.2 billion.

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL



### SHAREHOLDER'S FUND

# Rs. 13.7 Bn

2017 - Rs. 12 Bn



### CAPITAL ADEQUACY RATIO

# 262%

2017 - 352%

"The objective of UA's investment management is to generate income and sustainable capital growth while embracing tolerable risk and adhering to IRCSL investment regulations."



### Capital Adequacy Ratio (CAR)

CAR under the Risk Based Capital (RBC) regime measures adequacy of the Total Available Capital (TAC) as against the Risk

Capital Required (RCR). As per the IRCSL guidelines Sri Lankan insurers are required to maintain Capital Adequacy Ratio (CAR) above 120%. Regular monitoring is conducted by the regulator if it falls below 160%. Additionally, insurers are required to maintain a total available capital of Rs 500 million. UA's CAR stood at a healthy 262% as at 31<sup>st</sup> December 2018 reflecting the financial stability of the Company.



### Cash Flow

Cash in hand and at banks and short-term deposits, net of bank overdraft balance stood at Rs. 453 million as at 31 December 2018 compared to Rs. 417 million of previous year.

During the year under review net cash generated from operating activities was Rs. 5,170 million. Majority of these funds were from insurance premiums. Cash flow management is key to UA since it has assets with short-term tenures, and liabilities with long-term tenures. The investment team, actuarial team and the Investment Committee of UA regularly reviews the maturity profiles of assets and liabilities and necessary action is taken to minimise the impact of asset liability cash flow mismatches.

Significant outflow in investing activities mainly reflects the investment of net fund inflow from the business.

### Cash Flow Generated Based on Activities (Rs. Mn)



### PERFORMANCE OF INVESTMENT PORTFOLIO

The objective of UA's investment management is to generate income and sustainable capital growth while embracing tolerable risk and adhering to IRCSL investment regulations. The investment horizon is broadly long-term, however in certain circumstances such as liquidity and various business-related reasons funds are invested in short-term assets.

The investment environment was impacted by various factors in 2018. The political and economic policy uncertainty, US Federal Reserve rate hikes, trade war between China and US, Brexit, capital outflow from emerging markets, slowdown in China are few factors that weighted on return of various asset classes. These factors caused volatility in equity and fixed income asset classes.

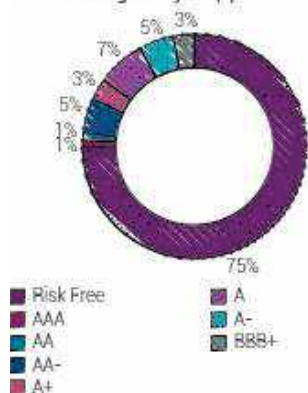
### LIFE FUND

#### Investment in Fixed Income Securities

During the year under review UA invested Rs. 2.4 billion in government securities maturing across two to 14 years. Treasury securities yield at the start of the year stood lower and spiked up from October onwards, increasing to 11% -12% levels. Increased foreign outflow from the bond market caused rates to increase at the latter part of 2018. More than 60% of UA's total treasury investments was in long tenure treasury bonds, while 40% in medium-term to short-term treasury bonds. UA's asset allocation in treasury securities stood at 63% at the end of 2018.

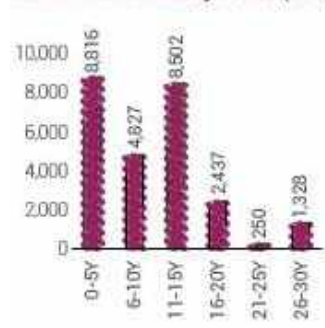
During the year under review UA invested Rs. 2.6 billion (face value) in corporate debentures. Licensed Commercial Banks issued debentures to improve capital adequacy ratio in 2018 as per the Basel III requirements. These debentures are issued with a “non-viability conversion to ordinary shares” option. Of UA’s total debenture investments, almost 80% was invested in Basel III compliant debentures with credit ratings above BBB. The tenure of these debentures ranged from three to 10 years and provided a risk premium of above 100 basis points. At the end of 2018, UA had invested 20% in corporate debt securities from the total investment portfolio.

**Credit Rating Analysis (%)**



Given the long-term tenure of insurance liabilities, UA invests in long tenure investment assets.

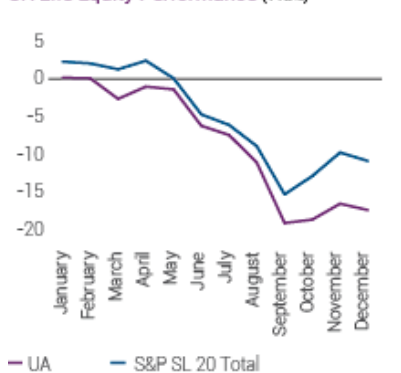
**Fixed Income Maturity Profile (Rs. Mn)**



**Investment in Equity Portfolio**

UA’s equity portfolio performed poorly in 2018, due to negative performance of the capital market. The asset allocation to equities as a percentage of the Life fund was 7% at the end of 2018. UA invested a net of Rs. 250 million in equities during 2018. 71% of the equity portfolio (in terms of market price) is in banks shares followed by Food and beverage and Tobacco -10%, diversified holdings 5% and material 5% (as per GICS classification).

**UA Life Equity Performance (YTD%)**



The Life fund return (including realised and unrealised gains of all asset classes) in 2018 stood at 9.63%. Life fund yield excluding equity unrealised loss was 11.57%. Poor equity market conditions weighted on the total portfolio reducing the overall yield of the fund. UA’s equity investment incurred a total unrealised loss of Rs. 529 million in 2018 (gain of Rs. 127 in 2017) and dividend income of Rs. 103 million (income of Rs. 74 million in 2017).

**Life Shareholder Fund**

Life Shareholder fund (SH) invested purely in Government securities and cash in 2018 (excluding recurrent and one-off surplus transfers from Life fund to Shareholder fund) amounting to net investment of Rs. 553 million. The Life Shareholder fund yield in 2018 stood at 11.81%.

**Unit Linked Investments**

UA manages three unit linked investment funds - Unit Linked Fixed Fund (FIXD), Managed Fund (MNGD) and Equity Fund

(EQTY). FIXD invests in a range of fixed income investments in order to provide stable returns through regular current income. MNGD primarily invests in listed equity with provision for fixed income investments during equity market downturns. EQTY’s objective is to deliver high relative return over the long term on a risk adjusted basis through investment in stocks. FIXD and MNGD’s Funds are managed by UA while EQTY is outsourced to an external fund manager.

In 2018, In terms of unit price, FIXD, MNGD and EQTY returned a positive 8% a negative 10.96% and a negative 14.01% respectively.

**Unit Linked investment (YTD %)**



**UA Share Performance**

The detailed analysis of UA’s share is discussed below;

**Local Share Market Review**

The benchmark All Share Price Index (ASPI) declined 4.98% while the S&P SL20 index also declined by 15.50% in 2018. Significant foreign outflow was seen after the second half of 2018. The total net foreign outflow during the second half amounted to Rs. 21.6 billion, which was more than 90% of the total net outflows in 2018.

The overall market capitalisation as at end of 2018 stood at Rs. 2.84 trillion which is a decline of 2.06% compared to last year. Market multiples further deteriorated in 2018. The price earnings and Price to book value stood at 9.65X and 1.18X respectively, making the CSE one of the most undervalued equity markets in the region.

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL



NET ASSET PER SHARE

**Rs.232**

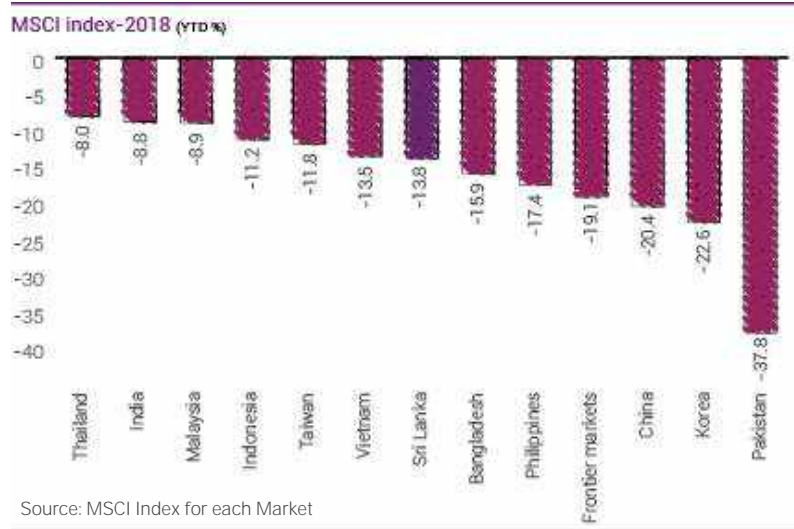
2017 - Rs. 203.04

"During the year, UA share rapidly rose by 157.3% to close at Rs. 347.30 by end of 2018 with average daily volume of 35,865 shares."

Factors such as political uncertainty, high interest rates, slowdown in consumption, rupee depreciation, increase in taxes for certain sectors and increase in US reserve rates had a negative bearing on equities in 2018.

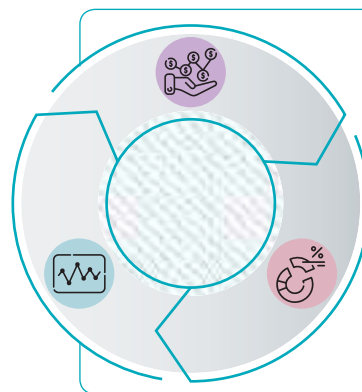


Comparing the regional markets as per the MSCI index, the CSE was better than the MSCI frontier market index outperforming by 531 basis points. Most regional equity exchanges performed poorly given the global uncertainties surrounding US China trade talks and the strengthening of the US Dollar with capital flowing to US after the federal reserve of the US increased policy rates as a result of strong economic growth.



Source: MSCI Index for each Market

### UA Share Price



Total number of shares in issue as at 31/12/2018

**58,928,572**

Public shareholding as at 31/12/2018

**10.00%**

Stock Symbol

**UAL.N0000**

### Issued Share Capital

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

### UA Share Performance Vs. Market Performance

During the year, UA share rapidly rose by 157.3% to close at Rs. 347.30 by end of 2018 with average daily volume of 35,865 shares. In 2018 UA increased the public shareholding to 10% from 6.19% in 2017. UA share traded between a low of Rs. 134.00 (-0.7% YTD on 09 January) and a high of Rs. 364.00 (+169.6% YTD on 13 September) during 2018.

The rally in the share price can be attributed to the fundamentally sound performance which continued to add value to investors in 2018. UA was the only Sri Lankan firm recognized in the Forbes Asia 'Best Under A Billion' list in 2018 among the top 200 publicly listed companies in the Asia-Pacific region.

UA share's beta values against ASPI stood at 0.56 as of fourth quarter of 2018.



### EPS Vs. Retention per Share

The increase in GWP (11% YoY), the degrowth of other revenue (1% YoY) and increase benefits, claims and expenses (9% YoY) resulted in EPS of Rs. 55.05 with a degrowth of 19% YoY. The items contributing to profits are discussed in depth in the financial performance section.



\* Excluding gain on disposal of UAB shares  
\*\* Excluding one off surplus of Rs. 3.4 Bn in 2017

### Dividends Yield

The dividend policy of UA seeks to ensure a dividend payout which correlates with the growth in profits, while ensuring that the Company retains adequate funds to meet the Risk Based Capital requirements as stipulated by the Insurance Regulatory Commission of Sri Lanka (IRCSL) in the short, medium and long term. In February 2019, the

Board of Directors has declared a first and final dividend of Rs. 20.00 per share, subject to relevant regulatory adherence. Accordingly, the gross dividend for the year ended 31 December 2018 is Rs. 1,179 million. This is a healthy increase of 11% compared to the Rs. 1,061 million declared for 2017. The declared dividend provides a dividend yield of 5.76%.



### EARNINGS PER SHARE

**Rs. 55.05**

2017 - Rs. 67.92



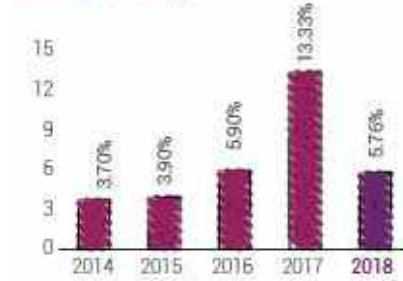
### UA SHARE PRICE

**Rs. 347.30**

2017 - Rs. 135.00

"At the financial year end, UA represented 0.72% of the total market capitalisation of the Colombo Stock Exchange."

### Dividends Yield (%)



### Gross Dividend vs. Dividend Payout

After paying out the dividend of Rs. 1,061 million, the capital adequacy ratio (CAR) of the Company is 262%. This is significantly above the minimum CAR required under RBC requirements of 120%.

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL



### Total Shareholder Return

Total return to shareholders amounted to 172% that was mainly driven by capital gain.



### Market Capitalisation

Due to the increase in UA share price, the market capitalisation of the company increased by 157.3% year on year to Rs. 20.47 billion as at 31 December 2018. At the financial year end, UA represented 0.72% of the total market capitalisation of the Colombo Stock Exchange.



### PRICE EARNINGS RATIO (PER)

# 6.3

2017 - 1.99

### Price Earnings Ratio (PER)

PER of UA share was 6.3 times as at 31 December 2018 compared to 1.99 times recorded in the previous financial year. The noticeable high PE is due to the rally in UA's stock price and the high EPS last year given the one of surplus transfer. The market and sector PE stood at a PE of 9.65X, and 4.34X respectively.

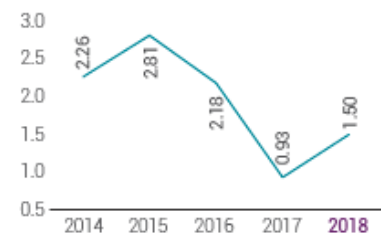
### Price Earnings Ratio (PER) (Times)



### Price to Book Ratio

Price to book ratio of the Company as at 31 December 2018 was 1.50 times an increase of over 61% in comparison to the 0.93 times recorded in the previous financial year. The market and sector PBV stood at 1.18X and 1.72X respectively.

### Price to Book Ratio (Times)



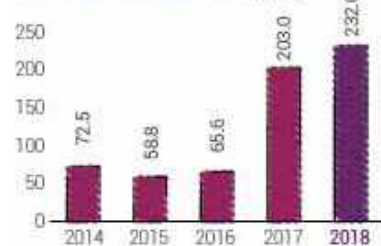
### Net Assets Per Share (NPS)

NPS has increased by 14% due to increase in net assets as a result of current year profits and constant number of shares in issue.

### Liquidity

During the financial year, 7,854,353 shares changed hands over 4,500 transactions compared to 341,965 shares and 800 transactions in the previous financial year. The average daily turnover of the UA shares was Rs. 6,916,546 during 2018 in comparison to Rs. 350,603 recorded last year.

### Net Assets Per Share (NPS) (Rs.)



Trading Statistics	2018	2017
Number of transactions	4,522	819
Number of shares traded	7,854,353	341,965
Value of shares traded (Rs.)	1,514,723,584	49,785,678
Shares traded as a percentage of total shares in issue (%)	13	0.6
Market capitalisation (Rs.)	20,465,893,055	7,955,357,220
Percentage of market capitalisation (%)	0.72	0.3
Gross dividends (Rs.Mn)	1,178	1,061

### DISTRIBUTION AND COMPOSITION OF SHAREHOLDERS

UA has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders increased from 1,333 as

at 31st December 2017 to 1,476 as at 31st December 2018. On 31st December 2018, UA had 1,374 registered individual shareholders, representing 93% of the shareholders. The vast majority of UA's individual shareholders are residents of Sri Lanka. Institutional shareholders represent approximately 95%

of UA's ordinary share capital. The top 20 shareholders hold 96.29% of UA's shares. The Directors do not hold shares in their individual capacity as of 31 December 2018.

#### Composition of Shareholders

	31 December 18				31 December 17			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Directors & spouses:					1	0.08	8,562	0.01
<b>RESIDENT</b>								
Individuals	1,361	92.21	3,470,360	5.89	1,227	92.05	2,748,426	4.66
Institutions	99	6.71	1,955,767	3.32	91	6.83	5,104,258	8.66
<b>NON-RESIDENT</b>								
Individuals	13	0.88	57,181	0.10	12	0.90	62,409	0.11
Institutions	3	0.20	409,549	0.69	3	0.23	31,941	0.05
Shareholders holding more than 10%:	1	0.07	53,035,715	90	1	0.08	50,981,538	86.51
<b>Total</b>	<b>1,476</b>	<b>100</b>	<b>58,928,572</b>	<b>100</b>	<b>1,333</b>	<b>100</b>	<b>58,928,572</b>	<b>100</b>

#### Distribution of Shareholders

Range of shareholders	31 December 18				31 December 17			
	No of shareholders	%	No of shares	%	No of shareholders	%	No of shares	%
Less than 1,000	1,079	73.10	271,036	0.46%	954	71.95	243,856	0.41
1,001 to 10,000	336	22.76	1,094,701	1.86%	327	24.66	1,046,141	1.78
10,001 to 100,000	51	3.46	1,525,557	2.59%	44	3.32	1,111,376	1.89
100,001 to 1,000,000	9	0.61	3,001,563	5.09%	6	0.45	1,253,401	2.13
Over 1,000,001	1	0.07	53,035,715	90.00%	2	0.15	55,273,798	93.80
<b>Total</b>	<b>1,476</b>	<b>100</b>	<b>58,928,572</b>	<b>100</b>	<b>1,333</b>	<b>100</b>	<b>58,928,572</b>	<b>100</b>

# CAPITAL MANAGEMENT REVIEW

## FINANCIAL CAPITAL

### Directors' Shareholdings

No. of Shares as at	31.12.2018	31.12.2017
Mr. Ajit D. Gunewardene (Chairman) [Resigned w.e.f. 31.12.2017]	N/A	8,562
Mr. S. C. Ratnayake (Chairman) [Resigned w.e.f. 31.12.2018]	Nil	N/A
Mrs. D. C. Alagaratnam	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. A. S. De Zoysa [Resigned w.e.f. 03.08.2018]	N/A	Nil
Mr. G. F. C. De Saram [Resigned w.e.f. 31.12.2018]	Nil	Nil
Mr. H. A. J. De S. Wijeyeratne	Nil	Nil
Mr. A. D. Pereira	Nil	Nil
Mr. D. H. Fernando [Appointed w.e.f. 03.08.2018]	Nil	N/A

### CEO's Shareholding

No. of Shares as at	31.12.2018	31.12.2017
Mr. A. D. Pereira	Nil	Nil

### Twenty Largest Shareholders

Name of Shareholder	As at 31 December 2018		As at 31 December 2017	
	31.12.2018	31.12.2018	31.12.2017	31.12.2017
John Keells Holdings PLC	53,035,715	90.00%	50,981,538	86.51%
Waldock Mackenzie Ltd / Mr. S. N. P. Palihena and Mrs. A. S. Palihena	1,000,000	1.70%	600,000	1.02%
Suktam Holdings (PVT) Ltd	609,000	1.03%	N/A	N/A
Citibank Newyork S/A Norges Bank Account 2	402,549	0.68%	N/A	N/A
People's Leasing & Finance PLC/ Hi-Line Trading (Pvt) Ltd	246,360	0.42%	146,360	0.25%
Rubber Investment Trust Limited A/C # 01	199,000	0.34%	N/A	N/A
Captain D. V. H. Palihena	150,524	0.26%	N/A	N/A
Corporate Holdings (Private) Limited	149,373	0.25%	149,373	0.25%
People's Leasing & Finance PLC / Mr. L. P. Hapangama	124,719	0.21%	137,210	0.23%
Dr. (Mrs.) V. Bandaranayake	120,038	0.20%	120,038	0.20%
Mrs. A. Selliah	100,000	0.17%	N/A	N/A
J.B. Cocoshell (PVT) Ltd	94,966	0.16%	N/A	N/A
People's Leasing & Finance PLC / Mr. L. H. L. M. P Haradasa	88,392	0.15%	88,392	0.15%
People's Leasing & Finance PLC/ Dr. H. S. D. Soysa & Mrs. G. Soysa	82,701	0.14%	82,701	0.14%
Mr. M. M. M. Mizver	70,177	0.12%	N/A	N/A
Mr. H. A. D. Ratnapala	56,250	0.10%	56,250	0.10%
Mr. J. W. Nanayakkara	56,250	0.10%	56,250	0.10%

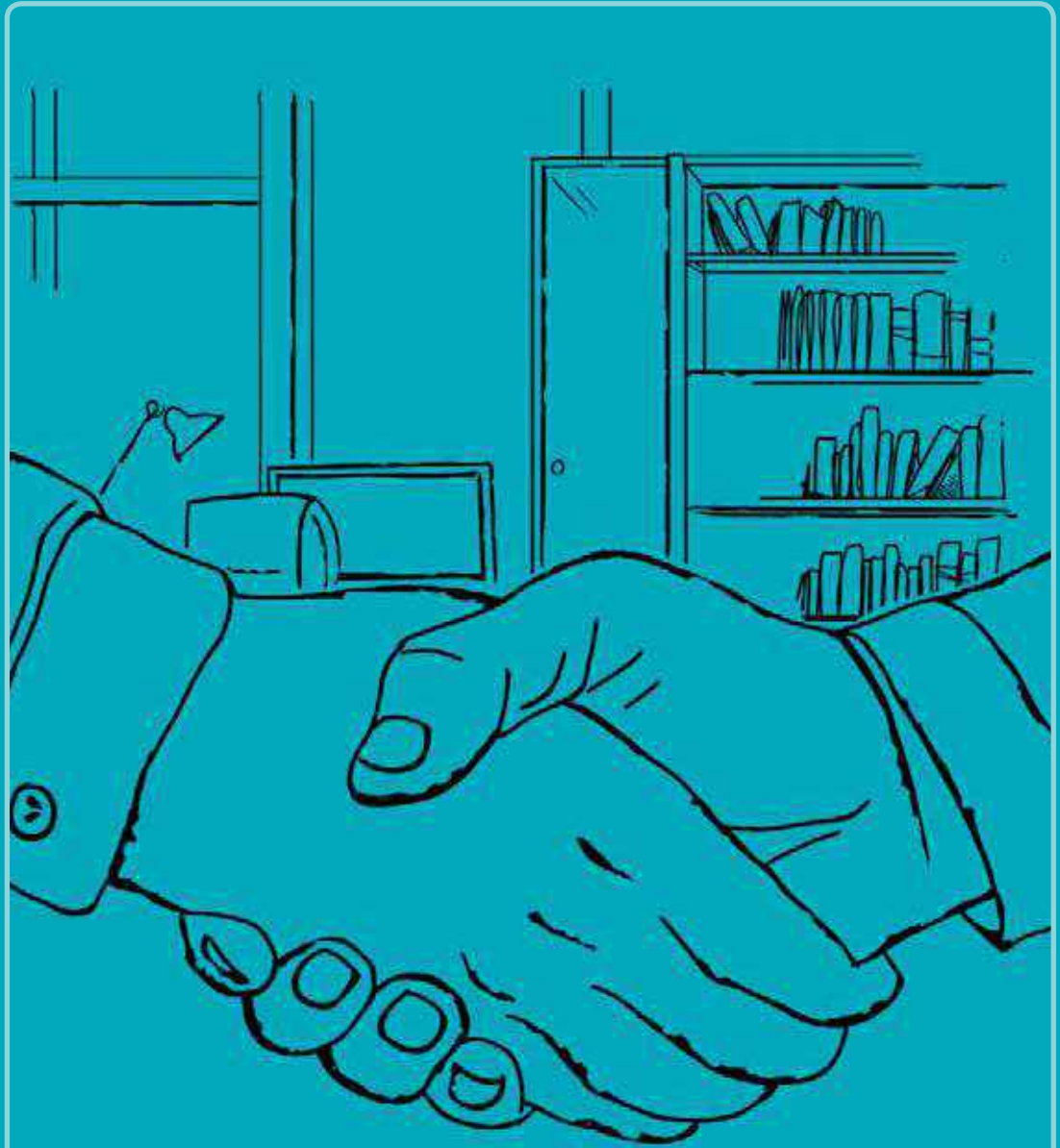
Name of Shareholder	As at 31 December 2018		As at 31 December 2017	
	31.12.2018	31.12.2018	31.12.2017	31.12.2017
Mrs. R. Z. Wikramanayake (Deceased)	53,585	0.09%	53,585	0.09%
Dr. N. I. Wikramanayake	53,059	0.09%	53,059	0.09%
Dr. S. Selliah	50,000	0.08%	N/A	N/A
Others	2,185,914	3.71%	6,403,816	10.87%
Total	58,928,572	100.00%	58,928,572	100.00%

#### Record of Changes in Number of Shares

Year	Issue	Basis	No. of Shares	Share Capital (Rs.)
1987	Prior to public issue	-	8,000,000	80,000,000
1988	Public issue	-	2,000,000	20,000,000
1995	Rights @ Rs. 50	3:1	3,333,333	33,333,333
1999	Bonus	2:1	6,666,667	66,666,667
2002	Bonus	4:1	5,000,000	50,000,000
2007	Bonus	2:1	12,500,000	125,000,000
2011	Share split	1:2	37,500,000	-
2012	Rights @ Rs. 70	7:1	10,714,286	750,000,020
2015	Share repurchase	32:10:00	(26,785,714)	-
2015	Capital re-organisation		-	(125,000,020)
			58,928,572	1,000,000,000

#### OUTLOOK

With the strong asset base and robust set of controls, we strive to achieve excellence in resource utilisation to fulfill the expectations of every stakeholder. We continually assess our existing financial performance and implement strategies to achieve maximum results. We aim to finance our business expansion within the Company, therefore we focus on both top line growth and the profitability.



## SOCIAL AND RELATIONSHIP CAPITAL

Our CSR initiatives aim to achieve healthy Sri Lankan communities and we endeavour to be a fair and transparent business partner to our suppliers. We believe that building social and relationship capital is important in creating the long-term sustainable value of the business.

# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL

### KEY PERFORMANCE MEASURES



#### Expansion of protection

Rs. 2.9 billion regular new business premiums



2

#### Insurance solutions to meet emerging customer needs

New propositions for health and short term investment needs



5.03/7

#### Score in customer satisfaction

203 complaints settled by the year end



Rs. 3.4Bn

Benefits and claims paid



720,290

lives touched

Through dengue, thalassemia and diabetes awareness campaigns



Rs. 2.6Bn

Supplier relations

On time supplier settlements

### MATERIAL DRIVERS

- ▶ Unmatched services
- ▶ Effective communication
- ▶ Unparalleled distribution
- ▶ Innovative product offerings
- ▶ Increasing awareness
- ▶ Community development

### 2018 OBJECTIVES AND ACHIEVEMENTS

Drive direct customer engagement

Improved customer engagement via customer engagement activities

Improve persistency

Improved 13 months' persistency from 79% to 84%

Optimise operating cost

Operating cost is managed with 41% increase

Use CSR platform (dengue, thalassemia and diabetes awareness campaigns) to improve health of the community

Reached 720, 290 lives via CSR programmes

Better supply chain management to provide superior customer service

Introduced customised policy document with collaboration of suppliers

Develop products beyond protection and engage a whole ecosystem

Introduced GOYO freemium app

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Enhancing customer experience through advanced technology	2019 and beyond
Offering tailor-made insurance solutions in meeting emerging customer demand	2019
Improve risk management with cost optimisation via better reinsurance arrangement	2019
Increasing number of touch points through geographical spread	2019 and beyond
Enhancing community awareness on non-communicable diseases.	2019 and beyond

### CHALLENGES-2019

- ▶ Intense market competition
- ▶ Volatility in macro economic factors
- ▶ Changing customer needs

# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL

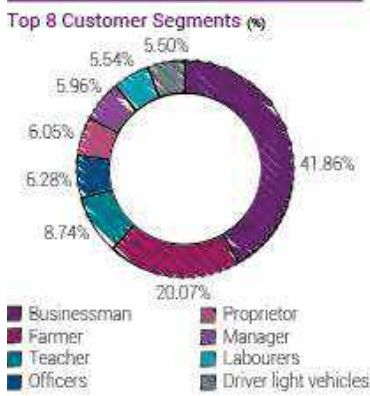
### MANAGEMENT APPROACH

We are committed to provide a superior customer experience through unique insurance propositions and services to our customers. Our CSR initiatives aim to achieve healthy Sri Lankan communities and we endeavour to be a fair and transparent business partner to our suppliers.

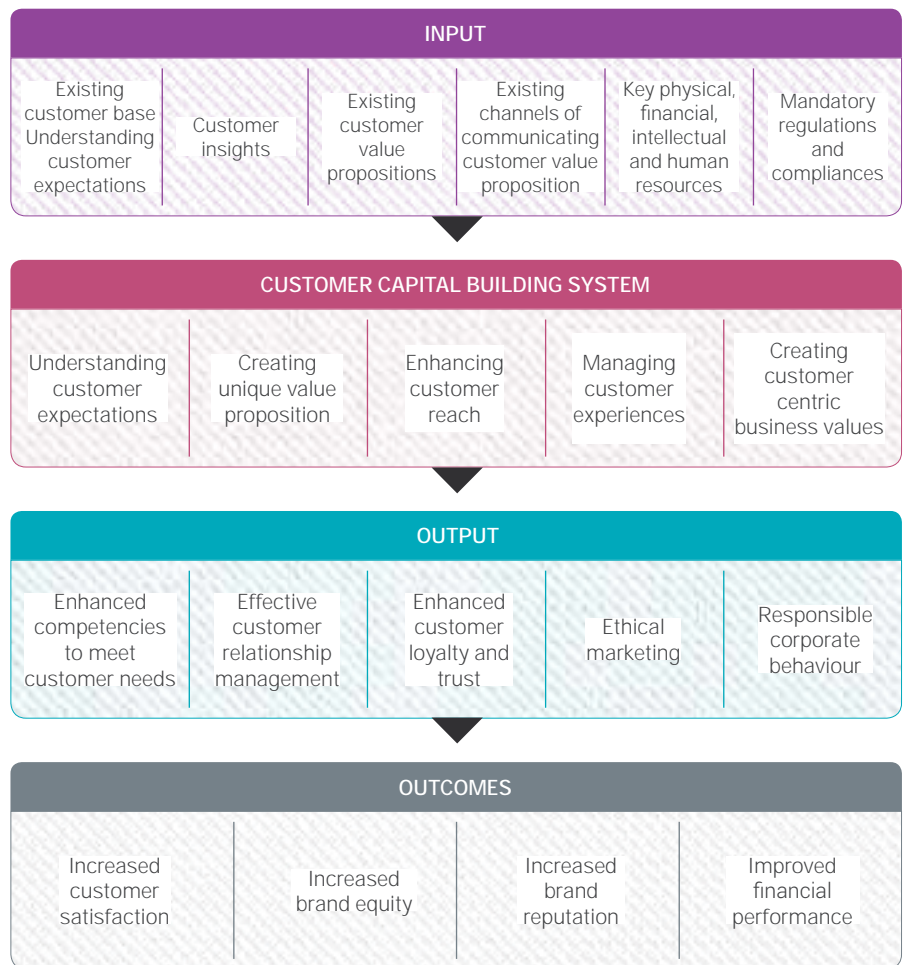
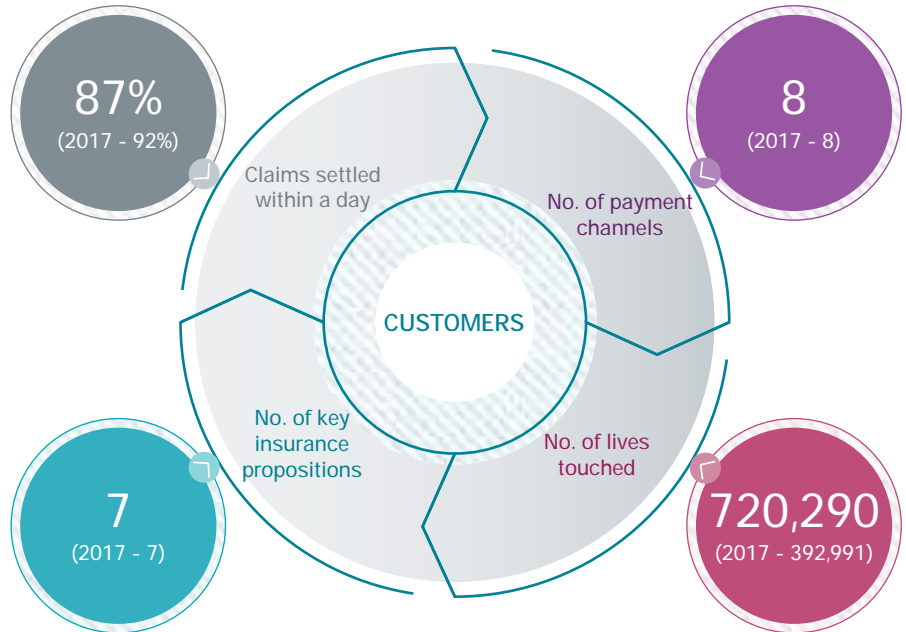
We believe that building Social and Relationship Capital is important in creating long-term sustainable value of the business. We have undertaken several initiatives to ensure regular stakeholder engagement which is outlined in the stakeholder engagement section (Page 29) of the report. This enabled us to identify the material topics and the level of impact on the business. Considering the suppliers, mutually-beneficial relationships are sorted through sustainable sourcing. Contribution to JKH Group sourcing initiative has further enabled the initiative of sustainable sourcing. Our commitment towards society and environment is further verified by the fact that no fines or other environment related concerns being raised on the Company during the year under review. Further we have not been charged with any breach of marketing and communication related issues.

### SIGNIFICANCE OF CUSTOMER RELATIONSHIPS TO UA

Customers are the reason for the existence of the Company. With the wide geographic presence consisting of 88 branches and 4,378 Agency force, UA offers a range of products to suit the diverse protection, retirement, health, investment and saving needs of customer. We recognise the fact that the quality of the relationship which we maintain today has a significant impact on the ability to create a sustainable business in future. In this preview we have invested significantly in enhancing customer value. This has enabled us to create long-term, mutually-beneficial and sustainable customer relationships. Our top eight customer segments are as follows:



### Key Customer performance measures



**MANAGEMENT ACTIVITIES ON CUSTOMER CAPITAL BUILDING**




**Understanding Customer Expectation**

Understanding customers will give us an opportunity to identify changing customer needs and wants in a timely manner. We undertake a number of measures such as customer surveys, market research studies, ideas of consultants to understand evolving customer needs. This has enabled us to maintain and retain good customer relationships.

**Creating Unique Value Proposition**

The value proposition, we offer comprises of the components that indicate the ways we satisfy customer needs and how we distinguish ourselves from competition. We highly focus on differentiating ourselves from the competition and provide the industry's best insurance solutions to customers. This is built on advanced research, technological innovation, customer relationship management and responsible behaviour. Main elements of our value propositions are outlined as follows:

**"We highly focus on differentiating ourselves from the competition and provide the industry's best insurance solutions to customers."**

Product Name	Customer Need	Key Features
<b>RETAIL CUSTOMERS</b>		
<p><b>Union Advantage</b> Universal life product with long-term (i.e. 10 or more years) premium payment to build an investment for future savings need</p>	<p><b>Savings and Investments with protection</b></p> 	<ul style="list-style-type: none"> <li>▶ Funds invested in the Company's Life fund, which is professionally managed with a track record of attractive returns.</li> <li>▶ 100% of distributable investment yield of the Life fund credited as dividend to customers' individual 'investment account'.</li> <li>▶ Individual investment account accumulates monthly with dividends to enhance returns and this fund value will be paid at maturity.</li> <li>▶ Guaranteed minimum dividend declared at the beginning of each calendar year ensuring that the actual declared dividend will not fall below the minimum guaranteed for the given year.</li> <li>▶ In the event of an unfortunate demise of the policyholder, the value of the investment account or the sum assured, whichever is higher, will be paid to the nominees.</li> </ul> <p>The Advantage base plan provides flexibility to add a combination of protection covers to ensure a tailor-made solution;</p> <ul style="list-style-type: none"> <li>▶ An additional Life cover can be added up to five times the Basic sum assured for a minimal premium.</li> <li>▶ Double accidental death benefit to provide a higher protection against accidental deaths.</li> <li>▶ Family income benefit for the dependents to continue to enjoy the quality of life in case of an untimely death of the policyholder.</li> <li>▶ Disability benefit to provide protection against permanent disabilities.</li> <li>▶ Protection benefits can be extended to cover the spouse.</li> </ul>
<p><b>Union Super Investor:</b> Universal life product with short-term (i.e. five years) premium payment to boost an investment for future savings need</p>		
<p><b>Union Single Premium Advantage:</b> Universal life product allowing customers to deposit a lump sum to generate higher investment benefits.</p>		

# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL

Product Name	Customer Need	Key Features
<p><b>Union Advantage</b></p> <p>With additional covers to provide tailor-made health solution</p>	<p><b>Family healthcare</b></p> 	<ul style="list-style-type: none"> <li>▶ Range of health benefits are available to complement the Advantage Base Plan to provide comprehensive health solution;</li> <li>▶ Union Smart Health is a comprehensive medical expenses reimbursement rider benefit which can be added to the Advantage Plan. The benefit also provides a 'cashless card' for hassle free hospital bill payment.</li> <li>▶ The benefit can be taken as a 'family cover' or 'individual cover'.</li> <li>▶ Hospital cash benefit can be taken to cover the whole family, where a fixed per day benefit is payable for each day hospitalised.</li> <li>▶ Critical illness cover provides coverage against 24 predefined critical illnesses.</li> </ul>
<p><b>Pension Advantage</b></p> <p>Universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age</p>	<p><b>Retirement</b></p> 	<ul style="list-style-type: none"> <li>▶ A monthly pension starting from the chosen retirement age (i.e. 55 / 60 / 65) for a fixed period.</li> <li>▶ In the event of a total permanent disability, the future premium payment will be waived off and the policy will be continued to ensure the intended pension payment.</li> <li>▶ The premium waiver on death, ensures the pension payment for dependents, in the event of untimely death of the customer.</li> </ul>
<p>Combines a health insurance policy with that of a life insurance policy to protect health and wellbeing of senior citizens</p>	<p><b>Union 60+</b></p> 	<ul style="list-style-type: none"> <li>▶ Citizens between the ages of 50 and 70 can obtain a Union 60 Plus cover and continue to receive benefits up until the age of 75 years.</li> <li>▶ The period of cover is five years, with premium payments only being paid once a year.</li> <li>▶ The policy provides extensive health coverage including surgical benefit.</li> <li>▶ Permanent and total disability benefit.</li> <li>▶ Reimburses the expenses of prosthetic devices, ambulance charges, daily hospitalisation benefit and an additional health reimbursement benefit cover the cost of inpatient treatment.</li> </ul>
<p><b>LOAN CUSTOMERS</b></p>		
<p><b>Union Loan Protection</b></p> <p>Decreasing term assurance policy to cover all loan types</p>	<p><b>Protection against loan repayment</b></p> 	<ul style="list-style-type: none"> <li>▶ Single premium policy</li> <li>▶ Sum assured decreases periodically with the repayments.</li> <li>▶ Provides cover against death or total permanent disability of the policyholder.</li> <li>▶ Simplified underwriting for hassle free administration;             <ul style="list-style-type: none"> <li>▶ Ability to provide group cover covering all housing loans, loans against property, business loans against security up to Rs. 10 million without any underwriting.</li> <li>▶ Minimum underwriting requirements with very high non-medical limits for loans falling outside the above category.</li> </ul> </li> </ul>

Product Name	Customer Need	Key Features
<b>CORPORATE CUSTOMERS</b>		
<p><b>Union Protect</b> Employee benefit scheme to provide a comprehensive protection solution</p>	<p><b>Employee Welfare</b></p> 	<ul style="list-style-type: none"> <li>▶ Group Life policy ensuring simple administration.</li> <li>▶ Simplified underwriting requirements.</li> <li>▶ Flexible solution to customise cover suiting the financial objectives and needs of employees.</li> <li>▶ Able to include additional protection benefits to cover critical illness, hospitalisation, disability, etc.</li> </ul>
<p><b>GOYO</b> Personal Health Advisor</p>	<p><b>Wellness Solution</b></p> 	<ul style="list-style-type: none"> <li>▶ A wearable device linked to an app which works as a 'personal health advisor'.</li> <li>▶ This motivates users to achieve personal fitness targets by offering rewards and benefits from a host of local and international partners.</li> </ul>
<p><b>Family Income Benefit</b></p>	<p><b>Continuous Income</b></p> 	<ul style="list-style-type: none"> <li>▶ The Family Income Benefit can be obtained under Group Life Schemes designed for Employer-Employee groups. The cover can be customised in such a way that it will provide an employee's monthly salary to the family in the event of an untimely death for a specified number of years.</li> </ul>
<p><b>Lady Care</b> Critical Illness Group Rider Cover</p>	<p><b>Healthcare</b></p> 	<ul style="list-style-type: none"> <li>▶ Lady Care Critical Illness Cover (LCCI) is an additional cover attached to the Group Life policy. LCCI benefit pays a lump sum to the life assured upon diagnosis of listed critical illnesses as stated in the policy conditions.</li> <li>▶ The cover is best suited to bundle with offers targeted for female account holders and they could opt up to a maximum of Rs. 10 million under this benefit.</li> </ul>

**Enhancing Customer Reach**

Adhering to the 'customer-oriented' operating concept, the Company has consistently pushed forward the product diversification development strategy and made greater efforts in developing protection-oriented and long-term saving products to meet multifarious insurance demands of customers. Customer contact takes place over multiple platforms in

ways that are convenient and relevant to each individual whether face-to-face, online, or over the phone. Our branch network enables us to reach customers in all corners of the country and provide them with insurance solutions most suited to their needs, making premium payments, assisting policy changes in line with their requirements, or assisting in processing their claims.

**Managing Customer Experiences**

We put customers first and consider their feedback as a measure of where we have been successful and where we can improve. Our ability to engage and meet their needs directly impacts our competitiveness and profitability.

# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL

**"We continually seek to develop innovative insurance solutions and have brought two new plans to market during the year."**

Our main objective is to provide affordable and quality products, deliver superior customer service and settle claims fairly and speedily in line with UA's philosophy of overall corporate responsibility; giving our customers the assurance of integrity across the value creation. Responsible customer care enables the Company to mitigate risks, which may otherwise lead to a loss of credibility and damage in the reputation. We continually seek to develop innovative insurance solutions and have brought two new plans to market during the year. At UA, we have a comprehensive portfolio of products from savings and investments to protection, family healthcare and retirement, covering all life stages. These are supported by a wide range of riders covering, for example, accidental death,

disability, critical illness, funeral expenses, hospital cash and family income benefits.

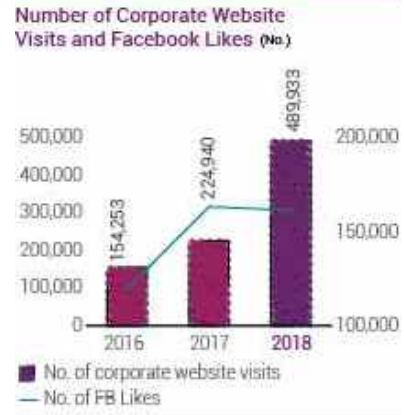
► Delivering top of the line customer service

At UA, we strive to deliver high quality service to our existing as well as our new customers. From inception of a policy right to the maturity or claim, we aspire to deliver the best service. We believe that customers look for a partnership with an insurance company which provides them convenience and transparency and provide greater value to them in every engagement.

► Enhanced Customer Engagement

### Online Support

The UA website is dynamic with increasing traffic. We continuously receive product inquiries via our web page. We also interact with our customers via Facebook and continue to see strongly engage via these modern channels of engagement.



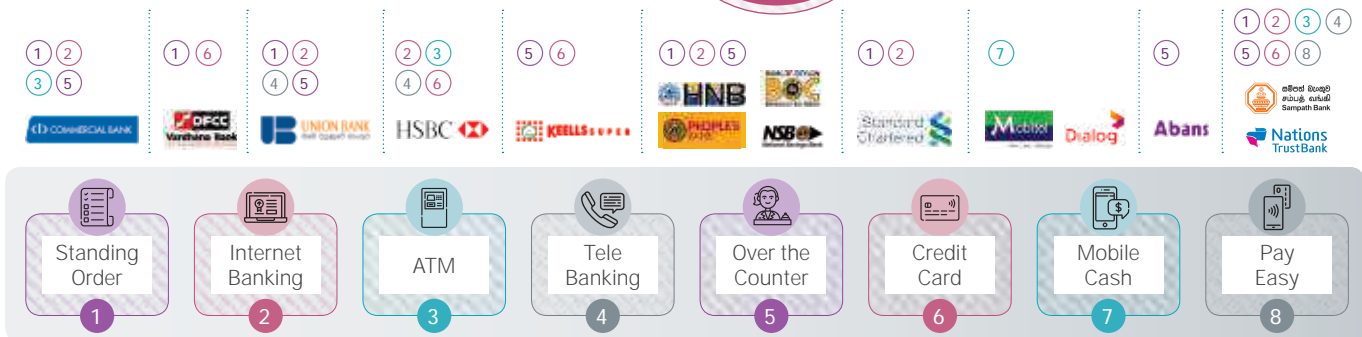
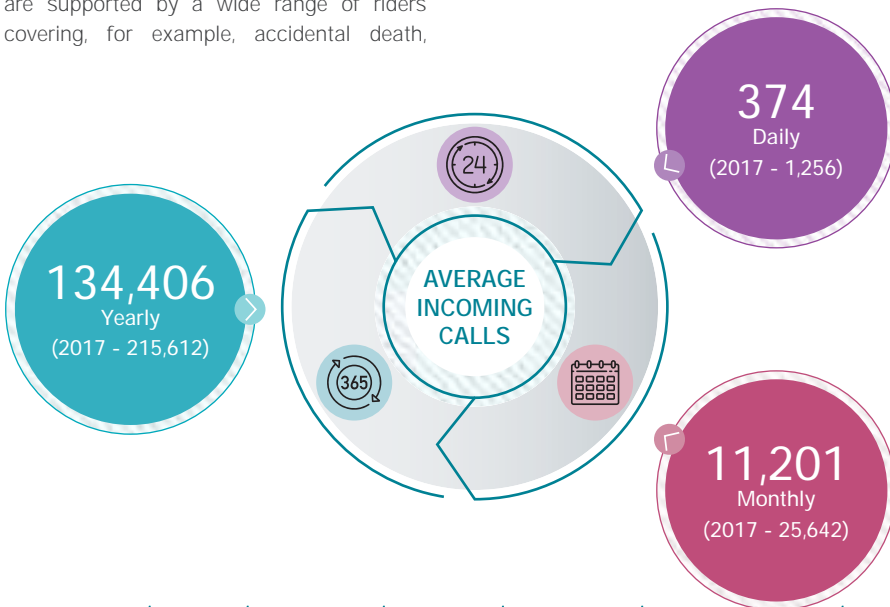
### UA 24/7 Call Centre

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

### Multiple Payment Channels

Keeping customer's convenience in mind, we have partnered up with multiple service providers to provide a wide array of payment channels to our customers. During the year under review, UA has taken various measures to increase usage of alternative payment channels including mobile cash. The Company focused on the mobile payment channel to leverage mobile phone penetration in Sri Lanka.

Further steps have been taken to increase standing order payments. End of the year standing order usage has increased to 34%. These payment modes are convenient and also improves persistency, enabling insurance policies to continue undisrupted.



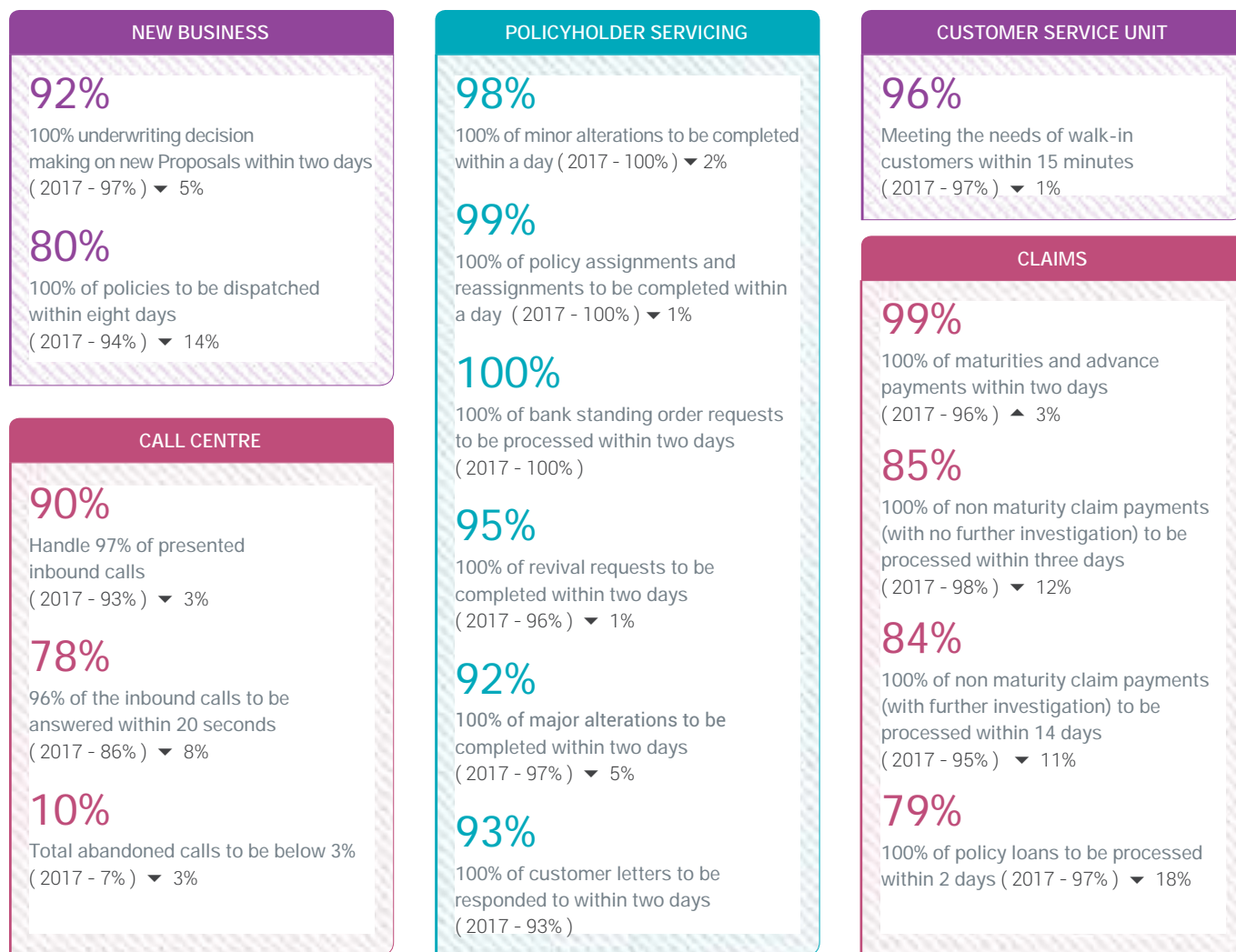
The number indicates each payment channel

### Customer Portal

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

### Maintained Service Standards through the Customer Service Unit (CSU)

To provide best in class service, pre-agreed service standards are constantly monitored via a workflow system which is integrated with the core Life insurance system. A summary of the performance during 2018 is provided below.



### Regular Feedback and Complaint Management

At UA, we have consistently improved the quality of our customer service and strive to be the benchmark of the industry. In our commitment to deliver superior customer service, we place high importance to all customer complaints that we receive.

Customers are able to send their feedback / complaints in writing or call on our customer service hotline +94 112990990 or lodge the complaint in writing or verbally at any of our branches.

All such feedback is uploaded to our online Customer Feedback System (CFS).

These complaints are then reviewed at bi-monthly CFS committee meetings with the participation of Senior Management and necessary action is taken. The committee physically met 12 times during the year to discuss and address customer complaints. Statistics related to complaints received over the past three years are indicated in the graph provided next.

# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL



### Creating Customer Centric Business Values

All our business values focus on delighting customers by providing excellent customer service. The values such as excellence, caring, innovation, trust, ethics and integrity flow through different parts of the business to ensure the corporate responsibility. Our marketing activities are based on the highest level of transparency and professionalism. We consider customer privacy with paramount importance as our business involves collection of significant amount customer sensitive data. Maintaining the confidentiality of these information has been ensured by implementing number of controls and IT security measures.

### SIGNIFICANCE OF BUSINESS PARTNERSHIP TO UA

UA's business partnerships lie at the heart of our value creation process and therefore, we consider this a capital that requires careful management. The key counterparties that we have developed relationships over time are listed below:

- ▶ Bancassurance partners
- ▶ Reinsurers
- ▶ Suppliers and other banks, asset and material providers and financial service providers

The strength of the business partner relationship is a source of competitive advantage. Therefore, we firmly believe that consistent and mutually-beneficial

relationship is vital for the business success. We continuously improve the quality of our interactions to maintain cordial relationship with suppliers. More than just suppliers, we see these companies as business partners and seek to offer them unique opportunities for learning and capacity building.

Recognising the benefits of collaborative relationships within and beyond UA, our appreciation of supply chain management has steadily increased over the years. Our partners contribute to the quality of delivery that we have promised our customers. For us, supply chain is the total system of products, services and information from partners, right through to our people, including activities, information, and resources involved in designing, developing and delivering our products to our customers. Therefore, partners are a critical link in our supply chain. The diagram in the next page illustrates our approach to address key material issues of our partners.

### Responsible Corporate Citizen

As a responsible corporate citizen, we make every endeavour to work only with ethical business partners and our supplier selection criteria takes into account ethical business practices that we expect to witness in their business practices. The supplier selection process considers the following

attributes when short-listing suppliers to be recommended to the supplier approval committee.

#### Our Supplier selection criteria

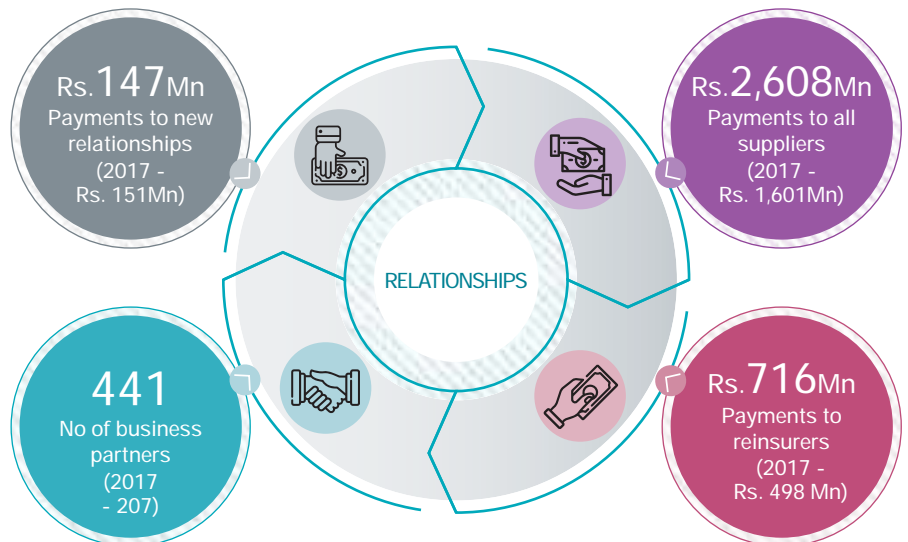
- ▶ Company profile and service record
- ▶ Financial stability
- ▶ Governance process
- ▶ Environmental practices
- ▶ Labour practices
- ▶ Human rights practices / diversity and equal opportunities
- ▶ Anti-corruption policy

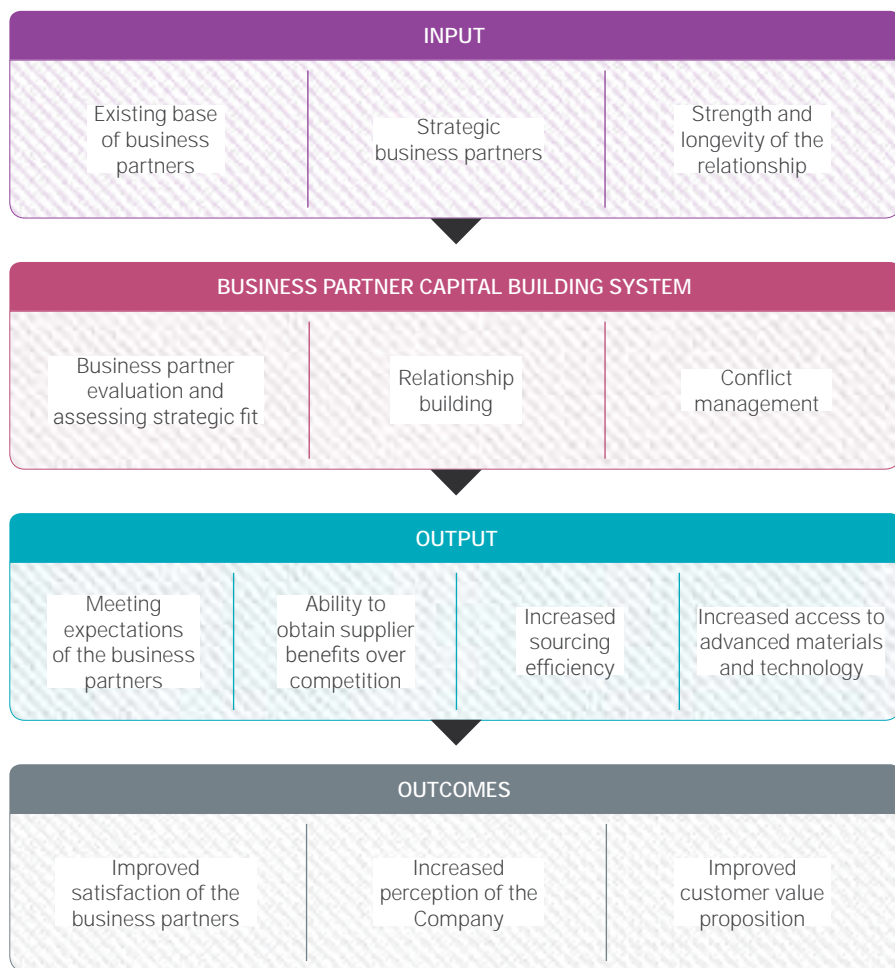
#### Products / Service Selection Criteria

- ▶ Fitness-fit for the purpose the product / service is to be used.
- ▶ Operational simplicity including ease of maintenance and disposal
- ▶ Durability and quality
- ▶ Energy consumption, upgradability and reusability
- ▶ Price competitiveness

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

### Key Supplier Measures





**"We strive to build trust by identifying our business partner expectations, delivering on these expectations, maintaining transparency and practicing conflict resolution."**

- ▶ **On-Time Settlement to Suppliers** - As an ethical business organisation, we are conscious of the working capital requirements of our suppliers. We ensure that our suppliers are paid within the agreed time lines in order to maintain a collaborative relationship which is beneficial to both parties
- ▶ **Supply Chain Management** - At UA, we regularly engage with our suppliers to improve our service to our customers. We believe maintaining good relationships with our suppliers will ensure uninterrupted supply, quality and reasonable pricing. The entire supply chain of UA has been designed covering three areas i.e. local sourcing, international sourcing and outsourced operations

### Conflict Management

We always try to maintain quality relationship with our business partners. We build a relationship of trust with the business partners by clearly identifying their expectations, resolving conflicts, delivering expectation and maintaining transparency. Considering a conflict situation, we perceive the matter in an unbiased manner and attempt to resolve it in a mutually-beneficial way.

### BANCASSURANCE PARTNERSHIPS

We believe that the bancassurance channel is the catalyst for the next phase of growth. UA has an excellent track record in growing high quality business via this channel with a number of different bank partners. During the year under review, UA entered into exclusive strategic agreements with Nations Trust Bank PLC and Union Bank PLC to obtain distribution rights to offer our insurance propositions to those banks' customers. Further an open architecture agreement was

### MANAGEMENT ACTIVITIES ON BUSINESS PARTNER CAPITAL BUILDING

#### Business Partner Evaluation and Assessing Strategic Fit

UA's approach is motivated by our conviction that dialogue and responsiveness are fundamental to managing and improving service quality, customer satisfaction and community impact. The growing relevance of faster and more accurate input for decision-making processes requires us to carefully screen an increased number of sources for additional insights. It is imperative that our business partners share our core values. While profitability is always an important factor in any transaction, we believe that a congruence of business philosophies and a

meeting of corporate minds makes the best business sense.

#### Relationship Building

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

- ▶ **Fair and Unbiased Selection** - UA has developed a formal process to evaluate suppliers annually and ensures that all suppliers have an equal opportunity to present their products or services.

## CAPITAL MANAGEMENT REVIEW





### SOCIAL AND RELATIONSHIP CAPITAL

signed with Seylan Bank PLC to offer our insurance solutions to banking customers of several branches. We continue to enter into discussions and partnerships with other banks to obtain distribution rights and strengthen our existing partnerships with banks.

#### REINSURERS

Our reinsurance partners play a crucial role in our operations as they allow us to transfer part of the risk that exceeds our appetite (our underwriting capacity). We only enter into reinsurance arrangements with financially stable reinsurers whose security ratings are either on par or better than the minimum ratings stipulated by the IRCSL.

Ratings of our reinsurance panel are given below.

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

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

- ▶ Reliable and timely information - Exchange of right information at the right time with our reinsurers helps us to make better business decisions. Therefore, corporate agility and the ability to analyse information speedily are viewed as core competencies and a source of competitive differentiation by our reinsurers.
- ▶ Delivery of balanced and profitable portfolio - UA has a balanced insurance portfolio with diversified risks. Therefore, losses can be balanced collectively enabling us to better negotiate with our reinsurers. UA

is equipped with a well experienced and qualified underwriting team who ensures risks are underwritten in line with globally accepted underwriting practices, in turn delivering a well-balanced portfolio to our reinsurance partners

#### Key Performance Measures

	2018	2017
Investment in CSR activities	Rs 17 Mn	Rs 13 Mn
No. of lives touched	720,290	392,991
No. of programs		
Dengue	15	54
Thalassemia	177	108
Diabetes	69	48

**"At UA, we believe that the society we operate is the bedrock of the Company. As a responsible organisation we seek to improve the health and safety of the society that we serve."**

- ▶ Effective risk assessment practices and policies - These provide a mechanism to identify which risks represent opportunities and which represent potential pitfalls for both parties. The right risk assessment provides a clear view of variables to which UA and the reinsurers may be exposed, whether internal or external, retrospective or forward looking. UA risk assessment is anchored in the Company's defined risk appetite and tolerance and provides a basis for selecting appropriate risks. A robust risk assessment process, applied consistently throughout the underwriting process, empowers UA underwriting staff to better identify, evaluate and exploit the right risks.

#### SIGNIFICANCE OF COMMUNITY RELATIONSHIPS TO UA

At UA, we believe that the society in which we operate is the bedrock of the Company. As a responsible organisation we seek to improve the health and safety of the society that we serve. For the year 2018, the Company has invested Rs. 17 million, for core CSR activities 1% of 2017 recurrent net profit after tax, for betterment of society.

### CSR COMMITTEE

Our approach on addressing key community issues are guided by the CSR Committee. As stated previously, the activities of the Company mainly operate on the health awareness platform. Therefore the following section summarises the way in which CSR activities are guided at UA.



#### BOARD OF DIRECTORS

- ▶ Provide strategic direction on the Company's CSR activities
- ▶ Delegate CSR responsibilities to the Management team.



#### MANAGEMENT TEAM (CHAIRIED BY THE CEO)

- ▶ Members of the ExCo are tasked with CSR oversight.
- ▶ Providing guidance on CSR initiative
- ▶ Assigning responsibilities to the CSR committee



#### CSR COMMITTEE

- ▶ Overall responsibility for implementation of CSR initiatives and report on progress

### HEALTH AWARENESS PLATFORM

The brand titled 'Union Manushyathwaya' – ඌනമනුഷ්യാ, ഈശ്വരൻ, ധരണൻ ഓരട് was launched with the ultimate aim of creating healthy and happy communities around the country. The Company aims to achieve this objective by disseminating vital information to the public regarding how to protect themselves from diseases such as thalassemia, dengue, and diabetes.

The community centric activities of 'Union Manushyathwaya' are based on building a trustworthy tomorrow by creating a healthy community. A strategically-devised CSR platform exists, where projects are closely carried out with the Ministry of Health focusing on addressing national concerns.

#### Objectives of Health Awareness Programmes

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

#### Initiatives Under the Health Awareness Platform

1. Prevention of epidemic diseases - E.g. dengue awareness programs conducted island-wide
2. Awareness on the prevention of thalassemia
3. Awareness on diabetes prevention

Being continuously sensitive to the communities in which we operate, Union Manushyathwaya: the CSR brand of UA was able to continue its efforts and spread awareness on health, wellness and goodness for people across the island. We were able to achieve several milestones in CSR activities which has positively contributed for the betterment of society.



# CAPITAL MANAGEMENT REVIEW

## SOCIAL AND RELATIONSHIP CAPITAL

### HEALTH AWARENESS PROGRAMS CONDUCTED DURING 2018

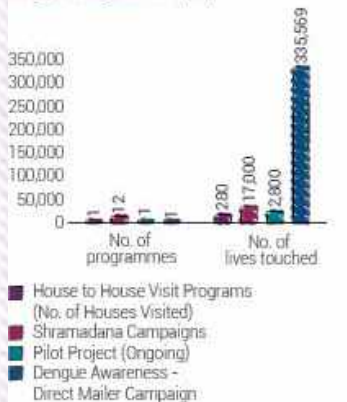
#### AWARENESS ON DENGUE

- ▶ The menace of dengue was a pressing issue affecting the entire island. In this light, as a direct CSR initiative of Union Assurance under the health awareness platform we have tied up with the Divisional Ministry of Health (MOH) and the Public Health Department (PHD) of Colombo Municipal Council to conduct dengue awareness programmes. We support these Government organisations by means of providing volunteers and awareness material during house to house visits on requests made by the above-mentioned organisations.

#### Major Programs held in 2018

- ▶ House to house visit programs conducted on 70 houses with 280 lives touched.
- ▶ 12 Shramadana campaigns conducted in Schools and leaflets were also distributed to students.
- ▶ Facilitating the first-ever dengue pilot project focusing on behavioural changes of children and adults executed within Sri Lanka in Kirulapana, Siddharthapura Housing Scheme which has successfully completed the first phase on 20<sup>th</sup> January 2018. The project was important in producing valuable insights on preventing dengue .
- ▶ Island-wide direct mailer campaign on increasing dengue awareness.

Dengue Programmes (No.)



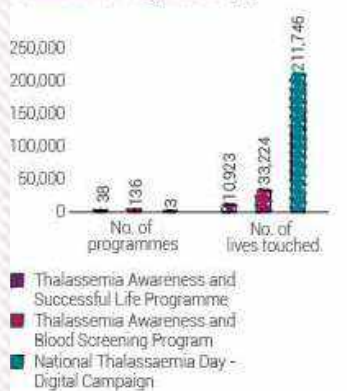
#### AWARENESS ON THE PREVENTION OF THALASSEMIA

- ▶ Thalassemia is a serious national concern, especially in the North Western Province. Programmes were carried out with the assistance of the respective Consultant Pediatricians of the National Thalassemia Centre in Kurunegala. The programmes are focused at three target groups.
- ▶ The main focus areas of these projects are creating awareness on how to prevent thalassemia and developing mental concepts of children, child management skills and living a successful life. These programs were focused on school teachers, parents and students respectively.

#### Major Programs held in 2018

- ▶ Conducted 38 programmes partnering with St. John's Ambulance Commission Kandy.
- ▶ Conducted 136 thalassemia awareness and blood screening program with the National Thalassemia Centre – Kurunegala and Hemal's Adolescent & Adult Thalassemia Care (Attached to the Ragama Teaching hospital).
- ▶ Conducted 3 direct mailer campaigns focusing on increasing awareness on thalassemia.

Thalassemia Programmes (No.)



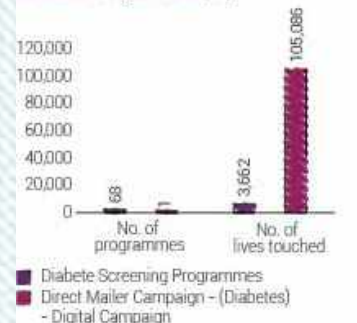
#### AWARENESS ON DIABETES PREVENTION

- ▶ Diabetes was seen as a critical area of concern and was taken under the strategic focus of UA's CSR platform. The initiatives were carried out with the assistance of Public Health Department of the CMC and DMOH offices. During the year we have also done an island wide screening and awareness campaign together with the Ministry of Sports.

#### Major Programs held in 2018

- ▶ Special campaign was carried out to mark Diabetes Day to create awareness among the public through social media.
- ▶ Union Manushyathwaya conducted a program themed 'Be Active. Be Sugar Free' on December 8th at the Viharamahadevi Grounds. The program included raise awareness on diabetes prevention and controlling including free diabetes tests, BMI test, eye camp, knowledge sharing sessions on diabetes along with information counters spreading knowledge on healthy addictions to live an active and healthy lifestyle.
- ▶ Conducted a direct mailer campaign - (diabetes) as a digital campaign to increase diabetes awareness.

Diabetes Programmes (No.)

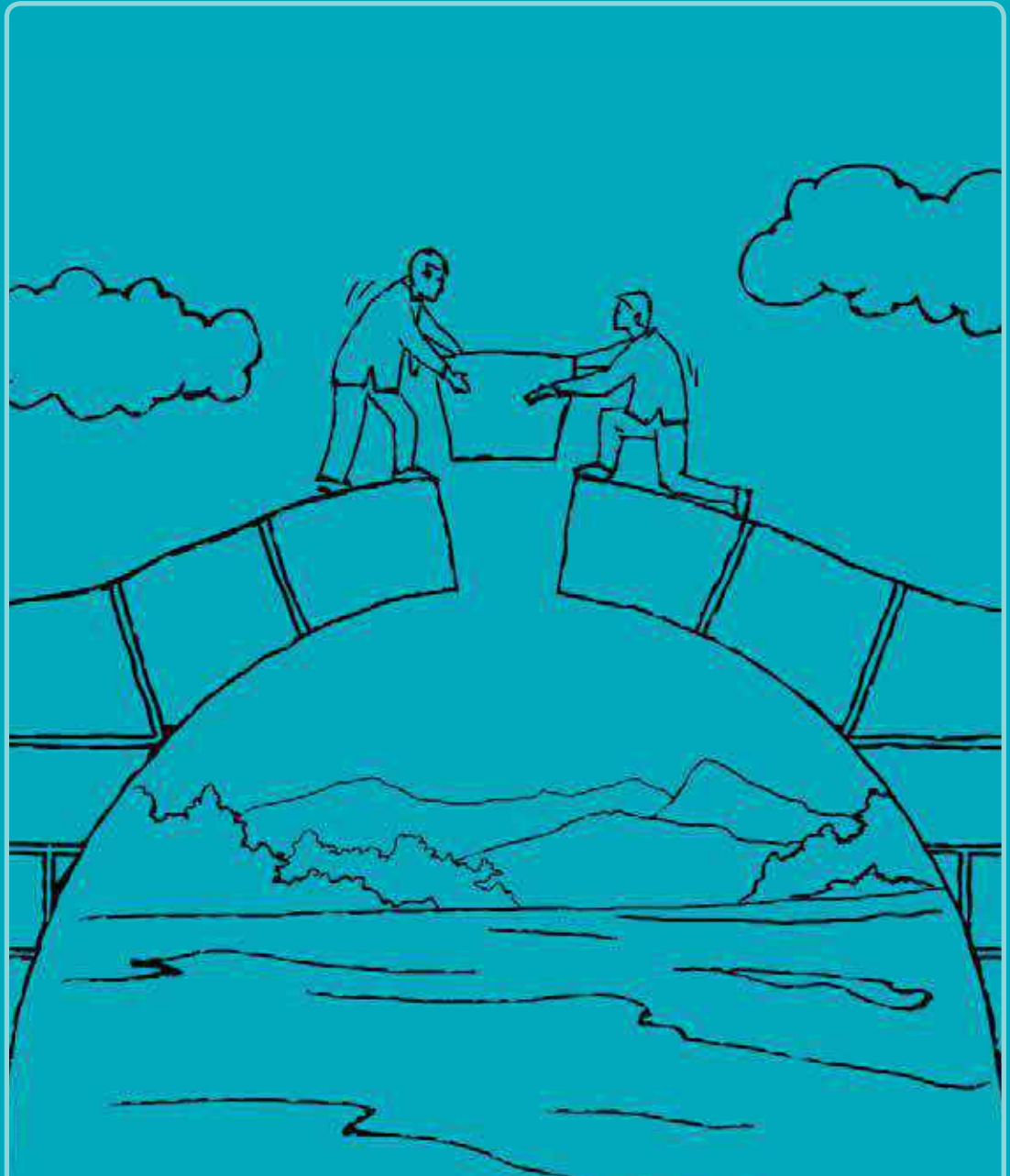




**OUTLOOK**

Successful business partnerships drive the success of the business. It is a key differentiator which provides a competitive advantages. In this context, UA continues to invest more on expanding business partner relationships with customers, business partners and the community at large.

The profile and longevity of our partnerships demonstrate that we possess strong relationships and strategies adopted by us our efficient and effective. The processes and efforts we direct at nurturing these relationships and establishing new relationships give us the confidence that this capital will provide inputs in the required quality and quantity.



## HUMAN CAPITAL

"People are at the heart of everything we do at UA. Providing a great place to work is a critical component of our journey towards sustainable performance. We strive to be the preferred employer for existing and potential employees."


# CAPITAL MANAGEMENT REVIEW


## HUMAN CAPITAL


### KEY PERFORMANCE MEASURES

 **6th**  
Consecutive year  
Great Place to Work

 **38%**  
Productivity  
Growth in advisors  
earning higher income

 **21.82%**  
Attrition  
Consistent customer contracts  
and enhanced staff morale

 **52**  
MDRT Members  
Million Dollar Round Table  
Members

 **14,074**  
Hours  
Employee training hours

### MATERIAL DRIVERS

- ▶ Competitive remuneration and benefits
- ▶ Dynamic work culture
- ▶ Continuous career development and training
- ▶ Recognising and rewarding top achievers

### 2018 OBJECTIVES AND ACHIEVEMENTS

Transform the sales force to achieve higher income levels ▶ Achieved 30% higher income earning advisors milestone during the year.

Aggressive recruitment from industry and non-industry candidates ▶ Expanded the agency cadre via industry and non industry recruits

Redefine the HRIS Solution and e-Learning platform to drive digitised HR interventions ▶ Implemented a state-of-the-art human resource information platform

Competency development through talent management ▶ Initial ground work has being completed. Developing the competency framework is in progress.

Grow e-Consultant sales force ▶ 203 candidates have been recruited

Positioning UA as an 'Employer of choice, exciting place to work' ▶ Refurbished Head Office and branch infrastructure in line with digital first agenda

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Develop and implement standard training modules with identified training providers	2019
Revamp e-learning platform to deliver technical and selected soft skills training for agency staff	2019
45% to 54% of internal successors against identified positions	2019 and beyond
GPTW Survey -75% to 85% Survey Score	2019 and beyond
People Satisfaction Survey-80%-89% Survey Score	2019 and beyond
100% delivery of planned staff engagement activities	2019 and beyond
Strengthen work life balance initiatives	2019 and beyond
Reduce staff attrition to 16%	2019 and beyond

### CHALLENGES-2019

- ▶ Employee attrition
- ▶ Developing performance focused training
- ▶ Developing employee soft skills

# CAPITAL MANAGEMENT REVIEW

## HUMAN CAPITAL

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

### MANAGEMENT APPROACH

We are mindful that the key to sustained success is the quality and commitment of our people. The Company has continuously invested in developing the skills and competencies of staff, to meet current as well as future business opportunities and challenges. The Company is committed to being a "Great Place to Work" while the foundation of its HR philosophy is to be an equal opportunity employer.

UA is endowed with a vast wealth of human talent. The ingenuity and creativity at our collective disposal provide us with the means not only to address the great challenges of our time but also, critically, to build a future that is more inclusive and human centric. We recognise that the Human Capital we possess is fundamental to creating sustainable value to all our stakeholders.

Therefore, we continuously strive to invest in the Human Capital we have, enhancing it through training, development and appropriate recruitment decisions to enable this capital to continuously create value within a strong ethical and governance framework. Stemming from our corporate values caring, trust, ethics and integrity mainly focus on creating an environment where employees remain committed to achieving Company objectives. Fostering a great place to work by supporting each other to reach their full potential, building strong relationships based on convenience and transparency and doing things in a right way has provided realistic opportunity to work towards success of the career of employee as well as the Company.

People are at the heart of everything we do at UA. Providing a great place to work is a critical component of our journey towards sustainable performance. We strive to be the

preferred employer for existing and potential employees. We seek to empower our people to make a positive difference to our customers and we encourage them to develop and advance in their careers and contribute positively to the society.

The Company implemented a state-of-the-art human resource information platform during the year. Against the backdrop of a constantly changing human resource landscape and diverse workforce, this platform will further empower evolving employee-centric practices. It is expected to bring about a multitude of benefits, including, but not limited to, business efficiency, analytics and employee engagement. The key modules of the new system are recruiting, onboarding, learning, performance and goals, compensation, succession and development.

### Unique Features of New System

**Customised Homepage**

**Social Collaboration Platform**

**Generate Own Reports**

**Edit Option for Staff**

**Mobile Compatibility**

Being a Life insurance company, our human capital consists of two main categories:

1. Employees
2. Field Staff

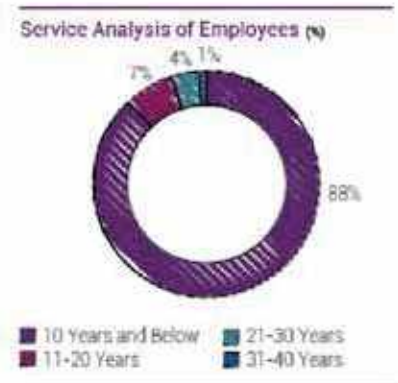
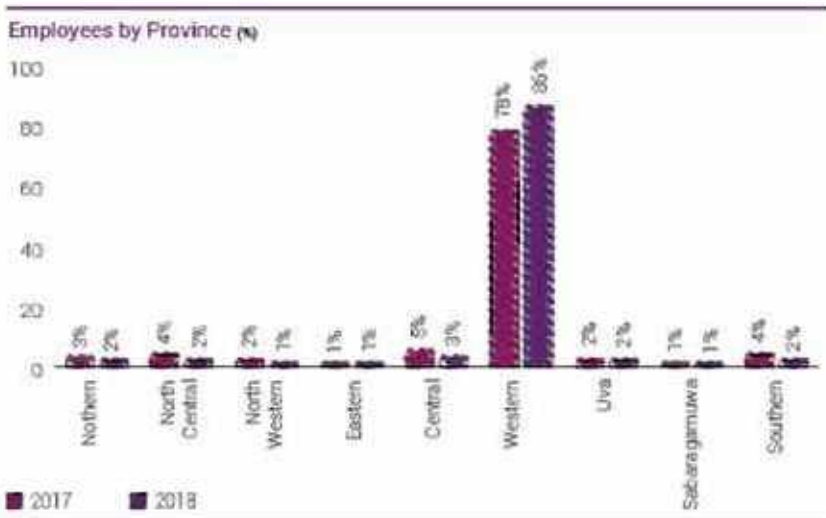
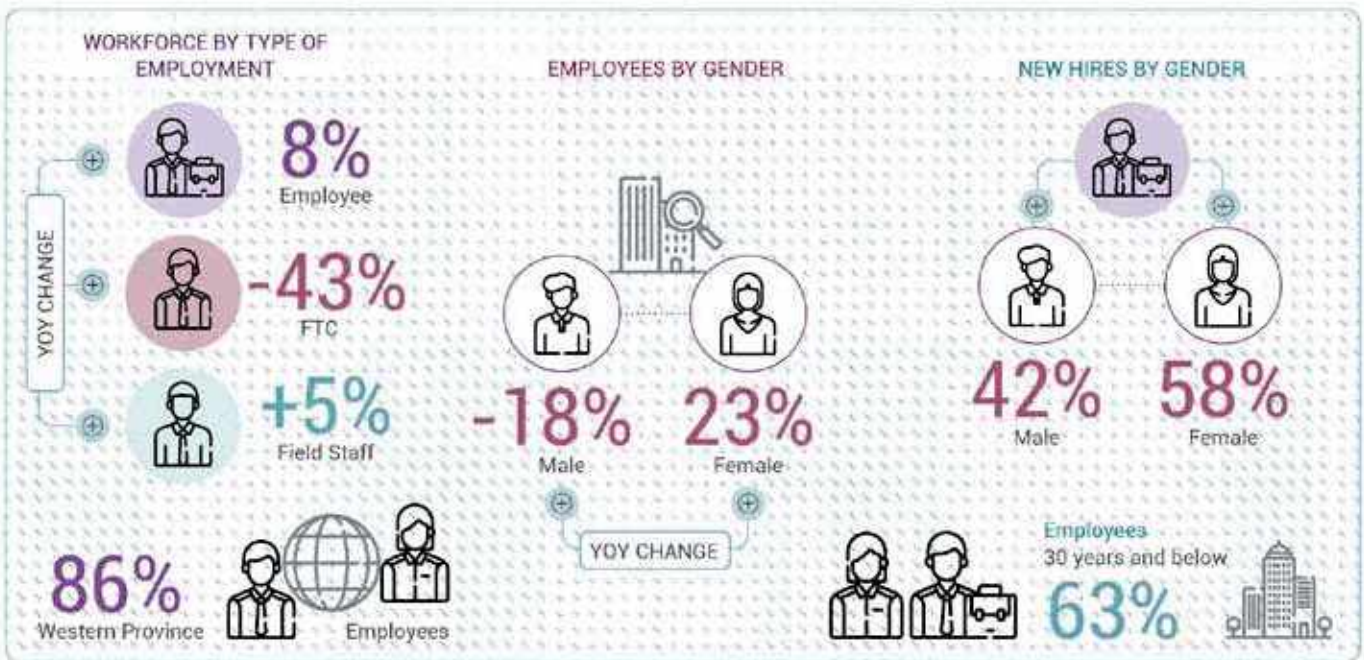
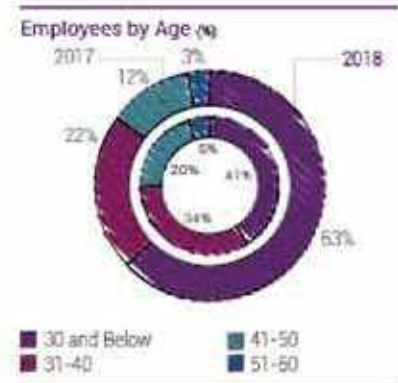
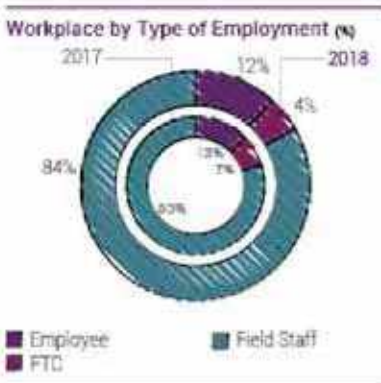
### EMPLOYEES

#### Employee Diversity

UA is an equal opportunity employer where we respect diversity and inclusivity. We are taking extensive measures to ensure that the attitudes of openness and inclusivity are embedded at every level of UA. The workforce as at 31 December 2018 was 4,378, comprising 614 employees 245 fixed term contract (FTC) employees and 4,378 sales advisors. At UA, we treat others the way

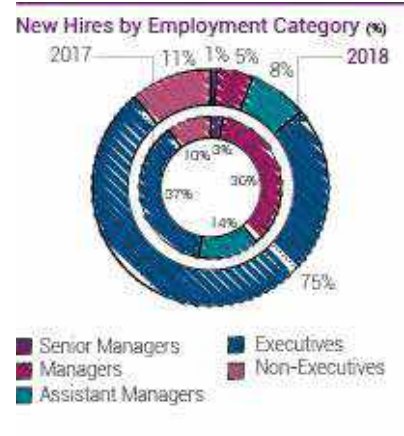
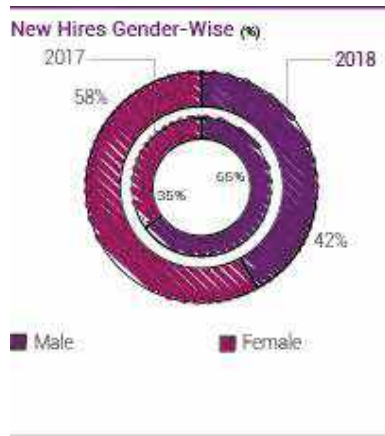
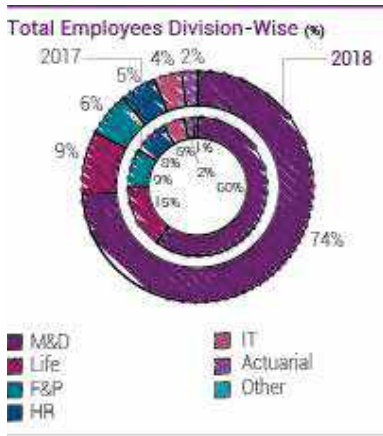
we want to be treated, promote a workforce in which diverse thinking and free expression of personal values is appreciated, stand for equal treatment and work opportunities and work closely together recognising that collaboration leads to better results.

We believe that diversity goes beyond the male/female ratio. We want to be inclusive in our hiring process across race, age, sexual orientation, physical abilities and personal philosophies. However, we mainly report on gender equality due to different legal definitions in measuring diversity. The Company monitors the diversity of its workforce based on age and gender as illustrated by the diagrams indicated on the next page.



# CAPITAL MANAGEMENT REVIEW

## HUMAN CAPITAL



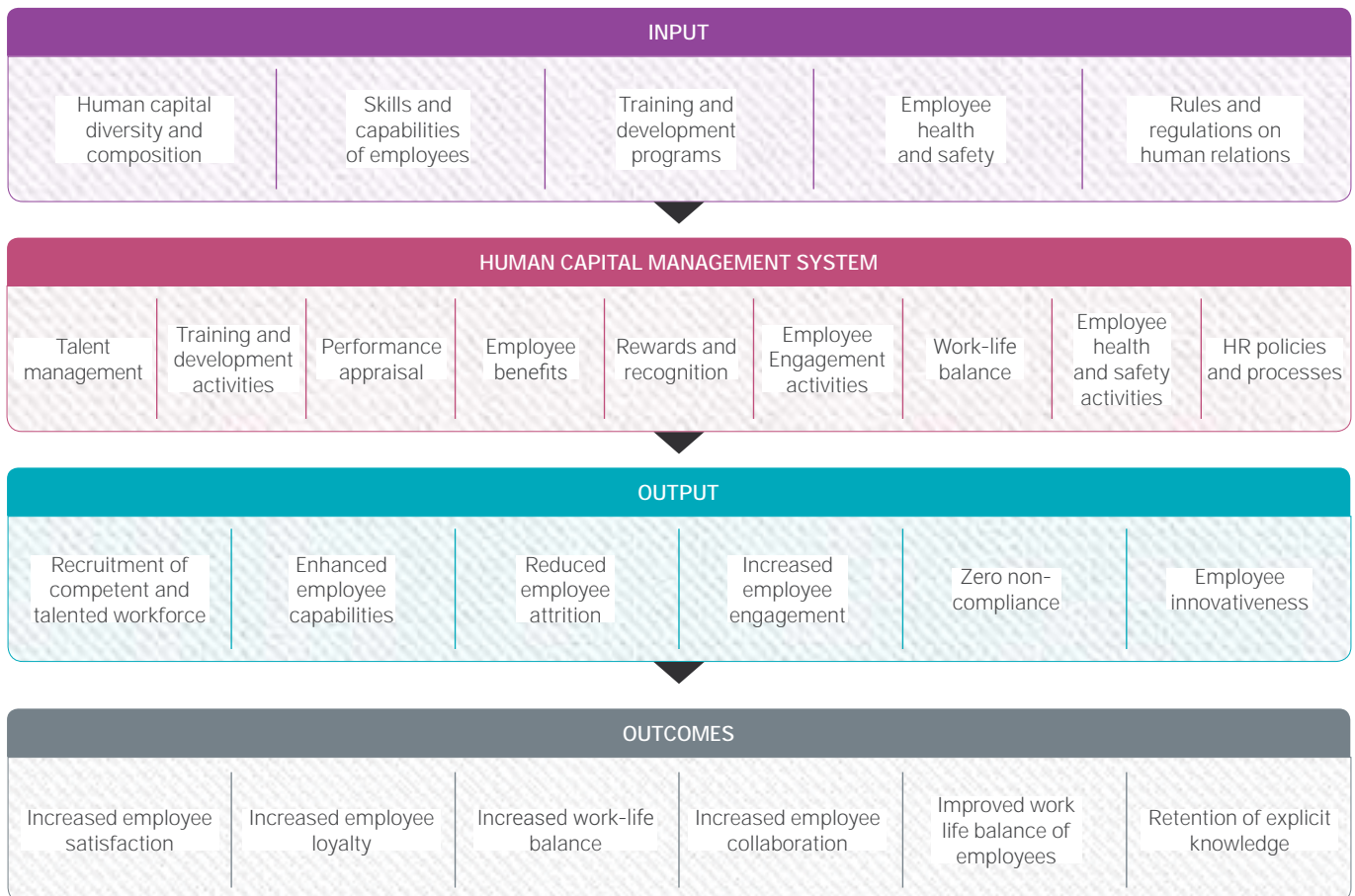
### HUMAN CAPITAL MANAGEMENT SYSTEM

Our Human Capital management system is mainly derived based on long-term business plan and initiatives directed by the Group. The main purpose of the capital management is

to create a workforce that can provide the necessary inputs to achieve the Company's strategic objectives.

Nine management activities are in place to monitor the performance and effective

usage of human resources. We believe these initiatives will lead to improve employee satisfaction, improving performance and their knowledge base. In turn, this will positively impact achieving strategic objectives.



"Our talent management initiatives are also strengthened by the JKH group initiatives which represents the best in class practices."

**MANAGEMENT ACTIVITIES ON HUMAN CAPITAL MANAGEMENT**

**Talent Management**

We continuously assess the human resource requirements of the Company in short-term and long-term. We determine the attributes required for Human Capital in order to achieve long-term strategic objectives of the Company. The availability of these attributes is assessed on a regular basis. We mainly provide opportunities to internal staff and if not available internally external recruitment is considered.

Internal staff is trained for future positions through specific training conducted locally or internationally. Constant evaluation of the success of these trainings is carried out. External recruitment is mainly conducted on the basis of talent. We have a well-structured, flexible and professional recruitment process.

We continuously monitor our employee retention and, in particular, seek to address staff attrition in typically high attrition departments through proactive initiatives that engage employees. We value retention of internal staff as they hold the explicit knowledge of the Company. Therefore,

vacancies are mostly filled through internal promotions. We conduct surveys such as Great Place to Work (GPTW) which allows employees to rate the Company's performance on key attributes such as credibility, caring, fairness, pride and camaraderie. The Company attrition rate (for executive and non-executive) and new hire attrition rates were 21.82% and 9.97% respectively.

However, the Company has seen insignificant turnover in staff identified as talent, with Senior Management placing extra emphasis on developing and nurturing them with many one-on-one interactions during the year.

Executive level attrition is relatively lower than attrition at non-executive levels. Further, recruitment based on profile mapping was introduced in certain business segments to ensure a better fit with the needs of the organisation. A survey of millennials' aspirations to understand their needs better has enabled the Company to take appropriate actions to retain employees of this age group.

We remain committed to ensure talent management is conducted in a more systematic, efficient and professional manner. Our talent management initiatives are also strengthened by the JKH group initiatives which represents best-in-class practices.



**CURRENT YEAR ATTRITION RATE**

**21.82%**

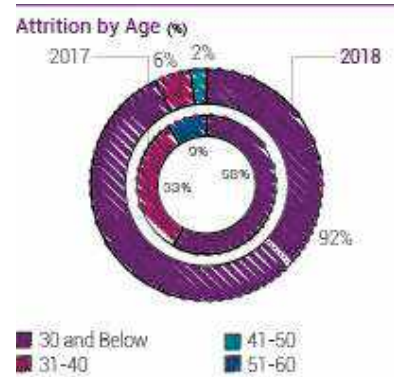
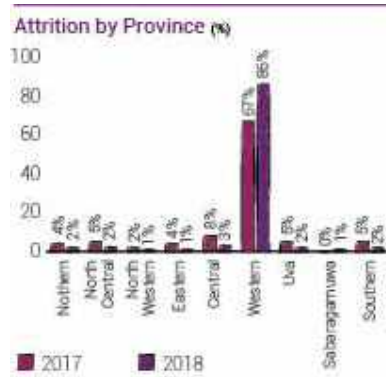


**PREVIOUS YEAR ATTRITION RATE**

**19.92%**

**ACTION CARRIED OUT**

- ▶ Increase the number of staff engagement activities
- ▶ Unique activities such as Career Week, CEO for a day, Wellness forum, etc.
- ▶ Promote a culture of appreciation within each other with the introduction of Appreciation Week
- ▶ Involved branch staff for all engagement activities



# CAPITAL MANAGEMENT REVIEW

## HUMAN CAPITAL

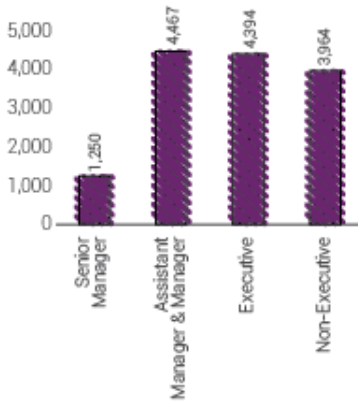
### Training and Development Activities

The Company's training and development programmes are key means of talent retention and ensuring a sustainable competitive advantage. Hence, UA invests heavily in learning and development initiatives. We have been recognised in the industry as one of the best entities in class training and development for employees and sales cadre. Our approach covers a range of technical, functional, language, information technology and general management skills with a wide range of resources and programmes established for learning and development (L&D) purposes. Our training and development programmes has three aspects:

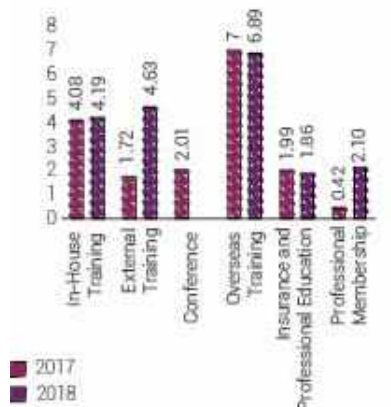
1. Training related to enhancement of on the job skills of the employees. This is being achieved mainly through providing opportunities to participate in internal and external training programmes. This involves technical and practical skills that are required by employees to perform his or her day job.
2. Training related to professional development. We encourage employees to participate in continuous professional development courses where we provide financial assistance for several professional qualifications that are directly related to job performance.
3. Development of leadership skills. We have designed our training programmes mainly focusing on developing our staff to the next level in their career. Hence, management training programmes have been designed to enhance supervisory and leadership development skills of the employees.

In 2018, we conducted 65 in-house training programmes and 52 external programmes including 20 overseas programmes. Our unique training programmes are created based on the existing talent management process. It is designed to build capacities of employees, in all categories.

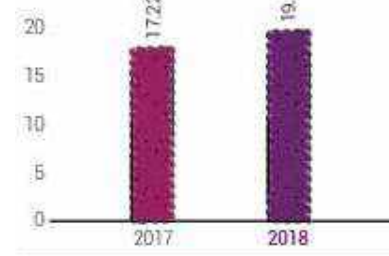
**Total Training Hours (Total Training Hours)**



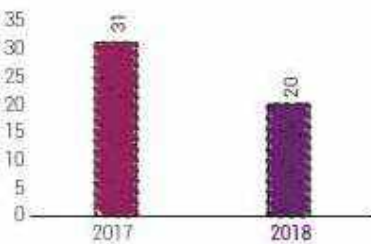
**Areas of Learning and Development Spend (Rs. Mn)**



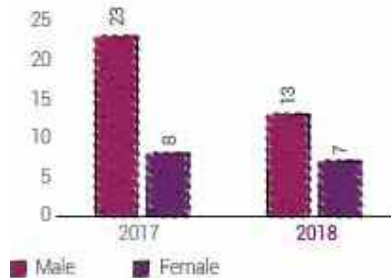
**Investment in Learning and Development (Rs. Mn)**



**No. of International Training Programmes**



**Overseas Training by Gender**





**Manager Par Excellence**

**18 participants were nominated for development**

This is a tailor-made programme which is conducted over a period of four months for Assistant Managers to Assistant General Manager level staff in nurturing towards career progression. The includes eight classroom sessions covering a set of pre-defined topics such as personal effectiveness, leadership and management, leading and managing change, creativity and innovation, communication skills, negotiation skills and decision making skills.

**Ex-Magnum Opus**

**16 participants were nominated for development**

'Exercise Magnum Opus' was the culmination of the Manager Par Excellence programme and created to incorporate classroom-based leadership and team building learnings into an outdoor adventure.

**Union Transformers**

**29 participants were nominated for development**

The purpose of this programme was to prepare young staff members for new business work environments and to ensure successful assignments.

**The Ladder Project**

**32 participants were nominated for development**

The purpose of this programme was to prepare non-executive staff members in their drive to the next level. A series of challenging scenarios to build on their personal and leadership capacities.

**Executive Development Programme**

**26 participants were nominated for development**

The executive development program is about career building for executives who constantly strive to take on new challenges. In a fluid environment constant challenges and



changing technologies, executives especially must continue to broaden their perspectives and strive for continual professional development.

**Development centre for New Managers**

**33 participants were nominated for development**

The objective of the seven-day program was to enhance managerial competencies of newly-promoted managers to appropriately mould job performance and enhance their leadership approach to successfully meet work place challenges.

**Development Centre for New Employees**

**22 participants were nominated for development**

A programme developed to inculcate the core values of the organisation as well as the roof competencies into new employees joining the organisation.

**Toastmasters Club**

Union Assurance Toastmasters Club was chartered in the year 2009 with the purpose of providing a platform for employees to improve their communication and leadership skills and bring the corporate community of Union Assurance to the next level. The Union Assurance Toastmasters Club has a member base of 32 and club achieved the "Smedley" membership building award for the Toastmaster year 2018/19. Further, the club is working on the aim of giving all the employees a chance to improve their public speaking skills.

# CAPITAL MANAGEMENT REVIEW

## HUMAN CAPITAL

### Performance Appraisal

Performance appraisal enables us to evaluate the performance of employees and ensure the objectives of the Company is aligned with employee's individual performance. This will enable us to ensure achievement of operational efficiency as well as employee career development. We consider recognition of employee performance as a key element in driving our result-oriented culture. We have implemented a robust performance management system where each employee's performance is assessed in a fair and equitable manner. Employees' performance against the set objectives is first self-assessed, then assessed by his / her immediate supervisor and recommendations provided. A 360-degree feedback from peers and subordinates is also obtained for all managers at UA.

### Performance Feedback

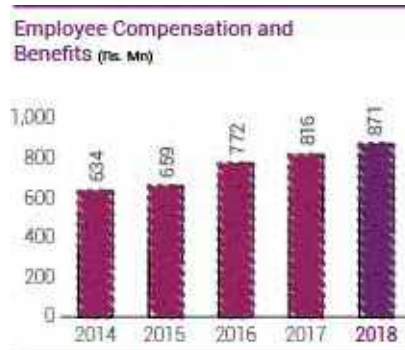
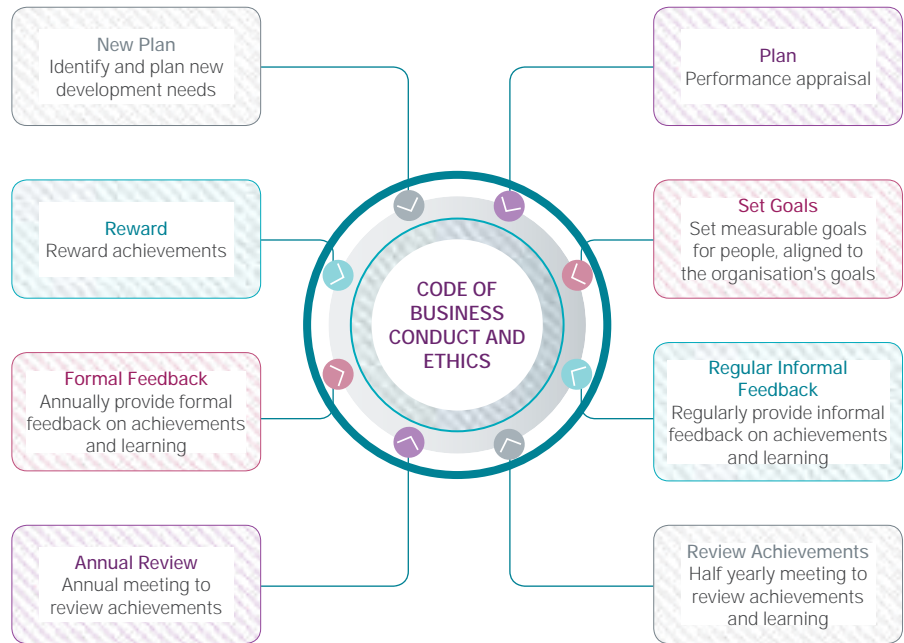
The performance feedback process is an ongoing activity between Management and employees. The exchange of information involves both performance expected and performance exhibited. Subsequently, individual feedback sessions are held to communicate the final performance rating and career committee feedback to staff members. The full cycle of object setting to performance appraisal is depicted below;

### Appeals Process

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

### Employee Benefits

We compensate employees based on their contribution to the Company. Our compensation packages are on par or above the industry average. Our employees are also eligible for the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) contributions. The total contribution made to the trust fund for the reporting year was Rs. 14.4 million while the total contribution made to the provident fund was Rs. 57.8 million. Employees are also entitled to retirement gratuity. The employee benefit liability as at 31 December 2018 was Rs. 116 million.



### Rewards and Recognition

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



### Employee Engagement Activities

We have developed several communication channels and fora to ensure that our employees are fully informed regarding the Company's operations, strategies, progress against objectives and any other areas which directly impact them. We believe that there is a direct link between employee engagement activities and business performance. Employee satisfaction surveys are conducted every year to allow employees to air any grievances in an anonymous fashion and identify any areas which require improvement. This process enhances mutual trust while enabling Company to identify improvements which will ultimately result in an effective and productive working environment. We have implemented following initiatives to improve employee engagement.

#### ▶ Values Walkway

UA believes that core values are central to the long-term success of the organisation with the re-enforcement of UA values, a "Values Walkway" was created along the sixth floor to the rooftop at UA head office. The main objective of this was to inspire UA staff with the corporate values, "EXCITE" – Excellence, Caring, Innovation, Trust and Ethics and Integrity. In addition, we have signposted key employee promises along with UA values to indicate Company commitment towards employee well-being.

#### ▶ Management Meetings

Open and transparent communication plays a vital role in our strategy to engage with our employees. The Company conducts Management meetings on a quarterly basis

to discuss business developments, Company activities and progress against plans. This information is then cascaded to every employee by the respective departmental / branch manager.

#### ▶ Coffee with CEO

This initiative was launched to provide an opportunity for staff including newly-joined employees to directly interact with the CEO and discuss any matters related to their area of work. It is also an opportunity for staff to interact with team members from other functions to clarify any issues and appreciate their points of view.

#### ▶ Employee Volunteerism

We as a part JKH Group contribute to the Group's community engagement strategy. Our staff participate in various programmes conducted by JKH Foundation for the well-being of the society. The purpose of these programmes is to enable employees to go beyond day-to-day work and make a hands on contribution to social and environmental well-being. Similar to the Group we provide volunteer leave facility in order to enable staff to be released for CSR activities.

### Work Life Balance

We recognise the importance of employees' personal lives as it has a direct relationship to effective job performance. As a responsible employer we have incorporated into our work procedures, the necessary means for employees to choose a comfortable balance between their duties at work, their lifestyle and social undertakings. The following are

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

#### ▶ Flexi Hours

Arrangement is in place for employees to best manage their personal commitments without impacting service standards or official responsibilities. Currently we have introduced three time slots which allow employees to manage their personal commitments as well as work.

#### ▶ UA Recreation Club

UA's Recreation Club organises several events to foster camaraderie among staff including an annual family get together. The Recreation Club contracts several leading establishments to provide goods and services at special rates and easy payment terms to our staff.

#### ▶ Sports

Sport activities are pursued by employees, as we encourage them to take part in competitive events such as cricket, badminton, basketball, swimming and rugby. The Company encourages staff participation at intercompany (JKH Group) sports tournaments where they have won a number of awards.

#### ▶ Work from Home

Several staff members have utilised the benefit of the work from home initiative implemented in 2017 and expanded during the year under review. This has ensured the continuity of employment where some employees tend to discontinue working due to personal commitments.



# CAPITAL MANAGEMENT REVIEW

## HUMAN CAPITAL

### Employee Health and Safety Activities

We have placed significant emphasis on providing a safe workplace for every employee. Caring is one of our core values and we believe it is a vital part in fostering a great place to work. As a preferred employer of choice within the insurance industry, we have adopted a unique culture that strives to provide a healthy workplace for staff. UA follows various national and international guidelines on workplace health and safety. These directives set out general principles to maintain and enhance workers' occupational safety and health.

### Union Health Camp

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

### My Doctor

UA partnered with My Doctor, a mobile app which enables employees to access general practitioners via their mobile phones. Utilising modern technology, My Doctor brings medical solutions to the fingertips of our employees.

### HR Policies and Processes

#### Resignations, Terminations and Transfer Policy

UA has a comprehensive HR manual which addresses resignation, termination and transfer of employees. Employees may resign

from the Company subject to the terms and conditions set in their appointment letters, while retirement of employees would be at the age of 55. The Company conducts exit interviews prior to employees leaving the Company, in order to identify reasons for their exit and to strengthen HR practices if necessary.



### Human Rights at the Workplace

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

origin, disability, sexual orientation, gender identity political affiliation or opinion and any form of forced labour and child labour.

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

### Non-discrimination

The Company has a strong mechanism to avoid discrimination when recruiting, promoting and granting recognitions based on the gender, race or any other factor. During the year, there were no incidents reported on such cases.

### Grievance Management Process

Our grievance handling procedure provides opportunities to employees who are aggrieved by alleged unfair, unjust or inequitable practice to seek redress without prejudice to the complainant. The Company has implemented an online grievance handling system where employees could present their case in an anonymous manner.

### Open Door Policy

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



### Whistle Blowing

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

### OUR FIELD STAFF

Our field staff members are an integral part of the Union family. Currently 88% of the Company GWP is contributed by field staff. Facets of our goal of providing a rewarding career to field staff are indicated as below;

#### Defined Career Path

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

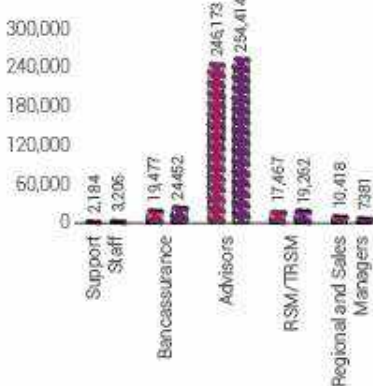
#### Learning and Development

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

1. Specialised training for top advisors to enable them to sell more.
2. Focused training for low performing advisors to improve quality, productivity and persistency.
3. One-on-one discussion and special forum for personal finance managers to express their innovative ideas and discuss their problems, faced in sales situations.
4. Conducting follow-up sessions on increasing productivity.

5. Conducting leader par excellence program for competency development of leaders.
6. Conducting outbound programs program MDRT achievers and high performing advisers to enhance their decision making capabilities.
7. Conducting focused training programs on MDRT and annual award achievements.

**Total Training Hours (Total Training Hours)**



#### Performance Management

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

#### Recruitment

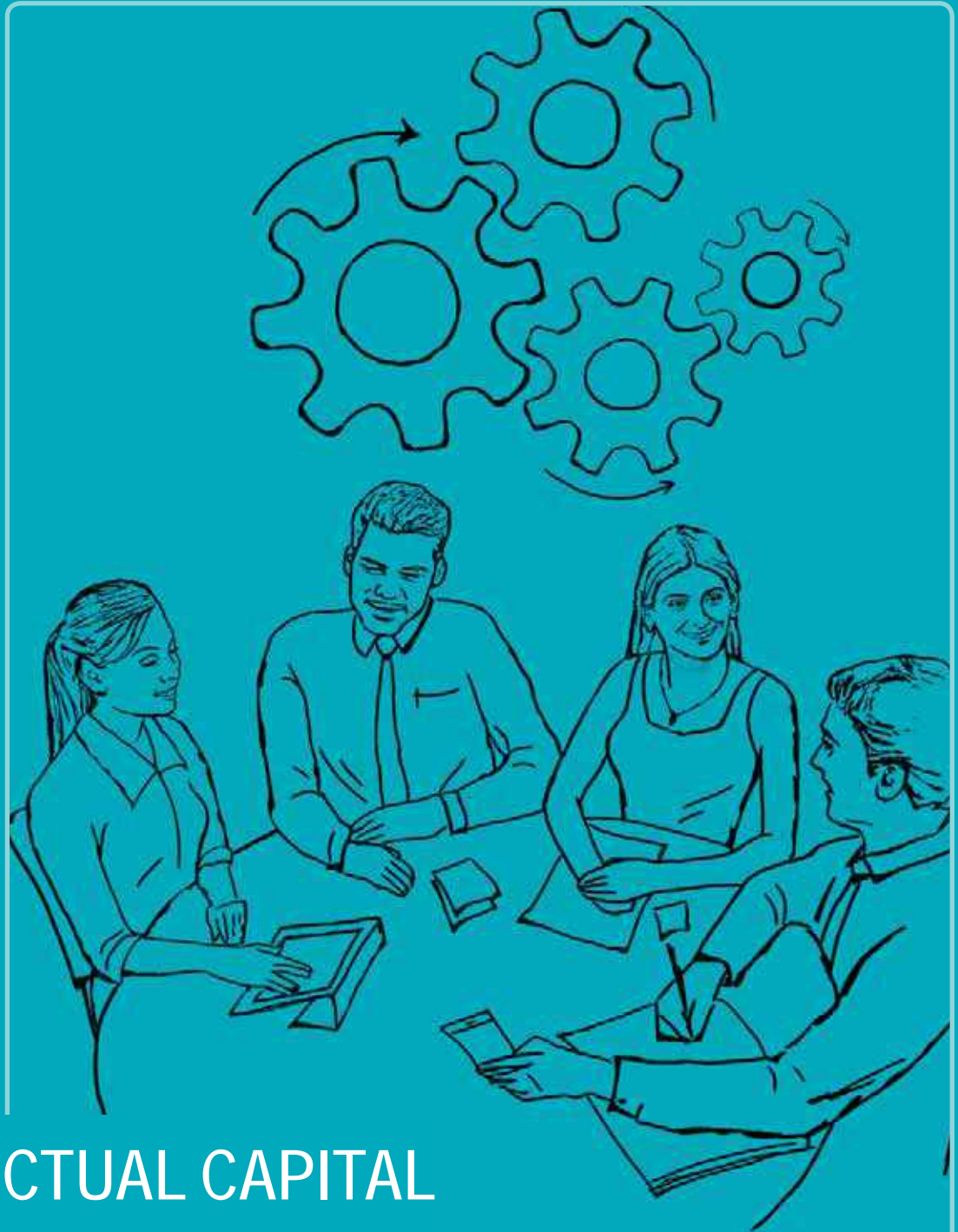
1. Steps have been taken to expand the agency cadre to achieve the planned ambitious growth in this channel, Aggressive recruitment drive was implemented to recruit from industry and non-industry.
2. Employment opportunities created for housewives, university students and students of other institutes branded 'e-Consultant insurance'.

### REWARDS AND RECOGNITION

1. UA incorporated "First premium" based incentives into R&R criteria
2. UA held its second offshore Annual Awards Ceremony in Jakarta, Indonesia; 32 categories of Awards including the pinnacle, 'Champion of Champions Award' were given away
3. Best performers were rewarded with overseas tours
5. Certification programmes for Advisors and Unit Leaders who completed specified training modules and maintained consistent business performance
6. Produced 30 International Award for Productivity (IAP) winners
7. Produced nine LIMRA International Quality Award (IOA) winners
8. Produced 52 Million Dollar Round Table (MDRT) Award winners (2017 \_ 54)
9. Infinity Club member facilities were enhanced

### OUTLOOK

In Sri Lanka, Life insurance business primarily takes place on a face-to-face basis. We believe this trend will continue. Our goal is to be the Life insurance company of choice for employees and field staff. Therefore, we continue to invest in our people to enable them to stand out amongst peers and capture diverse amount of skills and knowledge for life and profession and in turn add value to the Company and society.



# INTELLECTUAL CAPITAL

"We are committed to develop our intellectual capital in terms of brand value, technology, new product development and employee know how. We always try be differentiate in our operations and product offerings."

# CAPITAL MANAGEMENT REVIEW

## INTELLECTUAL CAPITAL

### KEY PERFORMANCE MEASURES



**Beyond protection**  
With an eco-system of partners promoting healthier lifestyles



**163,129+**

**Social media presence**  
Largest FB fan base in the industry



**Rs. 2.5 Bn**

**Brand value created**  
value created over 30 years of trusted service



**100%**

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



**18.8%**

**Straight through processing**

### MATERIAL DRIVERS

- ▶ Enhancing brand value
- ▶ Digitisation and big data analytics
- ▶ Enhancing and preserving organisational knowledge

### 2018 OBJECTIVES AND ACHIEVEMENTS

Implement comprehensive CRM solution

Implemented in 2018

Migrate core system to modern platform

Went live on August 2018

Redefine brand positioning beyond trust

Ground work and concept have been completed

Availability of automated policy issuance, in order to manage increase in volumes and achieve economies of scale

Started straight through processing via new policy administration system

100% digital submission of proposals

Achieved with the implementation of new system

Drive digital first agenda

Key milestones under digital first agenda have been achieved and discussed in pages to follow

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Strengthening brand value	2019 and beyond
Drive digital first agenda	2019 and beyond
Enhancing technical and soft skills of employees	2019 and beyond
Leverage advanced data analytics to improve customer satisfaction and GWP	2019 and beyond

### CHALLENGES-2019

- ▶ Enhancing brand value
- ▶ Retaining explicit knowledge
- ▶ Information security threat
- ▶ Disruptive innovation

# CAPITAL MANAGEMENT REVIEW

## INTELLECTUAL CAPITAL

### MANAGEMENT APPROACH

We strongly believe that our Intellectual Capital is a vital source of competitive advantage which in the long term will result in a value premium for UA through innovation and disruption of business models and ultimately serving the needs of evolving and emerging customers. We are committed to develop our Intellectual Capital in terms of brand value, technology, new product development and employee knowhow. We always try to differentiate are operations and product offerings. Hence our systems and processes embedd features which enhance intellectual capital and delivery of value to customers.

The four facets of intellectual capital create various synergies in the value creation process. IT infrastructure facilities that are unique and customised according to our business processes. Product development based on the unique analysis of customer behaviour and business trends. The brand reputation which includes name, logo and perceptions that identify UA in public. Employee knowhow which is unique to our employees and preserved in the organisation. Therefore, building these aspects have been considered as one of our main priorities. This revolves according to the growing demands of the market.

### IT INFRASTRUCTURE

We believe that investing in IT infrastructure facilitates strategic agility and business responsiveness. Accordingly we launched our digitisation strategy in 2012. We have undertaken several initiatives during the year under review as a part of our digital first journey.

#### ► Migration from legacy core system to new platform

We have migrated a 30-year-old AS400 core system to a new policy administration system.

The new system improves the efficacy of underwriting, policy administration, claims payments, billing and collection ect. to support our five-year strategy. The system has enabled us to develop unique products across multiple distribution channels in a timely manner.

#### ► Implementation of online support system

A new ticketing system was introduced to obtain support from support functions with a monitoring mechanism to track service levels. This has enabled us to improve service levels, and end user satisfaction on service quality leading to customer satisfaction.

#### ► Re-engineering DAT application

DAT application has been linked with the new policy administration system via an application program interface.

#### ► Re-engineering FAME application

Re-engineered FAME system and linked to the new distribution management system and new policy administration system to provide more real time management information to sales advisors and Management.

#### ► E-Recruitment

The recruitment process has been automated including single point for issuing new codes.

#### ► DAT / Financial need analysis / Quotation

This is an end-to-end point-of-sale technology that allows electronic submission of insurance proposals to operations. This is a critical platform that takes proposals and is used to pre-underwrite candidates and deliver consistent 100% clean cases to operations for straight through processing (STP). STP is three times faster than the manual process.

#### ► Automation of branch petty cash handling by using Jess

JESS is the latest digital assistant to enter the corporate arena. Powered by cutting edge technology, JESS offers unprecedented levels of convenience to employees by providing digital empowerment on a mobile platform. We have implemented JESS for branch petty cash handling during the year under review

**"We believe that investing in the IT infrastructure facilitates strategic agility and business responsiveness."**

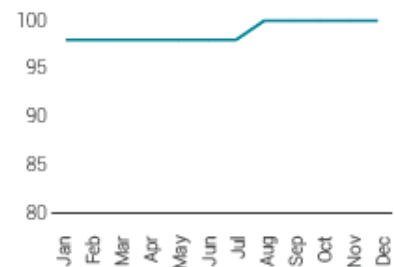
#### ► Establishing data analytics team

During the year we have enhanced the functioning of the data analytics team with the objective of creating business insights to facilitate business decisions.

#### ► Digital proposals

We have further enhanced the Company's commitment towards 100% digital proposal submissions. The related statistics are shown below:

**Proposals Received Digitally (%)**



**Straight Through Processing (%)**



Digital proposals have reduced proposal conversion time by 33%. This has enabled us to deliver insurance policies faster to customers. We have implemented this initiative from August onwards.

► **Ensuring cyber security**

Given the recent incidents, the Company has undertaken several initiatives to enhance cyber security. UA is amongst the few Banking and Financial Service Industry (BFSI) companies with ISO 27001:2013 certification in Sri Lanka, which assures security of information assets i.e. business information, customer data,

financial information, intellectual property, employee details and information entrusted by third parties. Given the escalation in cyber risk, UA has established a cyber security policy in line with the JKH Group and is in the process of implementing IBM's managed Security Operations Centre (SOC) and security intelligence platform to further strengthen cyber resilience.

**PRODUCT DEVELOPMENT**

We have established the product development COE team which consists of members from different functional areas of the business

such as actuarial, Life operations, IT and marketing to generate new ideas on product development. This team will lead the product development initiatives of the Company. Mainly the demographic changes, retirement, investment and saving needs of the customers are considered for product development. During the year under review the Company has introduced two products to enhance the value proposition to customers. Key feature of new health rider and short-term investment products have been discussed under 'create unique value proposition' in the Social and Relation Capital section of this Annual Report.

Customer need	Product Name	Key Features
<b>HEALTH BENEFIT</b>	Union Smart Health Plus	<ul style="list-style-type: none"> <li>▶ A comprehensive medical expense reimbursement rider benefit providing indemnity cover for hospitalisation due to illness or surgery providing coverage across Sri Lanka, India, Thailand, Singapore and Malaysia</li> <li>▶ No claim bonus and cashless service</li> <li>▶ Reinstatement benefit which could be taken as an 'individual' or 'family' cover while a hospital cash benefit is further available for the entire family, where a fixed daily benefit is payable for each day of hospitalisation.</li> <li>▶ Coverage for day-care procedures</li> <li>▶ Deductible options</li> <li>▶ Coverage of pre-hospitalisation and post-hospitalisation expenses</li> </ul>
<b>LOAN PROTECTION</b>	Loan protection blanket cover	<ul style="list-style-type: none"> <li>▶ Cover could be obtained with no health declarations</li> <li>▶ Simplified documentation process</li> <li>▶ Quick service</li> <li>▶ Enabling a more convenient process through which a customer can obtain protection for his/her loan cover while enabling the loan-issuing bank to facilitate a more streamlined loan issuing process.</li> </ul>
<b>PAY AS YOU LIVE</b>	GOYO	<ul style="list-style-type: none"> <li>▶ Launched GOYO freemium app with enhanced features and improved eco system to motivate people to lead an active life style.</li> </ul>

**BRAND VALUE**

We believe that increasing brand value is vital for success of the business. Brand enhances the competitive position in the insurance sector as well the stakeholder value creation process. The UA brand is positioned on the platform of trust and strives to deliver this promise by providing convenience to customers, being transparent in our dealings and being respectful to all stakeholders. The UA brand was ranked 40th in the LMD list

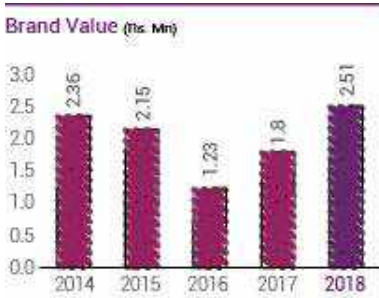
of most valuable brands 2018 (third most valuable brand in the Life insurance industry).

The UA brand was valued at Rs. 2.5 billion in 2018. The value was derived from the valuation conducted by Brand Finance (UK) in association with Sting Consultants using the 'relief of royalty' approach, which assumes that the Company does not own the brand and calculates how much it would need to license it from a third party.

UA brand value increased by Rs. 700 million in 2018 compared to 2017 which can be considered as highest brand value increment in the Company history. The brand was ranked at 40 (2017 - 43) and rated AA (2017 - AA-). Movement of UA's brand value over the years is indicated by the graph on the next page.

# CAPITAL MANAGEMENT REVIEW

## INTELLECTUAL CAPITAL



It is noteworthy to mention that after 2015 brand values are based only on the performance of the Life business since the segregation of the Non-Life and life businesses in 2015.

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

Partnership with customers and how we work to develop such partnership also have a vital role in creating brand reputation. The way

we create customer perceptions about UA, our responsibility towards the product and services we offer and our culture and ethics also contributes to the development of brand reputation.

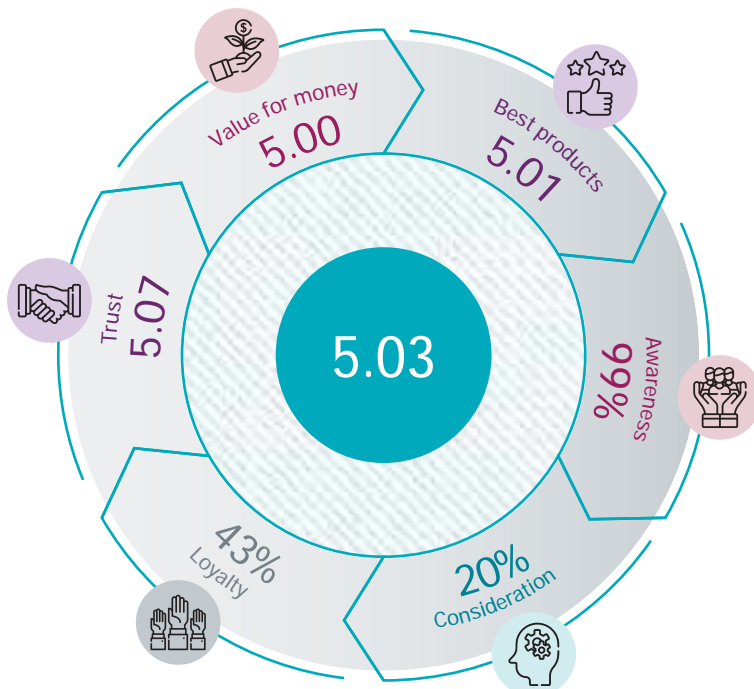
### BRAND EQUITY

During the year the Company has started monitoring brand equity. This will indicate the importance of the brand in the customer's eyes. We have used the following evaluation criteria to value the brand imagery;

Positioning	Segments
Trust	<ul style="list-style-type: none"> <li>▶ The leader in the field of Life insurance</li> <li>▶ A financially stable Life insurer</li> <li>▶ A transparent Life insurer</li> </ul>
Value for money	▶ A Life insurer who provides value for money
Best products	▶ An insurer with the best protection policies, investment policies, health covers, retirement plans and education plans
Awareness	▶ Overall awareness of Life insurance brands
Consideration	▶ Single most considered brand
Loyalty	▶ Extent to which they will recommend the services of the Company

Scores based on a 7 point scale, with 1 being lowest agreement and 7 being highest agreement

Scores based on the scale can be indicated as follows:



### AWARDS AND RECOGNITIONS

Awards and recognition we have received can be considered as testimony for the success of the business operations and value we have created. This has further enhanced our commitment towards quality, service and overall excellence.

#### JANUARY 18

**SAFA Best Presented Annual Report Award 2017**

- ▶ Corporate governance disclosures 2016 - 2nd runnersup, insurance sector category

Awarded by South Asian Federation of Accountants.

#### FEBRUARY 18

**Global HR Excellence Awards 2018**

- ▶ Best Work Place Practices
- ▶ Best Sales Development Program and Best Use of Technology for Training

Awarded by the World HRD Congress

## EMPLOYEE KNOW HOW

We are aware that knowledge is the base for business success. We have been in the business for more than 30 years and we have created an immense pool of knowledge through our employees and technology. As we understand the importance of the knowledge, we document, share and store information in a number of ways to enable its best use. We have used a number of tools such as e-library, knowledge sharing sessions and Human Capital management tools to facilitate the best use of the knowledge. At UA, employees at all levels have been given opportunities to develop themselves which is the main reason behind our success despite aggressive competition in the insurance sector. UA places great emphasis on developing employees and executes various training programmes to

sharpen their knowledge. Details of the training programmes conducted by the Company or participated by executives are provided in the Human Capital section of the report.

Additionally, at UA, we promote the Great Place to Work concept. This has enabled the promotion of a friendly work place culture and informal interactions. Therefore this has encouraged the sharing of practical use and sharing of knowledge and experiences.

## OUTLOOK

We pursue a digital first agenda since technology will change the Life insurance industry significantly. We continue to build our brand and it provides us a key differentiator among our peers. We are in the process

of reviewing options to position our brand beyond trust. Our product development will be focused on demographic changes, and the new IT platform enables us to develop and launch new products across multiple distribution channels in a speedy and cost-effective manner and improve the efficacy of policy issuance, policy administration, claim handling, billing and collection. Further it improves the quality of Management information and speed of dissemination of same to the sales force and Management.

In this context, Intellectual Capital continues to be an important aspect in the value creation process. Therefore our strategies focus on continuous development of Intellectual Capital and risk framework focusing on managing any associated risks.

### MARCH 18

#### ACCA Sustainability Reporting Awards 2018

- ▶ Joint Winner in the Financial Services and Insurance category.

Awarded by the Association of Chartered Certified Accountants

### JULY 18

#### Great Place to Work Awards 2018

- ▶ Top 25 Companies to Work For in Sri Lanka 2018

Awarded by Great Place to Work Institute

#### Sri Lanka Best Employer Brand Awards 2018

- ▶ Award for Talent Management
- ▶ Award for Best Employer Brand

Awarded by Employer Brand Institute India

### AUGUST 18

#### Forbes Asia's 200 Best Under A Billion 2018

- ▶ UA was enlisted in Forbes Asia's 200 Best Under A Billion 2018

Organised by Forbes Asia

#### Asia's Most Trusted Brand Awards 2018

- ▶ Most Trusted Life Insurance Company in Asia

Awarded by IBC Infomedia

### SEPTEMBER 18

#### Effie Awards 2018

- ▶ Silver award for the Best Budget Advertising under Health and Wellness category for GOYO

Awarded by Sri Lanka Institute of Marketing

### NOVEMBER 18

#### CA Sri Lanka Annual Report Awards 2018

- ▶ Gold award for Corporate Social Responsibility Reporting
- ▶ Silver award in the Insurance Category for Best Financial Reporting

Awarded by Institute of Chartered Accountants of Sri Lanka

#### National Business Excellence Awards 2018

- ▶ Gold award for Excellence in Corporate Governance
- ▶ 2nd Runner-up in the Extra-Large Category
- ▶ Joint Winner in the Insurance Category

Awarded by National Chamber of Commerce of Sri Lanka

### DECEMBER 18

#### Chairman's Award 2018

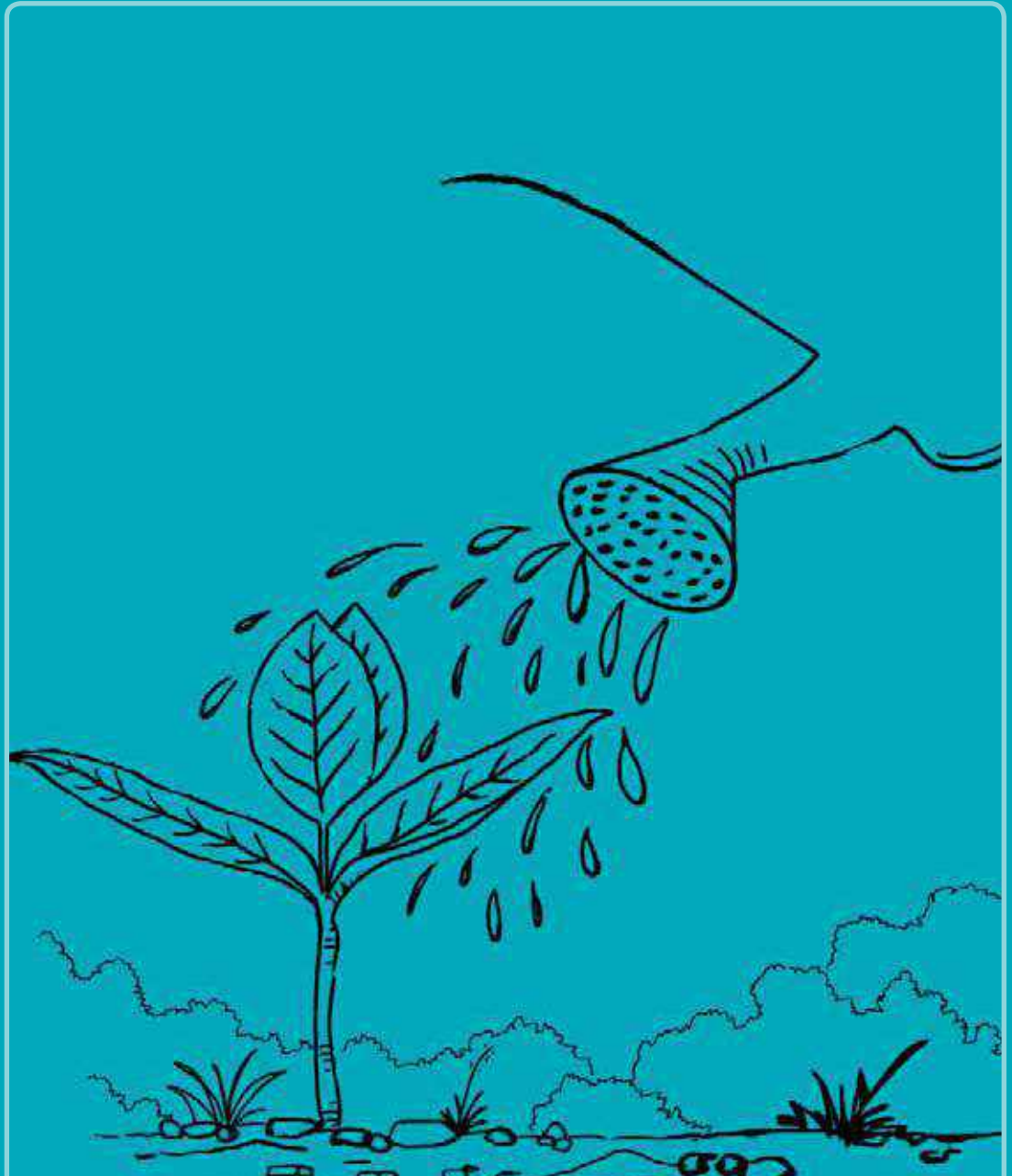
- ▶ Award for Sustainability (Office Based Services)

Awarded by John Keells Group

#### SLT Zero One Awards

- ▶ 1st Runner up for Best Digital Enabled Product and Best Digital Integrated Campaign under Small Budgets category

Awarded by Sri Lanka Telecom




## NATURAL CAPITAL

"We are mindful in consuming natural capital in a manner which will ensure that resources are available for the consumption of future generations as well. We are committed to promoting sound environmental practices when conducting the business operations."

# CAPITAL MANAGEMENT REVIEW

## NATURAL CAPITAL


### KEY PERFORMANCE MEASURES

 **1,426.30** tCO<sub>2</sub>e  
Carbon footprint

 **0.58 GJ**  
Energy intensity per  
1 million of revenue

 **22,438M<sup>3</sup>**  
of water consumption

 **15,824 kg**  
paper recycled

 **15,940 kg**  
waste recycled

### 2018 OBJECTIVES AND ACHIEVEMENTS

Recycling of 20,000 kgs of paper

Recycled 15,824 kg

Recycling of 125 used bulbs

225 bulbs were collected

Save water consumption by  
1,800 units

2,670 units have been saved

Save energy consumption by  
195,000 units

35,142 units have been saved

Promote usage of renewable  
energy in the branch network

In progress

### MATERIAL DRIVERS

- ▶ Energy Management
- ▶ Water Management
- ▶ Waste Management
- ▶ Green Branch Expansion
- ▶ Employee commitment towards sustainability

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Continue to promote hybrid and electrical car usage by employees to reduce GHG emission	2019 and beyond
Branches to reduce the electricity by 8% and promote usage of natural day light at day time by adjusting the layout	2019 and beyond
Reducing usage of timber by converting to movable partitions and standardisation	2019 and beyond
Reduce carbon footprint by 3.5%	2019
Reduce water consumption by 5%	2019

### CHALLENGES-2019

- ▶ Creating an environmentally-conscious culture
- ▶ Controlling the growth of carbon footprint with business expansion
- ▶ Changing business systems in an eco-friendly manner

# CAPITAL MANAGEMENT REVIEW

## NATURAL CAPITAL

**"We have enhanced internal communications to raise employee awareness on environmental protection, and encourage them to save energy at head office and branches."**

### MANAGEMENT APPROACH

Sustainability mainly focuses on maintaining the total Natural Capital stock at or above the current level. The distinctive nature of Natural Capital is its scarcity. Therefore, we are mindful in consuming this Natural Capital in a manner which will ensure that resources are available for the consumption of future generations as well. We are committed to promote sound environmental practices when conducting our business operations. Our environmental management framework plays an important role in managing this effort. This entails policies and procedures that enable sustainable and efficient business operations.

We take measures to monitor the long-term and short-term impacts on the environment as a result of the business strategies which we implement. Our Natural Capital management framework includes the elements such as material, energy, water, emissions, biodiversity, effluents and waste. Nevertheless, based on materiality we have not considered material and biodiversity for reporting. We comply with the environmental regulations in order to support the Government initiatives to establish best practices on environmental governance.

Considering the significance, we have recognised Natural Capital as an input in the value creation model.

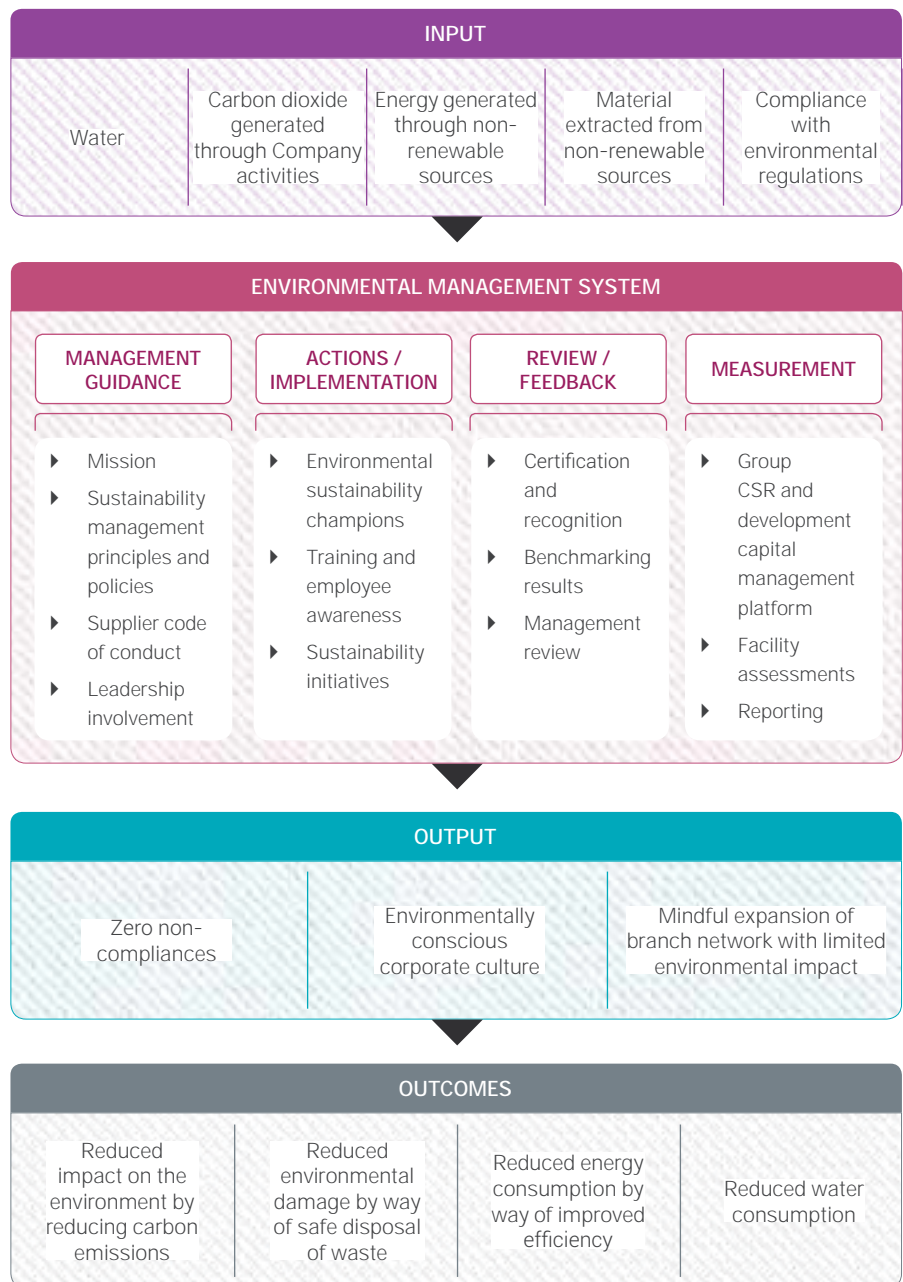
Our environmental management system which governs the activities of the Company is shown below;

### MANAGEMENT OF INPUT CONSUMPTION

#### Energy Management

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

We use petroleum fuel for energy consumption outside office complexes. This is mainly used for staff transport entitlements, employee travel for field visits and business meetings, managing logistics, movement of technicians for branch maintenance and use of propaganda vehicles for marketing promotion purposes. During the year under review, we consumed 46,496 litres of fuel for such purposes.



We make a significant effort to manage the usage of energy from non-renewable resources. However, our consumption of these resources is proportional to the Company activity level. We take many initiatives to ensure that energy is consumed efficiently throughout the value chain. The energy consumption ratio during the year is shown as follows:

Energy Consumption	2018	2017
Total (GJ)	6,386	6,474
Cost per Rs. 1 million of revenue (Rs.)	49.4	46.0
Per full time employee (GJ)	1.22	1.35
Per Branch (GJ)	73	67
Per Area (GJ)	0.02	0.02

During the year under review energy consumption has decreased by 88 units whilst 6,386 GJ of energy has been consumed to generate a revenue of Rs 11.2 billion. Cost of the energy has been increased mainly due to fluctuations in fuel prices.

### Energy Consumption by Type

Energy Type (GJ)	2018	2017
Diesel	0.002	0.002
Petrol	0.003	0.002
Electricity	6,386	6,474

Considering the usage of different energy types, electricity usage is significant as it is used by all parts of the business including Head Office and branch network.

### Solutions to Monitor and Control Energy Consumption

As almost all UA business activities involve consumption of energy, we have


undertaken several initiatives across the business to minimise the impact of energy consumption. We have enhanced internal communications to raise employee awareness on environmental protection, and encourage them to save energy at Head Office and branches. Also, we have invested in information technology applications to carry out paperless operations, thereby conserving energy usage and reducing paper wastage.

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

#### 1. Solutions to energy saving in operation

- ▶ Regular maintenance of air-conditioners including cleaning all heat exchangers and air-cooled condensers.
- ▶ Monitoring the suitability of soft water used for water chiller system
- ▶ Regular maintenance of broken devices to control unnecessary wastage of energy.
- ▶ Skilled employees to properly manage and operate the air-conditioning and ventilation system and save energy efficiently.


#### 2. Energy saving solutions in use



**AIR CONDITIONING SYSTEM**  
9,728 KWH SAVED PER ANNUM


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

This initiative has minimised the power consumption of compressor units in order to save extra electricity usage. The A/Cs will be periodically switched on and off through this initiative.



**POWER MANAGEMENT SYSTEM**  
12,492 KWH UNITS SAVED PER ANNUM

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



**LIGHTING SYSTEM**  
12,922 KWH PER ANNUM

Replace inefficient lighting system (filament light bulbs, fluorescent lamps, magnetic ballasts, etc.) with energy efficient lighting equipment such as LED lights in all our common premises such as passages, stairway and wash rooms at the head office building and branches, enabling significant saving. During the year under review 26 branches and Head Office sixth floor have been fitted with LED lights to conserve energy.

# CAPITAL MANAGEMENT REVIEW

## NATURAL CAPITAL

"Our initiatives mainly include plans to encourage employees towards responsible water management and usage as part of the day to day work routines."



### TOTAL WATER SAVING

# 2,671M<sup>3</sup>

2017 - 2,661 M<sup>3</sup>



### TOTAL ENERGY SAVING

# 35,142kWh

2017 - 69,246 kWh

### Water Management

Fresh clean water is a limited resource. Therefore, it should be managed wisely in order to eliminate future shortages. We have taken a number of measures to ensure effective management of this resource. Being in the insurance business, we use water mainly for utility and sanitary purpose. The resource will be mainly used by employees, customers, suppliers and other parties who daily interact with the Company. Our water consumption is significantly high given the nature of the business. At Head Office and branch level, we mainly withdraw pipe-borne water provided by the National Water Supply and Drainage Board and drinking water provided by third party vendors. Total withdrawal during the year amounted to 22,438 m<sup>3</sup>. Due to this withdrawal mainly surface water and inland ground water has been affected. In some of the branches mainly ground water has been used for consumption in order to lessen the burden on the national water supply. In addition we have taken several initiatives to ensure effective use of water and to conserve water. Our initiatives mainly include plans to encourage employees towards responsible water management and usage as part of the day-to-day work routines.

### Water Consumption by Source

	2018	2017
Pipe-borne water	98%	98%
Drinking water from third party vendors	2%	2%

### Water Management Initiatives



**MANAGEMENT OF WATER USAGE**  
2,529M<sup>3</sup> SAVED WATER

Installation of vacuum type syphon to the cisterns in every washroom. This has helped to reduce the usage of water for flushing purposes



**REUSE OF WASTE WATER**  
132,000 LITRES OF WATER REUSED DURING THE YEAR

Continued with the initiative of reusing water discharged by the cooling system of air conditioning units. We currently use the discharged water to wash Company vehicles and for other cleaning requirements



**REDUCE WATER CONSUMPTION**  
10,000 LITRES OF WATER SAVED DURING THE YEAR

Control water consumption in lunch room washing area at Head Office by introducing sensor taps instead of traditional taps.

Water intensity data are indicated as follows:

Water Consumption	2018	2017
Total Company volume (m <sup>3</sup> )	22,438	20,258
Cost Rs. million	5.1	4.5
Per employee (m <sup>3</sup> )	4.3	4.2
Per Branch (m <sup>3</sup> )	255	209

### EMISSION MANAGEMENT

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

Institute. As per the framework carbon dioxide and other greenhouse gases emission have been summarised under three main scopes.

**Scope 1-** Direct emission released from sources that are owned or controlled by the Company. This mainly includes fuel used for on - site power generation which is a

negligible amount. Being in the insurance business on-site power generation resulting from business activities are minimal.

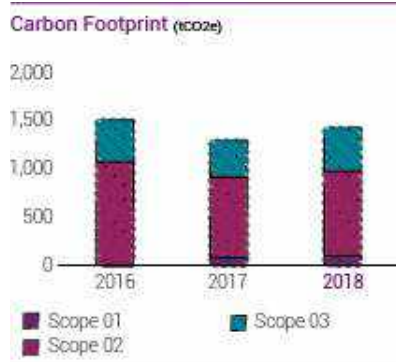
**Scope 2-** Indirect emission associated from the generation of imported energy. This includes total electricity purchased by the Company.

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

Scope	Emissions (tonnes CO2e) 2018	%	Emissions (tonnes CO2e) 2017	%
Scope 1- Direct GHG emissions	93.17	6.53	85.35	6.59
Scope 2- Energy indirect GHG emissions	885.48	62.08	833.23	64.36
Scope 3- Other indirect GHG emissions	447.64	31.38	376.11	29.05
Total carbon footprint	1,426.30	100	1,294.69	100
Emission per employee	1.66		1.59	
Carbon footprint (tCO2e) per Rs. millions of revenue	0.13		0.13	

Carbon footprint calculation enabled us to identify the main drivers of emission and methods of controlling the same. This enables us to finetune our strategy and KPIs in achieving carbon neutral status. In comparison to 2017, total carbon footprint has increased by 10%.

The movement in the green house gas emission can be indicated as follows;



The increase in the carbon footprint is mainly caused by increase in Scope 3 emissions by 19%. Scope 3 mainly consists of emissions related to employee commuting. Emission from employee commuting has increased due to increase in staff cadre by 16%.

#### Initiatives by Taken by the Company

- ▶ Monitoring the variation in the carbon footprint calculation and establishing corporate standard for reducing carbon footprint.
- ▶ Ensuring the emissions generated by Company activities are falling within the regulatory frameworks and limits.
- ▶ Encouraging employees to use hybrid or electrical vehicles through company car loan facility.

#### Effluent and Waste Management

We make every effort to minimise waste through recycling and reusing of materials. The effective management of waste has been considered as a material aspect based on the impact created on the environment. Given the nature of the business we don't generate any hazardous waste. However, used paper, e-waste, food and waste water has been generated through business operations. In addition to the measures highlighted in the environmental management framework, we have taken the 3R approach in managing waste. We have considered disposal of waste in proper form as a Company responsibility. We have partnered with Think Green (Pvt) Limited, Neptune Papers (Pvt) Limited and Ewis Peripherals to manage our waste.

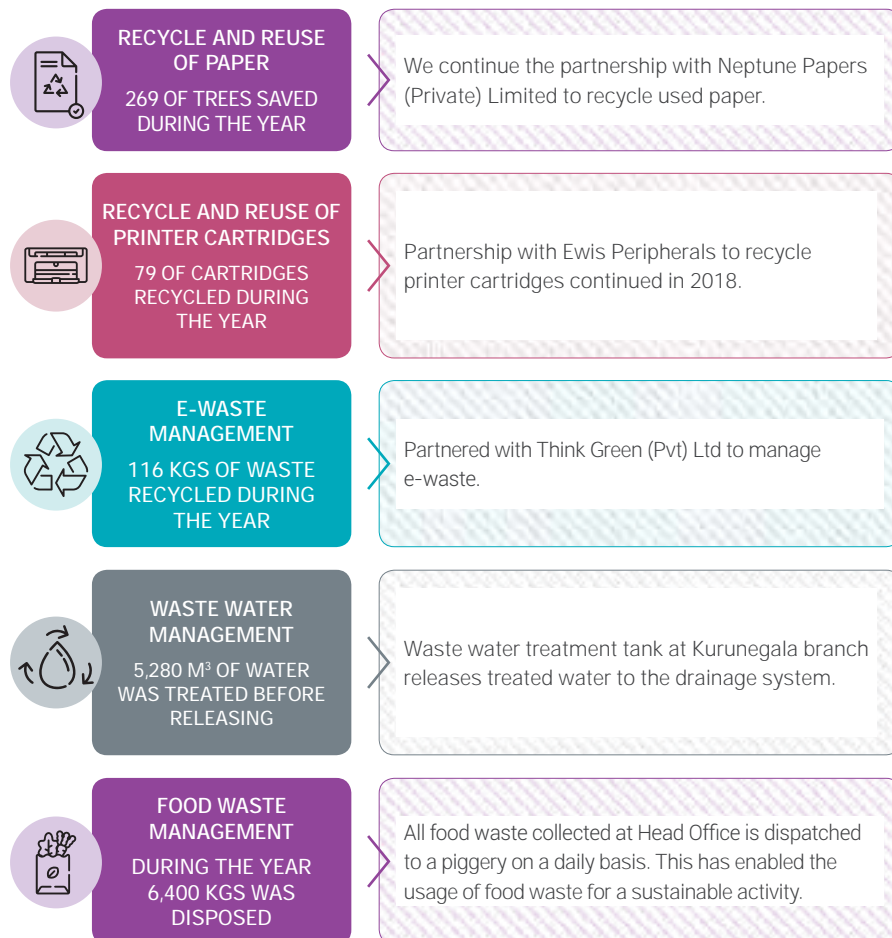
The information on weight of waste type is given below;

	2018	2017
Paper (kgs)	15,824	20,280
E-waste (kgs)	116	1,330
Printer cartridges (No.)	79	423

# CAPITAL MANAGEMENT REVIEW

## NATURAL CAPITAL

Our waste management initiatives are outlined below.



### Total Saving from Waste Management Activities

Total Savings from Waste Management Initiatives	2018	2017
<b>NEPTUNE PAPERS (PVT) LTD</b>		
Trees (No.)	269	345
Oil (Litres)	27,771	35,591
Electricity (kWh)	63,296	81,120
Water (Litres)	502,887	644,498
Landfill (m3)	47	61
GHG Emission Saving (Carbon Equivalent) (Kg)	15,824	20,280
<b>THINK GREEN (PVT) LTD</b>		
Land Filling (Kg)	116	1,330
Carbon Emission (lbs)	889	10,023
Trees (No.)	46	523

## SPECIAL PROJECTS

### Go Green with Our Branch Expansion

We have implemented the 'Go Green' concept, in the branches and Head Office infrastructure upgrade project. When refurbishing and relocating the branches the layouts are done in accordance with a 'Go Green' designing concept, which makes the sustainability effort visible at a glance. Having indoor potplants, water fountains and the other items which are made out of environmentally-friendly materials and usage of natural lighting has further enhanced the green concept at our branch network and Head Office building.

In addition, we have introduced oxygen emitting plants (Sansevieria) in office compounds to improve the air quality of work premises and to further facilitate go green concepts.

### Leverage Technology to Minimise Impact on the Environment

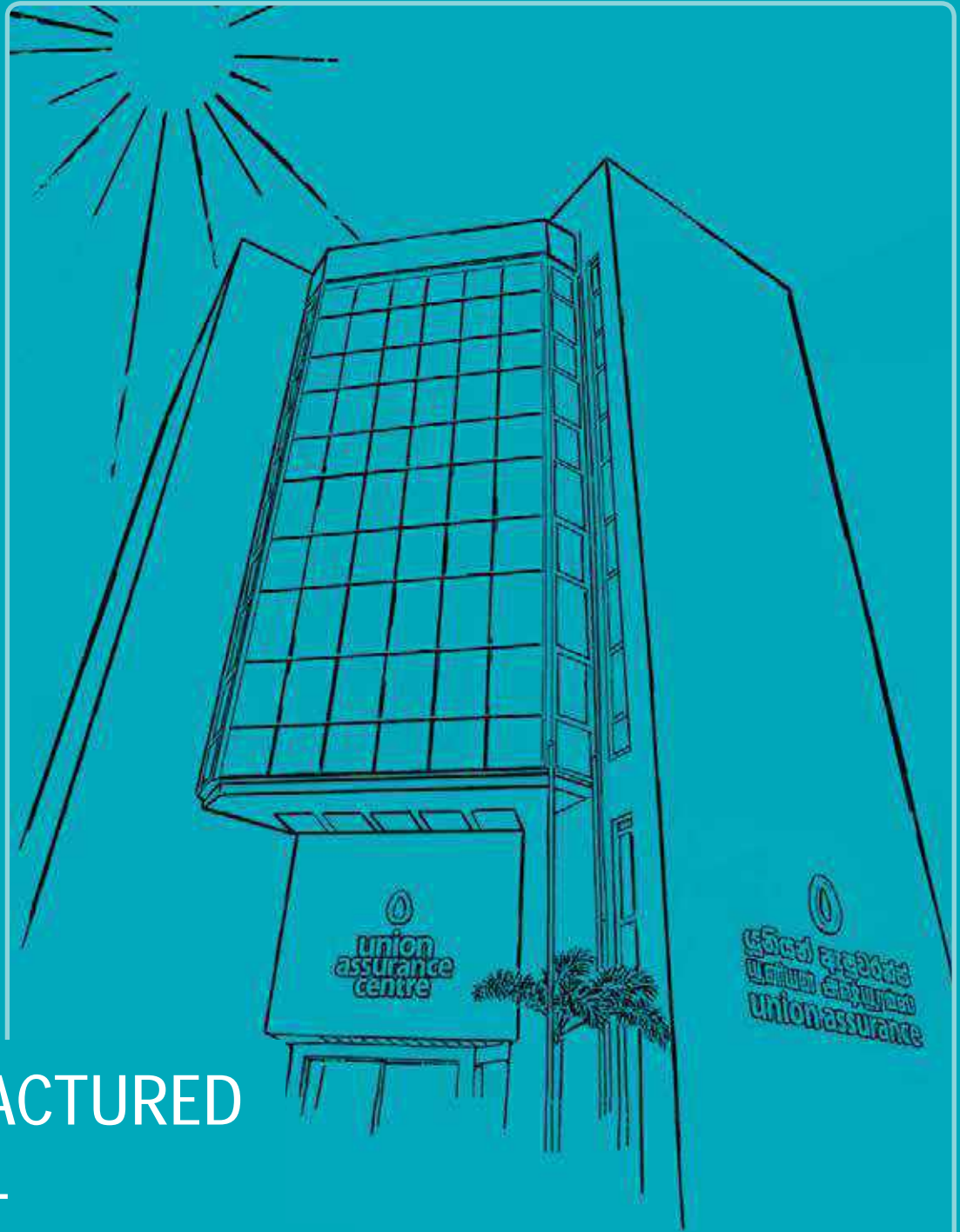
Automated underwriting has aided in reducing manpower, time and / or data necessary to underwrite a Life insurance application, while maintaining the quality of underwriting decisions. This has saved considerable amount of resources in terms of photocopying documents, printer and toner wastage and thus reduced the burden on the environment. Since the inception of this process, we have saved 60,000 paper sheets and 300 printer toners.

### Compliance with Environmental Regulations

UA complies with all relevant standards relating to environmental regulations and confirms that the Company did not have any incidents of non-compliance with environmental regulations during the year under review. Various campaigns were launched to improve awareness on environmental compliance.

## Outlook

Our commitment towards environmental sustainability has grown over the years and we have reached a number of milestones such as winning Group Chairman's Award for Sustainability under Office Based category. We will continue to use renewable energy sources to conduct our business operations. Our paperless approach will add more value to Natural Capital. We continue to implement various energy saving and emission management initiatives to manage our carbon footprint.



## MANUFACTURED CAPITAL

"The Company's manufactured capital consists of physical infrastructure that is available for use in the provision of services. This enables us to reach customers across the country. We focus on the cost reduction initiative while improving the branch appearance, customer experience and ensuring quality service through better supply chain management practices."

# CAPITAL MANAGEMENT REVIEW

## MANUFACTURED CAPITAL

**KEY PERFORMANCE MEASURES**

- 88**  
Number of locations
- 43,743**  
Square feet  
Training space
- Rs.154 Mn**  
Investment in  
Manufactured Capital
- 361**  
Customer touch points

**MATERIAL DRIVERS**

- ▶ Unparalleled distribution channels
- ▶ UAL digital agency
- ▶ Strategically strengthening local footprint

**2018 OBJECTIVES AND ACHIEVEMENTS**

- Consolidate BDOs in accordance with long term business plan  
▶ Consolidated 15 branches
- Upgrade branches in accordance with long term business plan  
▶ Upgraded 11 branches to tier 1 level and 10 branches to tier 2 level
- Use energy efficient equipment and renewable energy for branches  
▶ Energy efficient equipment has been installed for upgrades as discussed in natural capital section

### OBJECTIVES-2019 AND BEYOND

Objectives	Year
Continuation with the initiative of upgrading branches in accordance with the long-term business plan	2019
Ongoing investment on state of art technology	2019 and beyond
Continuation with the strategy of increasing branch energy efficiency	2019 and beyond

### CHALLENGES-2019

- ▶ Finding strategic locations
- ▶ Implications on the cost with the depreciation of exchange rates as most of the items related to branch upgrades are sourced internationally.

### MANAGEMENT APPROACH

UA is committed to provide a better customer experience through enhanced branch network. The Company's Manufactured Capital consists of physical infrastructure that is available for use in the provision of services. This enables us to reach customers across the country. We focus on cost reduction initiatives while improving the branch appearance, customer experience and ensuring quality service through better supply chain management practices.

We focus on delivering our brand promises via our branches. Branches can be considered as main customer touch points as a higher portion of our revenue is generated through the agency channel. When locating branches,

we mainly focus on locating strategically within the cities and townships across the country to ensure customer accessibility. Therefore the branch network serves as a key touch point for facilitating greater customer reach.

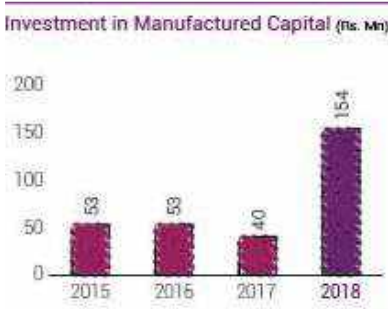
As a part of our long-term business strategy, we focus on changing the branch layout to with create an attractive digital space which is aligned with the UA digital agency modal. During the year under review we have upgraded 11 branches to flagship status (tier 1 level) and 10 branches to spoke status (tier 2 level). Further 15 business development offices have been merged with branches and closed as part of cost saving initiatives.

### INVESTMENT IN MANUFACTURED CAPITAL

When investing in infrastructure relating to Manufactured Capital, we take a long-term view. ROI and qualitative factors are considered when evaluating an investment decision. During the year under review investment in the branch network has been increased significantly with the strategy of upgrading branches. As a part of the Company's long-term business strategy the Head Office building has also been upgraded with modern infrastructure facilities. This has led to better customer experience and employee motivation.

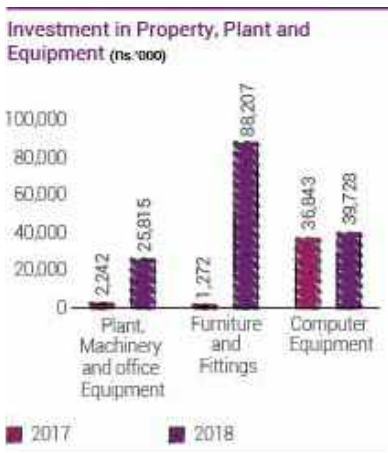
# CAPITAL MANAGEMENT REVIEW

## MANUFACTURED CAPITAL



### Our Footprint

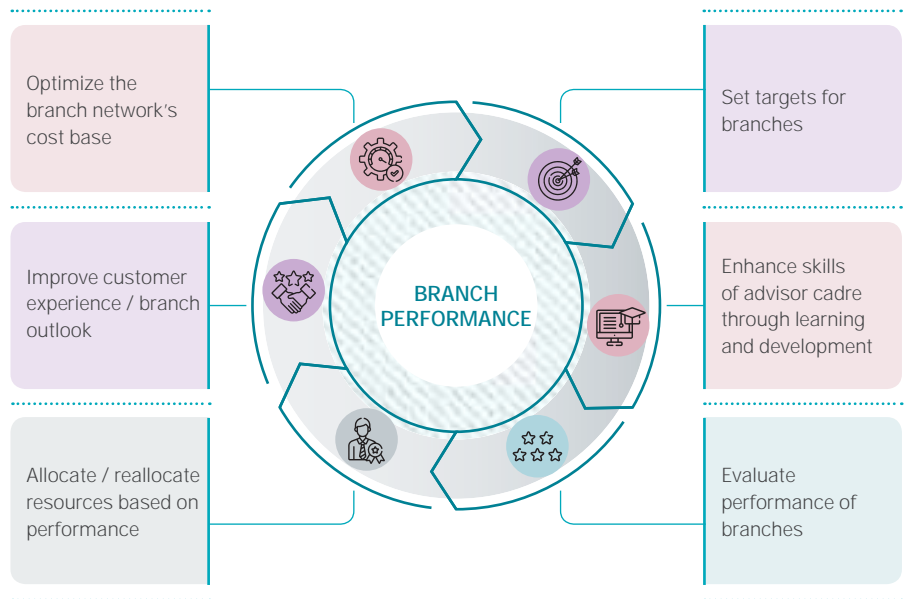
As stated, over 88% of the Company's GWP is generated through the agency channel which reaches every corner of Sri Lanka through our branch network. The Company invested in expanding, repositioning and upgrading existing branches to optimise geographical presence while enhancing customer convenience.



### Enhancing Performance of Branches

The process of enhancing the performance of our branches is shown below. The Company top line and other key targets have been cascaded down to branches. Targets are determined based on economic outlook, industry outlook and Company long-term business strategy. Each branch is given annualised new business premium, gross written premium, first year premium and persistency targets. Various training programs are carried out by learning and development department to improve the skills

of the advisor cadre to enable them to sell more. Each branch cost base is monitored against budget and corrective action taken for overruns. Branch ambience is regularly reviewed by Head Office and zonal managers. Branch layouts and appearance are changed to improve customer experience. Branches are evaluated and ranked on a monthly basis based on performance. Resource allocation to branches is based on branch ranking. Rewards and recognition are provided to branches which excel vs. their peers.



### WORK FROM HOME FOR PERMANENT STAFF

We have further enhanced the commitment towards work from home initiative implemented in 2017. This has been implemented with the purpose of maintaining

work life balance philosophy which reflects a "Great place to Work". During the year 34 of permanent staff worked from home. This has further facilitated the effective utilisation of office space as well as reduction of energy and water usage as reflected in the natural capital.

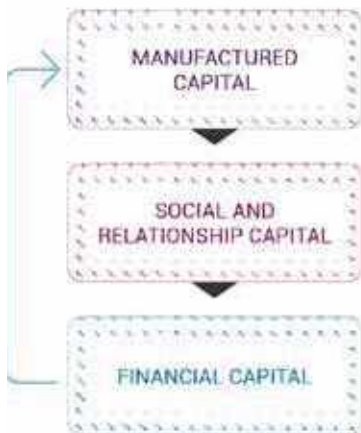
### Branch and BDO Expansions / Consolidation



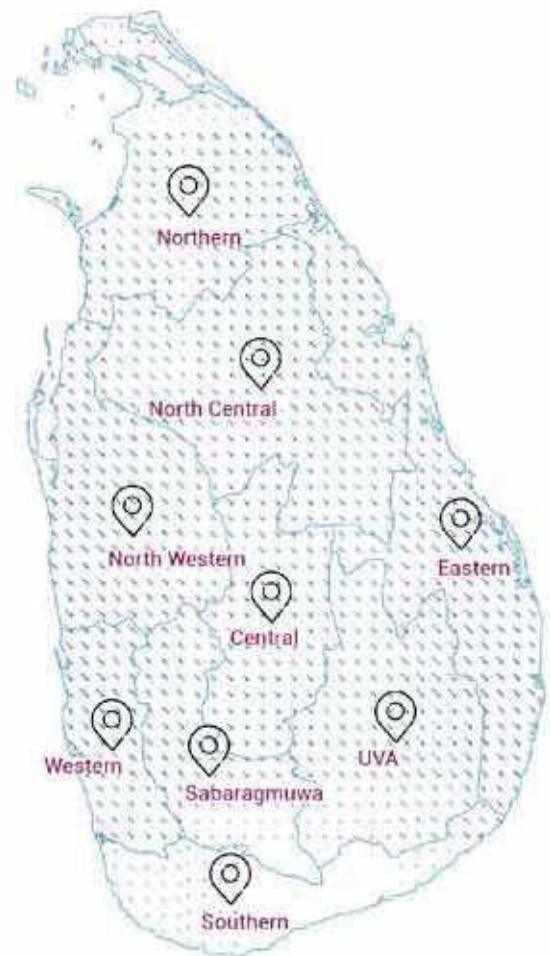
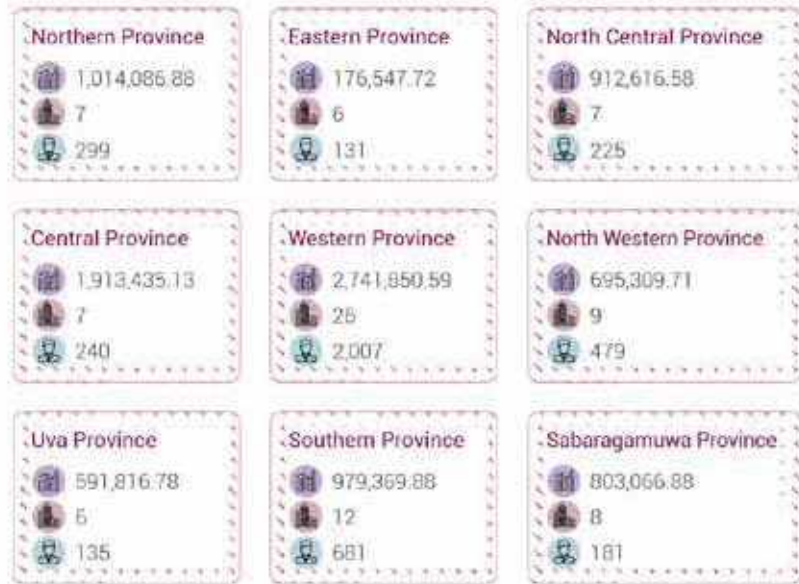
"The Company invested in expanding, repositioning and upgrading existing branches to optimise geographical presence while enhancing customer convenience."

**INTERACTION BETWEEN CAPITALS**

When UA invests in branches, the Company expends Financial Capital to build Manufactured Capital. Manufactured Capital builds Relationship Capital through better customer experience. Relationship Capital in turn builds Financial Capital which eventually translates to higher shareholder returns.



**OPERATIONAL FOOTPRINT**

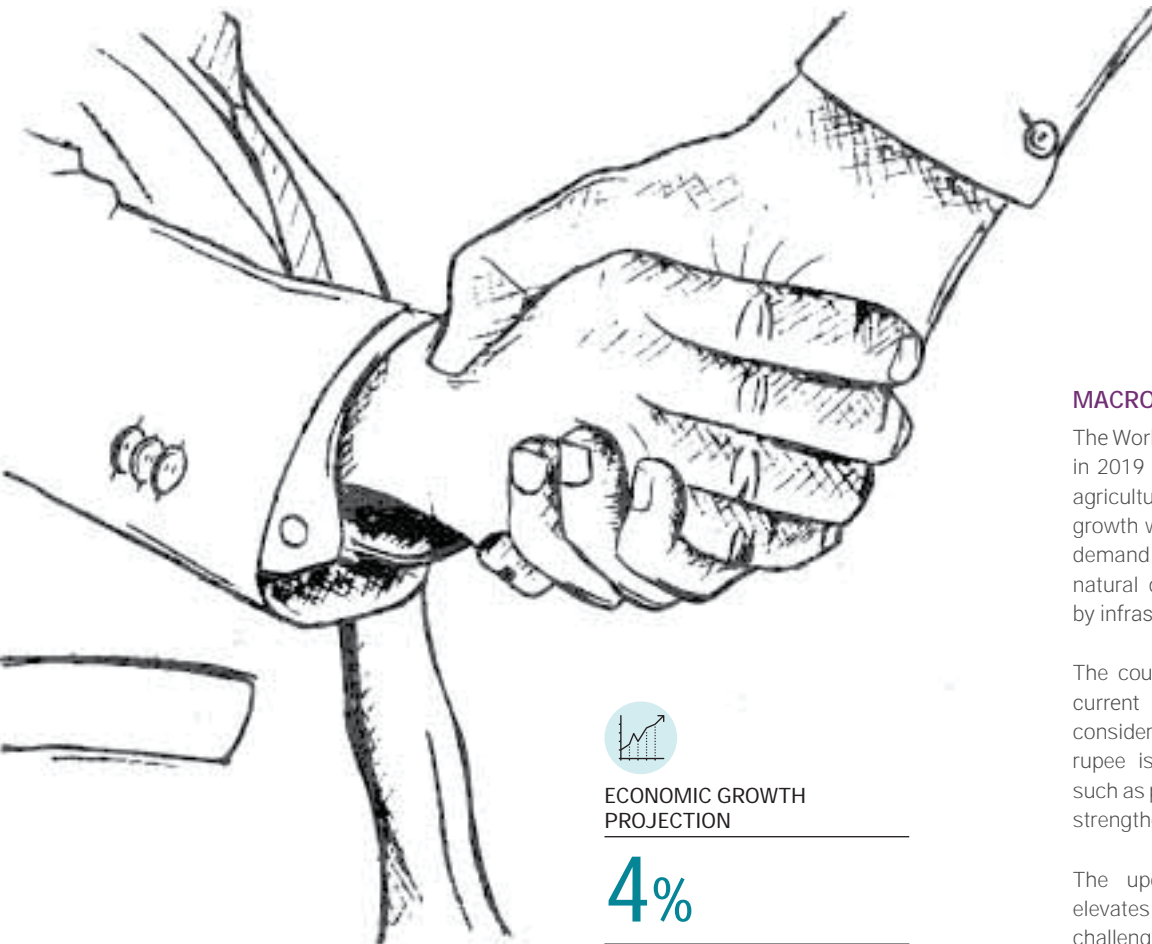


**OUTLOOK**

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

# OUTLOOK

"We will continue our activities in the digital first road map to improve the customer experience and efficacy of processes. Our enhanced product development capabilities will serve the ever-changing customer needs along with the demographic changes and leverage eco-systems."



ECONOMIC GROWTH  
PROJECTION

4%



LIFE INSURANCE  
INDUSTRY CAGR

14%

"Given the higher banking penetration in Sri Lanka, Bancassurance is the catalyst of our next phase of growth."

## MACRO-ECONOMIC

The World Bank projects 4% economic growth in 2019 in the backdrop of a recovery in the agriculture and services sectors. This modest growth will be supported by robust domestic demand as consumption rebounds following natural disasters, and investments boosted by infrastructure projects.

The country's external debt is sizeable and current account deficits have deteriorated considerably. Further depreciation of the rupee is expected with external pressures such as possible increase in Federal rates and strengthening of the dollar.

The upcoming election cycle next year elevates political uncertainty and the challenging political environment could adversely affect the ongoing reform agenda and economic activity. Rising interest rates in 2019 will have a positive impact on the Company's investment income. Increase in demand conditions as a result of fiscal easing which will improve the disposable income of the consumer.

## LIFE INSURANCE INDUSTRY

The outlook for the life insurance industry is extremely positive. Rising consumer wealth and an ageing population will drive demand for protection and retirement solutions. The Life insurance industry in Sri Lanka reported 12% growth in both 2018 and 2017. In the previous five years, 2012 to 2016, the industry recorded a Compound Annual Growth Rate (CAGR) of 14%. This is expected to rise to 21% over the next three years, creating a highly attractive market opportunity. This is due to three factors.

- ▶ Life insurance is significantly underpenetrated compared to peer countries and this provides strong upside potential. While the insurance industry has seen a higher growth rate relative to GDP growth, the country remains underpenetrated compared to regional economies
- ▶ Sri Lanka's demographic factors and significant working age population bulge, provide significant impetus for the growth of life insurance. The proportion of the young population is on the decline in line with the dip in the number of births. However, the share of elderly population is rising at a faster pace in line with greater life expectancy and better access to healthcare. This change will place a greater burden on the working population as they will have to support an increasing number of dependents.
- ▶ Sri Lanka's economic growth gives a strong practical case for the rapid growth of Life insurance. There is clear evidence that Life insurance has strong correlation to per capita income growth to USD 5,000 levels.

There is a sizeable and expanding mortality protection gap within Sri Lanka. Swiss Re estimates that "Every dollar spent on prevention saves society between US\$5 and US\$10 in losses. The situation looks very different if the loss is insured. The first hit is lower, the rebound much stronger – and the cumulative effect can even be positive, up to 2.4% of GDP." (Martyn Parker, Swiss Re's Chairman Global Partnerships).

## UNION ASSURANCE (UA)

The Company will leverage distribution capabilities, operational excellence stemming from the digitalisation and strong brand presence to capitalise on the attractive market opportunity in the Life insurance industry.

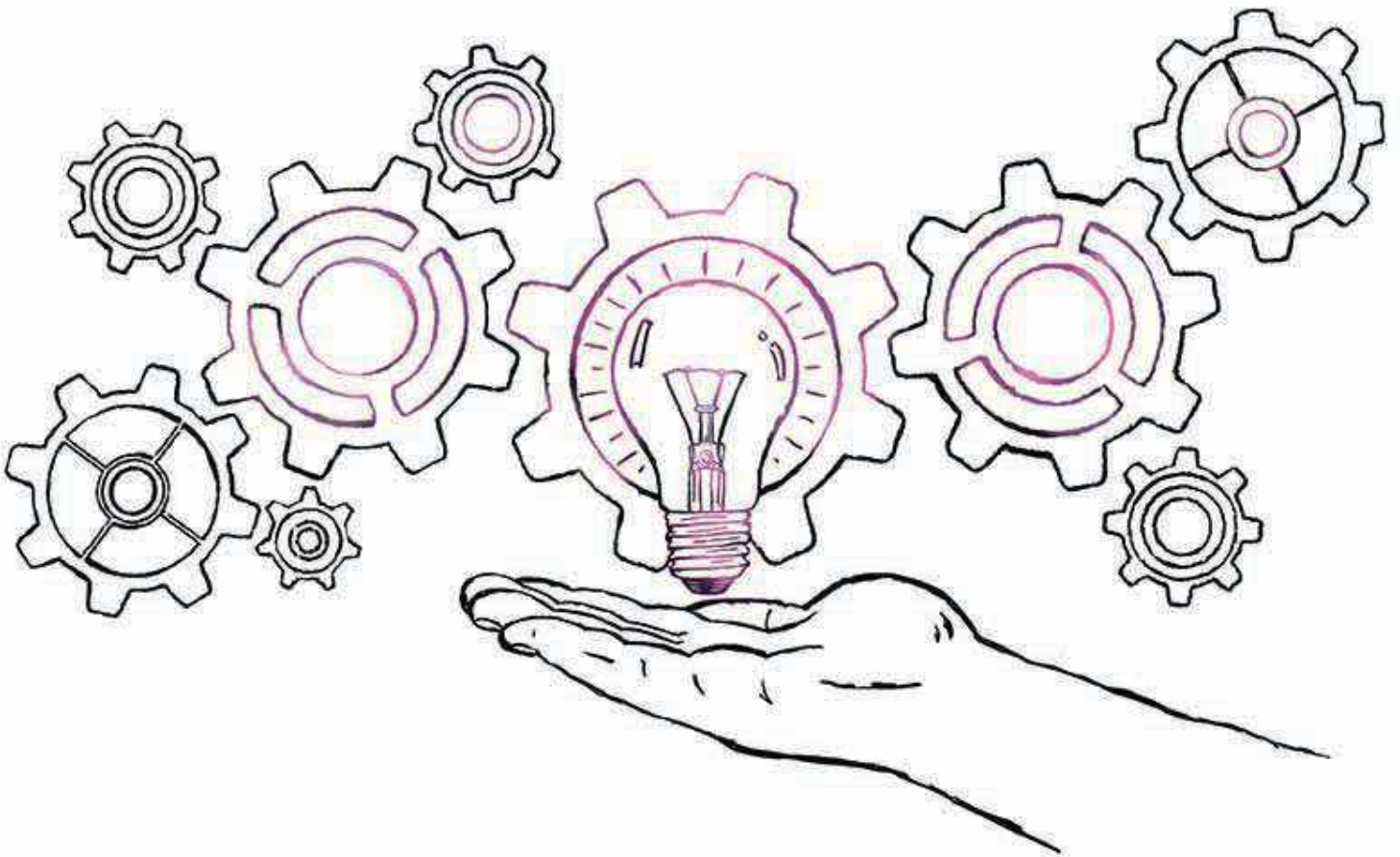
We believe the significant investments made in the agency channel will deliver results. We focus on consistent delivery of the channel since it is our engine of growth. Given the higher banking penetration in Sri Lanka, bancassurance is the catalyst of our next phase of growth. We continue to build and strengthen the strategic and open architecture partnerships with banking partners to provide superior service to our existing and potential customers.

We will continue our activities in the digital first roadmap to improve customer experience and efficacy of processes. Our enhanced product development capabilities will serve ever-changing customer needs and leverage eco-systems.

We focus on further strengthening our strong brand presence and will reposition it beyond trust.



"UA is committed to highest standards of ethics and integrity and has embraced globally accepted best practices that promote transparency, fairness and accountability. These values are put into practice each day through a robust Corporate Governance Framework, which provides a mechanism for prudent management and oversight of the business to adequately protect the interests of all stakeholders."



ILLUMINATING OUR WORK WITH TRUST

# CORPORATE GOVERNANCE

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# CORPORATE GOVERNANCE

## BOARD OF DIRECTORS

### KRISHAN BALENDRA

Chairman / Non-Executive Director  
(Member of the Board Since January 2019)

#### Board Committees:

None

**Skills and Experience:** Member of the John Keells Holdings PLC Board since November 2016. He is a former Chairman of Nations Trust Bank and the Colombo Stock Exchange. He started his career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. Krishan holds a law degree (LLB) from the University of London and an MBA from INSEAD. He is a Director of the Ceylon Chamber of Commerce and the Hon. Consul General of the Republic of Poland in Sri Lanka.

#### Other Current Appointments:

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

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

### SURESH RAJENDRA

Non-Executive Director  
(Member of the Board since August 2011)

#### Board Committees:

Member, Board Audit and Compliance Committee

**Skills and Experience:** Suresh has over 25 years of experience in the fields of finance, property and real estate, travel and tourism, and business development acquired both in Sri Lanka and overseas. Prior to joining the JKH Group, he was the head of commercial and business development for NRMA Motoring and Services in Sydney, Australia, Director/ General Manager of Aitken Spence Hotel Managements (Private) Limited, and also served on the Boards of the hotel companies of the Aitken Spence Group. Suresh is a Fellow member of the Chartered Institute of Management Accountants, UK.

#### Other Current Appointments:

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

**Others:** He is a Director of many unlisted companies in the John Keells Group.

### DILANI ALAGARATNAM

Non-Executive Director  
(Member of the Board since August 2011)

#### Board Committees:

None

**Skills and Experience:** A lawyer by profession, she has been with John Keells Holdings PLC for 27 years and is a law graduate and a holder of a Master's Degree in Law.

#### Other Current Appointments:

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

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

### HARIN DE SILVA WIJEYERATNE

Independent Non-Executive Director  
(Member of the Board since September 2011)

#### Board Committees:

Chairman, Board Audit and Compliance Committee

**Skills and Experience:** Harin is an Associate member of the Institute of Chartered Accountants of Sri Lanka and Fellow member of the Chartered Institute of Management Accountants of UK. He counts over 28 years of experience in the fields of general management, financial management and auditing which has been acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka.

#### Other Current Appointments

**Listed Companies:** None

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

### DUMITH FERNANDO

Independent Non-Executive Director  
(Member of the Board since August 2018)

#### Board Committees:

Member, Board Audit and Compliance Committee

**Skills and Experience:** Dumith was managing Director and Group Chief Operating Officer for Asia Pacific at Swiss bank Credit Suisse AG - a business with over US\$ 2.5 billion in revenues across 12 countries, and a member of that firm's Global Leadership Council. He has over two decades' experience in international investment banking, based

in New York and Hong Kong, with the U.S. bank JP Morgan Chase & Co, and Credit Suisse, until 2013. He has worked in roles across investment banking, equities, venture capital and corporate strategy. He holds a BA (Honors) in Physics & Economics from Middlebury College in the U.S. and an MBA from Harvard Business School.

#### Other Current Appointments

**Listed Companies:** He is a Non-Executive Director of the Colombo Stock Exchange and Singer (Sri Lanka) PLC.

**Others:** He is the Chairman of Asia Securities Holdings (Pvt) Ltd, a leading independent Investment Bank in Sri Lanka offering investment banking, research, stock broking and wealth management services to international and domestic institutions, corporates and high net worth individuals. Dumith is a member of the Economic Policy Steering Committee of the Ceylon Chamber of Commerce. He also served as Chairman of Lankan Angel Network (LAN) Sri Lanka's largest angel investing organisation.

#### STEPHEN APLEYARD

**Independent Non-Executive Director**  
(Member of the Board since January 2019)

#### Board Committees:

None

**Skills and Experience:** Stephen has over 20 years experience in the Life insurance industry across Europe, US and Asia as CEO and Regional CEO roles at SCB Life (Thailand), AIA (Hong Kong), Allianz (Ayudhya Allianz C.P, Thailand), American International Group (Europe, US and Asia). He has extensive experience in strategy, distribution, marketing and in finance and operational transformation. Mr. Appleyard has served as Consultant to AXA Regional Office (Hong Kong), Direct Money (Vietnam) and also as an Advisor to many Fintech companies. He holds a Bachelor of Science from Sheffield Hallam University and an MBA from the University of Manchester.

#### Other Current Appointments

**Listed Companies:** He is currently the Head of Distribution AXA Asia Markets (Life and Non Life Insurance)

**Others:** None

#### DIRK PEREIRA

**Executive Director / Chief Executive Officer**  
(Member of the Board since May 2014)

#### Board Committees:

Investment Committee

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

#### Other Current Appointments

**Listed Companies:** None

**Others:** serves on the Boards of Fairfirst Insurance Limited and John Keells Stock Brokers (Pvt) Limited.

#### Notes:

Mr. Susantha Ratnayake - Retired from the Board w.e.f. 31 December 2018.

Mr. Ashan De Soyza - Resigned from the Board w.e.f. 03 August 2018.

Mr. Gerald De Seram - Resigned from the Board w.e.f. 31 December 2018.

# CORPORATE GOVERNANCE

## EXECUTIVE COMMITTEE

### ASHA PERERA

General Manager, Finance & Planning

Asha joined Union Assurance in September 2018 from John Keells Holdings PLC. She served as Vice President with multi sectoral experience in information technology, leisure, and plantation services with an overall tenure of 12 years and 20 years of professional experience.

Prior to joining John Keells Group in 2005, Asha held multiple operational and finance responsibilities in the apparel industry.

She holds a Master of Business Administration (MBA) from Post Graduate Institute of Management (PIMA), BSc Management (Human Resource Management) from University of Sri Jayewardenepura - Sri Lanka and is an Associate Member of Chartered Institute of Management Accountants (UK).

### IROSHINI TITTAGALLA

General Manager, Life Operations

Iroshini commenced her insurance career at Union Assurance in April 2001 and left the Company in 2005 to pursue higher studies. She subsequently rejoined the Company in 2008 in a senior capacity where she rapidly rose to the position of General Manager, Life Operations.

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

### DHARSHANA AMARASIYNGHE

General Manager, Marketing and Distribution

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

He is a Chartered Marketer, CIM (UK) and also holds a Post Graduate Diploma in Marketing, CIM (UK). In addition, he possesses a Diploma in Training and Human Resource Development from the Institute of Personnel Management (SL). He is a member of the Sri Lanka Institute of Marketing (SL), Institute of Management Sri Lanka and the Sri Lanka Institute of Training & Development.

### SURESH MUTTIAH

General Manager, Human Resources

Suresh joined Union Assurance in May 2016. He has been with the John Keells Group for five years serving in the capacity of Vice President - Human Resources, Retail Sector. Suresh has more than 16 years experience in HR management and operations, having worked at leadership positions at Dialog Axiata PLC, Carsons Cumberbatch and Lion Brewery PLC.

Suresh holds a Professional Qualification in Human Resource Management (IPM Sri Lanka), a Post Graduate Diploma and MBA from University of Southern Queensland - Australia. Suresh is a member of SHRM (USA), IPMA - HR (USA) and The Association of HR Professionals - AHRP (Sri Lanka). He currently serves as Chairperson of the HR Sub Committee of the Insurance Association of Sri Lanka.

### NIMESHA LIYANAGE

General Manager, Actuarial

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

Nimesha left the Company in 2013 to join AIA Insurance PLC as a Senior Manager, Actuarial. She was responsible for the overall management of product and compensation pricing, data, IFRS reporting and experience investigation functions.

Nimesha holds a First Class (Hons) Degree in Finance, Business and Computational Mathematics from the University of Colombo. She is a Fellow Member of the Society of Actuaries, USA and a Member of the Actuarial Association of Sri Lanka and held the position of Treasurer in 2015-2016.

### HARSHA SENANAYAKE

General Manager, Information Technology

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

He holds a BSc in Computer Science from the London Metropolitan University and a Post Graduate Diploma in Information Systems Management from the University of Colombo.

## THE CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

### Dear Valued Stakeholders,

At Union Assurance (UA), we recognise that sound corporate governance practices provide a strong foundation for ensuring sustainable growth and trusted relationships. This Report explains and demonstrates the framework and activities carried out during the year to ensure the highest standards of corporate governance and compliance within UA. We have a responsibility not simply to meet regulatory requirements, but to act in accordance with our stated values. And the cornerstone of our efforts is sound corporate governance. We've changed successfully over the past 31 years because of good governance, keeping an eye on the long-term, and focusing on what is right for our customers.

### GOVERNANCE ATTITUDE

UA firmly believes that the highest standards of transparency, reliability and ethical business conduct are well-established guiding principles within the company and are articulated in a comprehensive policy framework and a Code of Conduct which is communicated to and understood by all employees.

In addition to legal requirements, the Company's policy framework embraces international best practices and complies with voluntary frameworks, providing a solid foundation for performance as well as effectively managing risks arising from economic, social and environmental impacts. Formal governance structures serve to ensure judicious empowerment and create an appropriate balance of authority and responsibility within the organisation.

### GOVERNANCE STRUCTURE AND LEADERSHIP

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

committee with clearly defined mandates and authority levels whilst maintaining its accountability.

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

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

### ACCOUNTABILITY AND RISK

The Board periodically discusses the risk management process and the principle risks facing the Company. The Board Audit and Compliance Committee has played an important role in monitoring the Company risk and assurance systems. The BACC reviews the reporting framework for controls being used by the Company.

### ENGAGEMENT WITH STAKEHOLDERS

The feedback obtained from our robust stakeholder engagement mechanisms form a key input in strategy formulation, ensuring that the company's growth is responsible and sustainable. Our stakeholder engagement mechanisms are structured and comprehensive, providing valuable insights into stakeholder concerns and enabling us to provide appropriate responses while balancing multiple interests.

### FUTURE DIRECTION

The Board's priorities for 2019 remain consistent with last year's priorities. We will continue to monitor progress against our strategy to ensure that we drive growth and improve returns. We are committed to investing in and supporting our people so that the company maintains an appropriate balance of management skills and capabilities as it grows and develops.

### STATEMENT OF DECLARATION

I also wish to state that to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions of the code of best practice on corporate governance issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.



Krishan Balendra  
Chairman

27 February 2019

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE COMMENTARY

### KEY CORPORATE GOVERNANCE HIGHLIGHTS FOR THE YEAR 2018

- ▶ With reference to Rule 7.13.2 of the Listing Rules of the Colombo Stock Exchange (CSE) governing the minimum public holdings of listed entities, the John Keells Group divested 2,305,982 ordinary shares of Union Assurance PLC (UA), during the year. Based on which the public holding of UA moved up to 10% from 7% during the year under review.
- ▶ Migration of the policy administration system to enhance adaptability to global trends, customer expectations and enhanced control frame work. Refer Intellectual Capital section in page 94 for more details.
- ▶ Rolling out of the SAP Success Factors, a state-of-the-art HR system, enabling an efficient and effective platform to manage the Human Capital of the Company. The platform will enhance the entire chain of human resource management from entry to exit with a seamless automated paperless process.
- ▶ Upon completion of the end-to-end process review of the investment function of the Company by Messrs. PricewaterhouseCoopers, many initiatives were implemented to further strengthen the internal controls of the unit.
- ▶ To strengthen the cyber security resilience posture of the Company, many initiatives were implemented. The initiatives include measures to further strengthen and streamline device management, user access, data protection, prevention of data leakage and malicious activity.
- ▶ In line with the succession plans of the Holding Company, Mr. K. N. J. Balendra was appointed as the Chairman of John Keells Holdings PLC on 1st January 2019, subsequently Mr. Balendra assumed position as Chairman of Union Assurance PLC with effect from 1st January 2019. Mr. Susantha Ratnayake retired from Union Assurance as Chairman with effect from 31st December 2018.

### HIGHLIGHTS OF THE 31ST ANNUAL GENERAL MEETING HELD ON 9 MAY 2018

- ▶ Mr. Suresh Rajendra, who retired in terms of Article 84 of the Articles of Association of the Company, was re-elected as a Director of the Company.
- ▶ Mr. Harin A. J. De Silva Wijeyeratne who retired in terms of Article 84 of the Articles of Association of the Company was re-elected as a Director of the Company.
- ▶ Mr. Susantha C. Ratnayake who retired in terms of Article 90 of the Articles of Association of the Company was re-elected as a Director of the Company.
- ▶ Re-appointment of Auditors Messrs. KPMG, Chartered Accountants, as the External Auditors of the Company.

The following table illustrates the mandatory and voluntary adoption of codes of governance and compliance by the Company

Summary of Requirements	Adoption
Code of best practice on Corporate Governance as per section 7.10 of the listing rules of the Colombo Stock Exchange (CSE)	Mandatory
Code of best practice on Related Party Transactions (RPT) published by the SEC	Mandatory
Content of the Annual Report as per section 168 of the Companies Act No. 7 of 2007	Mandatory
Content of the Annual Report as per section 7.6 of the listing rules of the CSE	Mandatory
Corporate Governance Framework for Insurers issued by Insurance Regulatory Commission of Sri Lanka is under review for adoption	Mandatory
Code of best practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)	Voluntary
Good governance practices recommended in the Corporate Directors' Handbook, a joint publication by the Sri Lanka Institute of Directors and the Chartered Institute of Management Accountants (CIMA)	Voluntary

**HOW WE VIEW CORPORATE GOVERNANCE**

The Board of Directors of Union Assurance PLC (UA) takes the view that Corporate Governance and Risk Management are the foundation on which the entire organization of the Company rests, as it guides the Board and all levels of employees in the conduct of business on a day-to-day basis.

The Board is responsible to shareholders for creating and delivering sustainable shareholder value and it has come to be viewed as a differentiator among firms as good governance practices provide a sustainable competitive advantage. UA's governance policies and practices enable the Board to manage the Company for the benefit of all stakeholders, ensuring a viable long-term business. The corporate governance framework is built on the core principles of accountability, participation and transparency, which are essential for the creation, enhancement and maintenance of a sustainable business model.

UA's governance practices stand to ensure that:

- ▶ The business is driven in the right strategic direction and decisions are aligned appropriately
- ▶ The Executives lead and manage their respective units effectively and with accountability
- ▶ The Company has appropriate controls in place and risks are regularly monitored and managed.
- ▶ Employees 'do the right thing' at all times for the benefit of all stakeholders

**Our Integrated Governance Framework**

UA is committed to the highest standards of ethics and integrity and has embraced globally accepted best practices that promote transparency, fairness and accountability. These values are put into practice each day through a robust Corporate Governance Framework, which provides a mechanism for prudent management and oversight of the business to adequately protect the interests of all stakeholders.

**Internal Governance Structure**

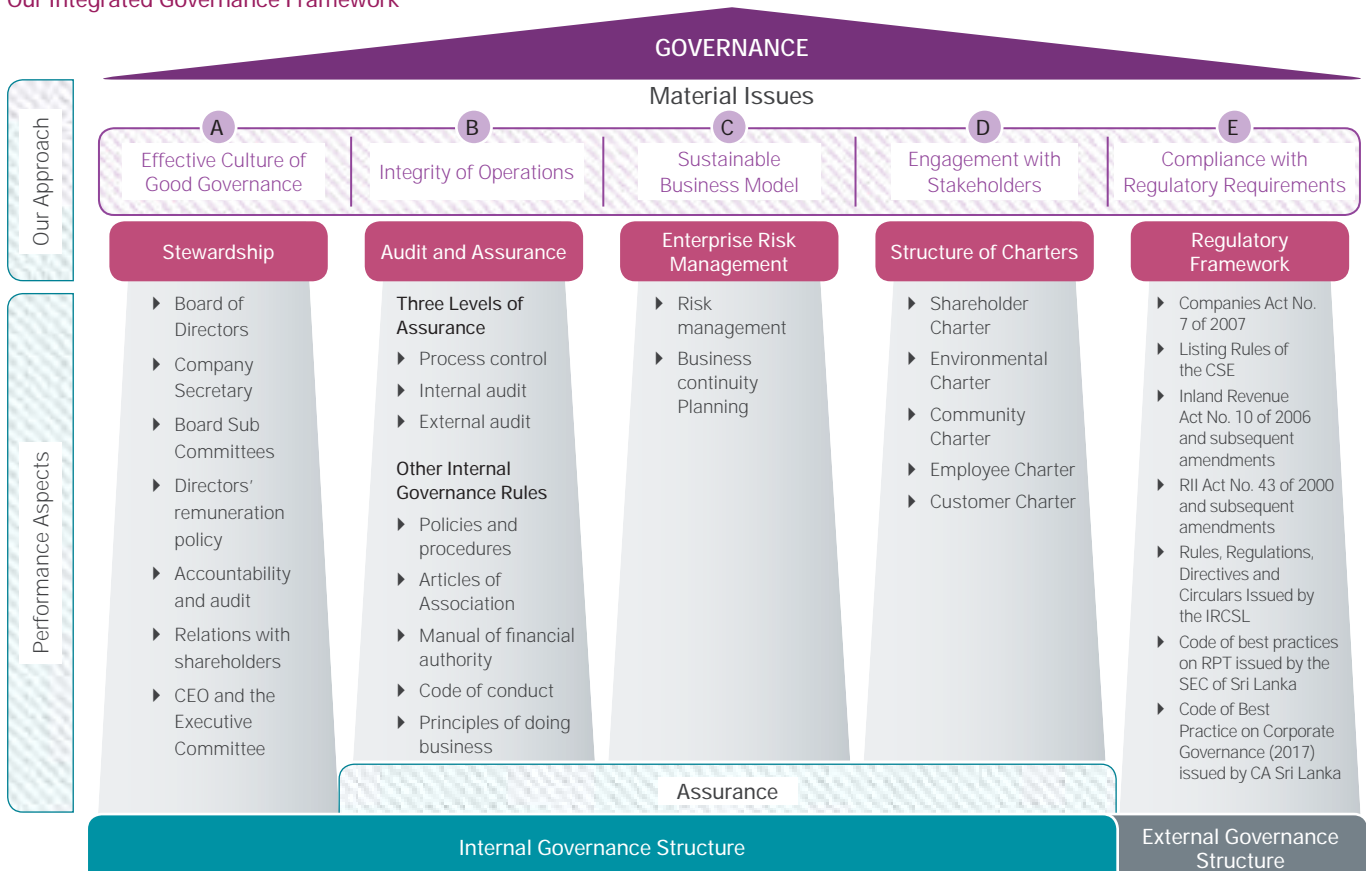
Internal governance structure of the Company focuses on the responsibility of the Board of Directors, Board Committees and Senior Management who formulate, execute and monitor the Company's business objectives and its appetite for risk, how the business of the Company is organised, how responsibilities and authority levels are allocated, how reporting lines are set up and what information they convey, as well as how internal controls (including risk controls, compliance and internal audit) is organised.

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

**External Governance Structure**

External mechanisms are often imposed on the Company by external stakeholders in the forms of relevant laws, contracts, regulatory guidelines or best practices. The Company is governed by mandatory rules and regulations and voluntary adoption of codes of best practice.

**Our Integrated Governance Framework**

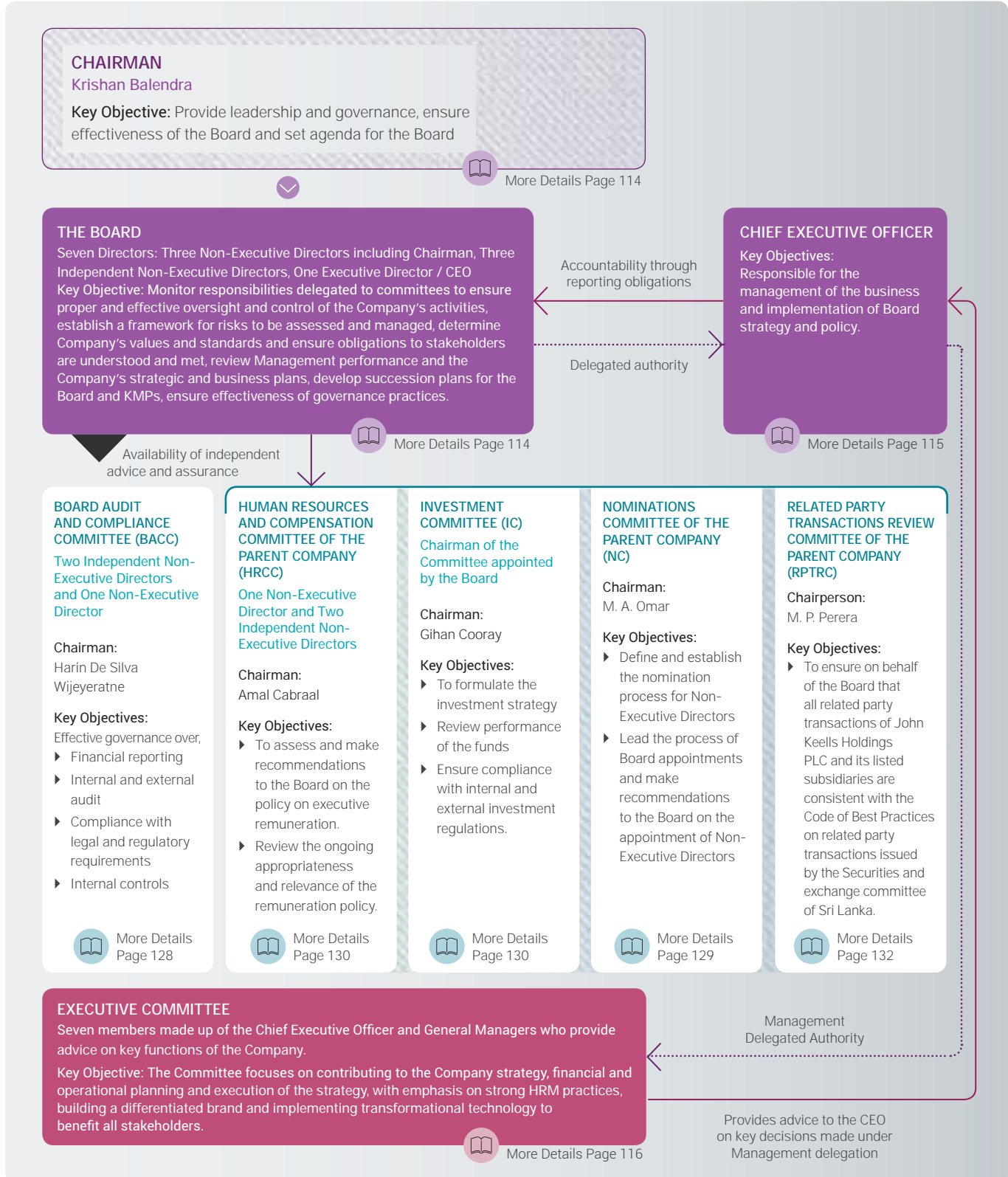


# CORPORATE GOVERNANCE

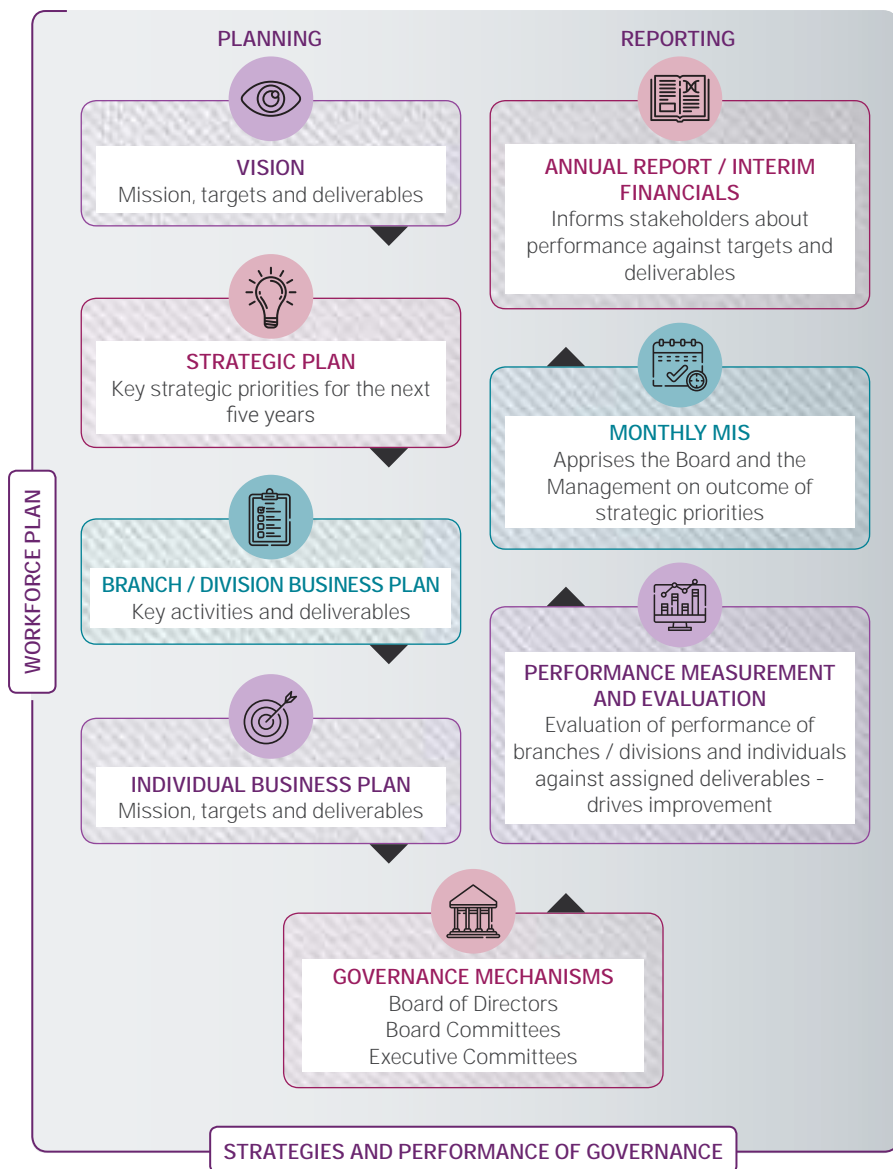
## INTERNAL GOVERNANCE STRUCTURE

### (A) EFFECTIVE CULTURE OF GOOD GOVERNANCE

#### Stewardship



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



Our Corporate Governance covers many aspects in line with the Code of Best Practice on Corporate Governance (2017) issued by CA Sri Lanka.

We have in place a comprehensive Code on Business Conduct and Ethics (the Code) applicable to all our Directors and

employees. The Code has been circulated to all the Directors and employees and has been published on our intranet to ensure strict compliance with same.

The Company's commitment with respect to the above aspects is detailed below;

### Company Structure and Shareholders Description of UA's Operational Structure

UA's organisation structure is illustrated on page 136 of this report. The Company's management structure is depicted in the Executive Committee's span of control on page 116.

### Shareholding Structure

The John Keells Group continued to be the largest shareholder, with a stake of 90% as at 31 December 2018. (93.9% in 2017).

### Capital Structure

As at 31 December 2018, the Company's stated capital of Rs. 1,000 million meets the share capital requirements set by the Insurance Regulatory Commission of Sri Lanka (IRCSL) for a Life insurance company.

## 1. BOARD OF DIRECTORS

### 1.1 Union Assurance Board Structure

UA maintains a dual panel structure, namely the Board of Directors, who are Non-Executive Directors and, the 'Chief Executive Officer / Executive Director and Executive Committee'. It thus distinguishes clearly between the supervisory body and the management including the division of responsibilities between the Chairman and CEO.

### 1.2 Composition of the Board of Directors, Their Skills and Diversity

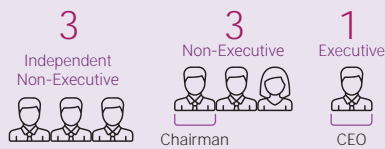
The Board consist of Seven Directors and the Company policy is to maintain a healthy balance between the Executive, Non-Executive and Independent Directors with the Executive Director bringing in deep knowledge of the business and the Non-Executive Independent Directors bringing in experience, objectivity and independent oversight. Brief profiles of the current Board members are given in page 114 and 115 of this report.

# CORPORATE GOVERNANCE

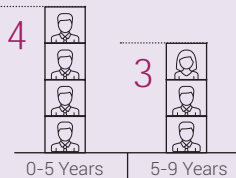


## THE CURRENT BOARD COMPOSITION

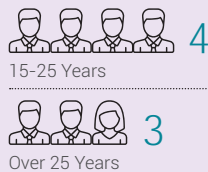
### The Current Board Composition



### Period of Service on the Board



### Experience



### Gender Diversity



## 1.3 The Chairman

The Chairman is responsible for leadership and governance of the Board while ensuring its effectiveness. The Chairman also sets the agenda, style and the tone of the Board discussions and ensures the effective participation of all directors and that the Board is in complete control of the Company's affairs and alert to its obligations to all stakeholders.

## 1.4 The Board of Directors

The Board performs its supervisory functions through the following committees in order to ensure competence and effectiveness:

1. Board Audit and Compliance Committee (BACC)
2. Human Resources and Compensation Committee (HRCC)
3. Investment Committee (IC)
4. Nominations Committee (NC)
5. Related Party Transactions Review Committee (RPTRC)

Members of professional accounting bodies are on the Board ensuring financial acumen and knowledge. A standard set of appropriate, timely and comprehensive documents are provided to the Board in addition to the ad-hoc information requested from time to time.

The Board has set up a process to appraise the CEO's performance and conduct self appraisals of their performance as well.

Information with respect to each Director has been disclosed together with the other disclosure requirements as per the Code of Best Practice on Corporate Governance in various sections of this report

## 1.5 Board Responsibilities

The Board's key responsibilities include:

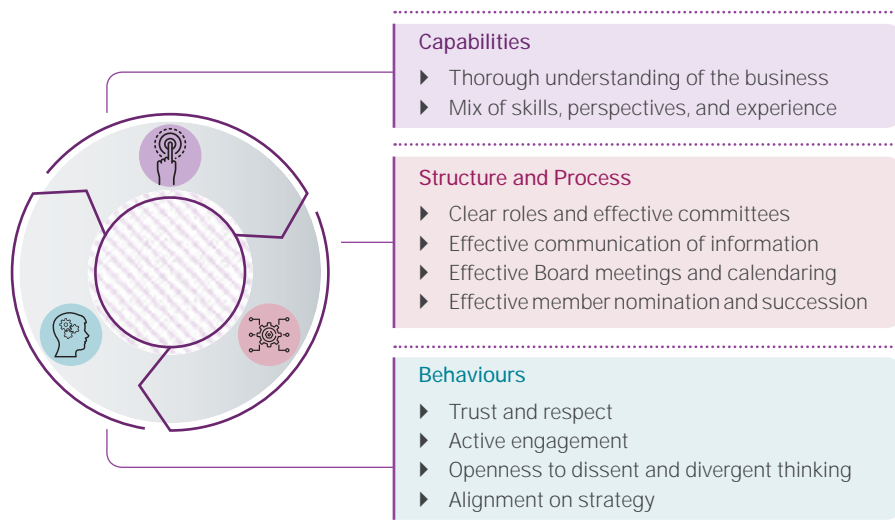
- ▶ Providing direction and guidance to the Company in the formulation of medium and long term strategies which are aimed at promoting sustainable long-term success of the Company.
- ▶ Reviewing and approving Company's annual plan and business strategies and tracking performance against same.
- ▶ Appointing the CEO and reviewing the performance of the CEO, the Board and its sub committees annually.
- ▶ Reviewing and making changes when necessary to authority levels delegated from the Board to the sub committees of the Board and executive levels.
- ▶ Review of objectives and key performance indicators of the CEO and Senior Management, and ensuring that the CEO and Management team possesses the skills, experience and knowledge to implement the strategy.

- ▶ Reviewing HR process and approving annual increments, bonuses and changes in perquisites and incentives.
- ▶ Approving the issue of equity / debt securities
- ▶ Approval of financial policies and certain items outside the remit of the Investment Committee.
- ▶ Approval of the Company's financial statements.
- ▶ Recommending / declaring dividends.
- ▶ Reviewing systems of internal control, risk management and integrity of the financial information.
- ▶ Review of the Company's overall corporate governance arrangements.
- ▶ Ensuring all stakeholder interests are considered in corporate decisions.
- ▶ Monitoring systems of compliance and governance.
- ▶ Approving any amendments to Company's policy documents.

The principle matters reserved for the Board are set out above. Day-to-day operational decisions are managed by members of the Executive Committee. Where appropriate, matters are delegated to Board sub committees where they will be considered with their respective terms of reference. Brief terms of reference of each of the Board sub committees, which have been approved by the Board and comply with the 'Code' are provided in each of the committee reports from pages 127 to 133.

## 1.6 Board Skills and Experience

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



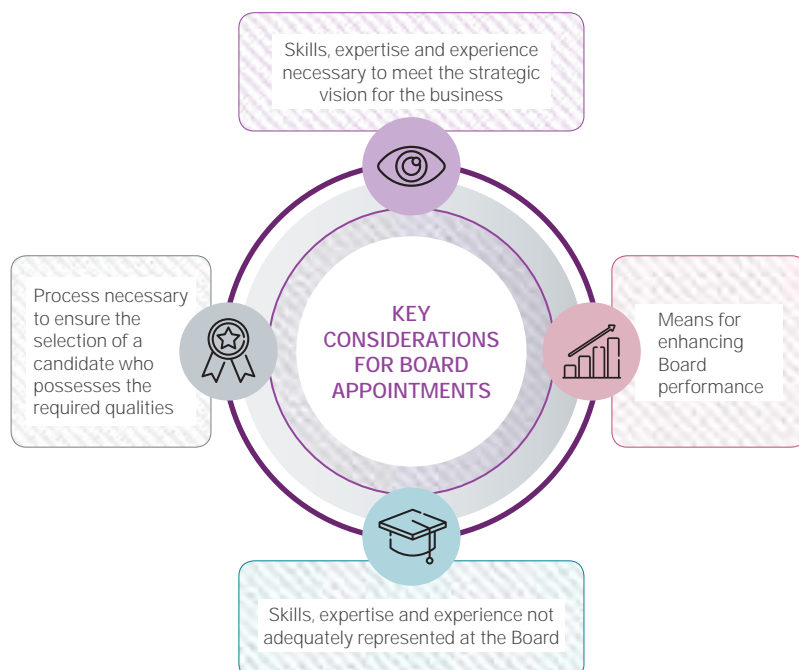
Further details of their qualifications and experience are provided under the Board profiles section of this Annual Report

### 1.7 Board Appointments

Board appointments follow a structured and formal process within the purview of the Nominations Committee. The Terms of Reference for the members of the Nominations Committee and the Committee report can be found on page 129.

Details of new Directors are disclosed to the shareholders at the time of their appointment by way of public announcement as well as in the Annual Report. The Directors are required to report any substantial changes in their professional responsibilities and business associations to the Nominations Committee, which will examine the facts and circumstances and make recommendations to the Board.

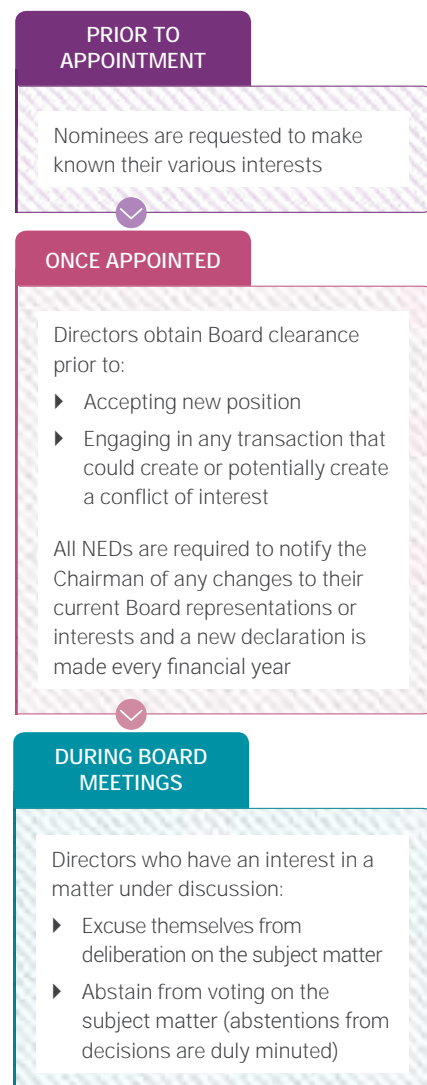
#### Key Considerations for Board Appointments



### 1.8 Managing Conflicts of Interest and Ensuring Independence

In order to avoid potential conflicts or biases, the Directors make a general disclosure of interests, as illustrated below, at appointment, at the beginning of every financial year and during the year as required. Such potential conflicts are reviewed by the Board from time to time to ensure the integrity of the Board's independence. Further, the Board ensures that no related party benefits from favourable treatment. All related party transactions as defined in Sri Lanka Accounting Standard LKAS - 24 Related Party Transactions, are disclosed in Note 44 to the Financial Statements.

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



## CORPORATE GOVERNANCE

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

Director	Employment in the Company (A)	Material Business Relationship (B)	Close Family Member is a Director or CEO (C)	Carrying not Less than 10% of Voting Rights (D)	Continuously Served for more than Nine Years (E)	Business Connection (F)	Director / Shareholder in another Entity (G) and (H)
H. A. J. De Silva Wijeyeratne	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
D. H. Fernando	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
S. A. Appleyard	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

- (A) Has not been employed by the Company during the period of two years immediately preceding appointment as a Director.
- (B) Currently has no material business relationship with the Company directly or indirectly, nor had any during the period of two years immediately preceding appointment as a Director.
- (C) Does not have any close family member/s who is a Director or CEO or Key Management Personnel in the Company.
- (D) Does not have a significant shareholding in the Company (more than 10% of voting rights of the Company).
- (E) Has not served on the Board of the Company for a period exceeding nine years from the date of first appointment.
- (F) Self or close family member is not a Director or employee of another Company or a trustee which is materially connected to the Company in terms of shareholding or business relationship.
- (G) Not a Director of another Company in which majority of the other directors are employed / Directors or have any significant shareholding.
- (H) Does not have any material business relationship or significant shareholding in another Company in which majority of the other Directors are employed / Directors or have any significant shareholding.

All Directors make a formal declaration of their independence on an annual basis. Board positions held outside the Company by the Independent Non-Executive Directors are provided in their respective profiles under Board of Directors on pages 114 and 115 of this report.

### 1.9 Re-Election

In accordance with the Articles of Association of the Company, one-third of the total number of Directors retire from office at each Annual General Meeting (AGM). A retiring Director is eligible for re-election by the shareholders. Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders

### 1.10 Board Induction and Training

When Directors are newly appointed to the Board, they undergo a comprehensive induction where they are apprised, inter alia, of the Company values and culture, its operating model, policies, governance framework and processes, the code of conduct and the operational strategies of the Company. Additionally, the newly-appointed Directors are provided access to relevant parts of the business and are availed of the opportunity to meet with Key Management Personnel and other key third party service providers such as External Auditors, Internal Auditors, etc. The Board of Directors recognises the need

for continuous training and expansion of knowledge and undertakes such professional development as they consider necessary in assisting them to carry out their duties as Directors

### 1.11 Procedures to Obtain Professional Advice

On access to information and professional development; it is essential that the Directors are up to date with key business developments to maintain and enhance their effectiveness.

The Directors have access to:

- ▶ Information necessary to carry out duties and responsibilities effectively and efficiently
- ▶ External and Internal Auditors
- ▶ Updates on regulations, best practices as relevant to the business and other matters which are considered to warrant Board attention

- ▶ Financial plans, including budgets and forecasts and periodic performance reports
- ▶ Independent professional advice from experts and other external professional services as required. The Company will incur the required expenses on such services
- ▶ Company Secretaries whose appointment and / or removal is the responsibility of the Board
- ▶ Any of the locations in which the business operates (branch network)
- ▶ Senior Management

### 1.12 Timely Supply of Information

The Board of Directors was provided with the necessary information well in advance (at least seven working days prior to the meeting), by way of Board papers and proposals, for all Board meetings held during the year in order to ensure robust discussion, informed deliberation and effective decision making. The Senior Management team made



## CORPORATE GOVERNANCE

Name of Director	Date of Appointment to the Board	01..02.2018	23.03.2018	30.05.2018	31.07.2018	27.09.2018	16.11.2018	29.11.2018	Eligible to Attend	Attended
<b>INDEPENDENT NON-EXECUTIVE</b>										
Harin De Silva Wijeyeratne	07.09.2011	●	●	●	●	●	●	●	7	5
Ashan De Zoysa (Resigned w.e.f. 03.08.2018)	01.04.2009	●	●	●	●	N/A	N/A	N/A	4	4
Dumith Fernando (Appointed w.e.f. 03.08.2018)	03.08.2018	N/A	N/A	N/A	N/A	●	●	●	3	3
Gerald De Saram (Resigned w.e.f. 31.12.2018)	01.04.2009	●	●	●	●	●	●	●	7	7
<b>EXECUTIVE</b>										
Dirk Pereira	28.05.2014	●	●	●	●	●	●	●	7	7

● Attended ● Not Attended

### 3. BOARD SUB-COMMITTEES

The Board has delegated some of its functions to Board Sub Committees, while retaining decision rights. Members of these Sub Committees are able to focus on their designated areas of responsibility and impart knowledge and oversight in areas where they have greater expertise. Recommendations of these Committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the main Board meetings.

The extent of the adherence by these committees to the Code of Best Practice on Corporate Governance issued by CA Sri Lanka is given on page 149.

The Board Sub committees are as follows;

1. Board Audit and Compliance Committee
2. Board Nominations Committee
3. Human Resources and Compensation Committee

4. Investment Committee, and
5. Related Party Transactions Review Committee

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

## REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE

### COMPOSITION

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

- ▶ Harin De Silva Wijeyeratne - Chairman / Independent Non-Executive Director
- ▶ Dumith Fernando - Independent Non-Executive Director
- ▶ Suresh Rajendra - Non-Executive Director

The members have an adequate blend of experience and knowledge to carry out their duties. Brief profiles of the Directors are provided on pages 114 and 115 of this report.

Executive Vice President/Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC, functions as the Secretary of the Committee.

CEO, GM Finance & Planning (CFO), other members of the Executive Committee (where relevant), Head of Group Risk and Control Review of John Keells Holdings PLC, External Auditors and Internal Auditors participate as invitees at the Committee meetings.

### TERMS OF REFERENCE

The BACC operates pursuant to an audit committee charter which is formally approved by the Board. The role of the BACC is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to:

- ▶ Ensuring the integrity of the financial statements of the Company and that a sound financial reporting system is in place and is well managed in order to provide accurate, appropriate and timely information to the management, regulatory authorities and Shareholders in compliance with Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000, Companies Act No. 7 of 2007 and other financial reporting related regulations and requirements.
- ▶ Ensuring effectiveness of the internal control system and the Company's Risk Management function.

- ▶ Ensuring the Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function.

- ▶ Assessing the independence and monitoring the performance and functions of Internal and External Auditors.

- ▶ Assessing the Company's ability to continue as a going concern in the foreseeable future;

The BACC is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports and risk management reports in order to fulfil its responsibilities.

The BACC has reviewed and discussed with management and internal and external auditors, the audited financial statements, the quarterly unaudited financial statements as well as matters relating to the Company's internal control over financial reporting, key judgments and estimates in the preparation of financial statements and the processes that support certification of the financial statements by the CEO and CFO.

### MEETINGS

The BACC had eight meetings during the year under review which were attended by the External Auditors and Internal Auditors as required. These meetings were attended by the CEO, CFO and General Managers responsible for underwriting, marketing and distribution, actuarial and IT by invitation.

Attendance of the BACC members at the meetings is illustrated at the end of the report.

The Chairman and members of the BACC were in regular contact with the Management of the Company through numerous meetings and communications to oversee the auditing and control aspect in various initiatives the Company undertook during the year including the implementation of the new policy administration system which will enhance the efficiency of operations.

The activities and views of the BACC are communicated to the Board of Directors through papers tabled and verbal discussion, as well as by tabling the minutes of the BACC meetings at Board meetings.

### FINANCIAL REPORTING

The BACC reviews the financial statements of the Company before submission to the Board, in order to monitor the integrity of the financial statements prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the financial statements prior to their release, the BACC focuses particularly on:

- (i) Major judgemental areas
- (ii) Any changes in accounting policies and practices
- (iii) Significant adjustments arising from the audit
- (iv) The going concern assumption, and
- (v) The compliance with relevant accounting standards and other legal requirements.

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

### INTERNAL AUDIT

The BACC monitors the effectiveness of the internal audit function and is responsible for recommending to the Board their appointment or removal and for ensuring they have adequate access to information required to conduct their audits.

During the year, the BACC monitored and reviewed the scope, extent and effectiveness of the activity of the Internal Auditors. This included reviewing of updates on audit activities and achievements against the audit plan and advising corporate Management to take corrective measures on significant audit findings. The areas covered and the regularity of audits depended on the risk level of each area, with higher risk areas being audited more frequently.

# CORPORATE GOVERNANCE

## REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE

The BACC reviewed 40 internal audit reports covering the operations of 36 branch locations and several Head Office functions including underwriting, claims, reinsurance, finance, investments and information technology. During the year, the BACC reviewed the findings of the special end-to-end process review of the investment division and ensured that most of the recommendations have been implemented in 2018 with a few being carried forward to 2019.

The BACC ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. Audit findings presented in the reports were prioritised based on the level of risk. The BACC also reviewed and monitored management's responsiveness to the significant audit findings and recommendations of the internal auditor. The internal audit reports were made available to External Auditors as well.

The BACC met the Internal Auditors without the presence of the Management during the year.

External Auditors Messrs. KPMG was re-appointed as the external auditors at the Annual General Meeting held on 9th May 2018.

The BACC reviewed the external audit plan, audit findings as well as the Management letters and any issues raised were followed up. The BACC met the external auditors without the presence of the Management during the year.

### Independence and Objectivity of the External Auditors

The BACC has policies in place aimed at safeguarding and supporting the independence and objectivity of the External Auditors. The BACC reviewed the audit and non-audit work that is assigned to Messrs. KPMG, to ensure that provision of such services does not impair KPMG's independence. The services provided by the External Auditors were segregated between what requires an independent view such

as audit and assurance services and other advisory services such as tax consultancy. Work is assigned in a manner to prevent any conflict of interest to the external auditors.

The BACC 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 CASL.

### Oversight on Regulatory Compliance

The BACC with the assistance of both the Internal Auditors and the External Auditors closely scrutinizes the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

## CORPORATE GOVERNANCE

### IT Risk and Control Assessment

The BACC receives a report detailing the robustness of the IT general controls and any risks relating to application control that need attention, from Messrs. KPMG on an annual basis during the audit.

During the year, the Company implemented eBao system which replaced the existing core system. BACC reviewed regular updates from the business and IT units on the progress and strengthening of related controls. BACC will continue to monitor this process.

### Internal Controls and Risk Management

The effectiveness of the Company's internal controls and risk management processes are evaluated in the reports furnished by the External and Internal Auditors. In addition, the BACC requests the Management to provide reports on controls in specific focus functions as and when required. In addition to this, the BACC is presented with an organisational risk grid on a quarterly basis which illustrates the foreseeable risks the Company faces and the likelihood and possible impact to the business. The grid also illustrates the action taken to mitigate such risks.

### Report of External Actuary

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

### Professional Advice

It is within the power of the BACC to seek external professional advice as and when it requires on any relevant subject area.

### Ethics and Good Governance

The BACC continuously emphasised on the importance of upholding ethical values by all staff members. In this regard, a Code of Ethics and Whistleblowers Charter is in place and all members of staff are encouraged to resort to whistleblowing, if they suspect wrong doings or other improprieties. The highest standards of Corporate Governance and adherence to the Company's Code of Ethics were ensured. All appropriate procedures were in place to conduct independent investigations into incidents reported through Whistleblowing or identified through other means. The Whistleblowers Charter guarantees the maintenance of strict confidentiality of the identity of whistle blowers

### Evaluation of the Committee

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

### Re-Appointment of the External Auditors

The BACC has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ending 31 December 2019, subject to approval by the Shareholders at the next Annual General Meeting. The BACC recommends the fees payable to the Statutory Auditors for approval by the Board.

**Conclusion**

The BACC is satisfied that internal controls have been operating as designed and the Company's assets have been adequately safeguarded during the period under review. The BACC is also satisfied that the Company's Internal and External Auditors have been effective and independent throughout the period. The BACC 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

27 February 2019

The calendar of meetings of the Committee in 2018 and attendance is given below

Name	Year of Appointment to the Committee	Board Audit and Compliance Committee Meeting Attendance									
		25.01.2018	27.03.2018	10.05.2018	09.08.2018	28.08.2018	17.09.2018	27.09.2018	31.10.2018	Eligible to Attend	Attended
<b>CHAIRMAN</b>											
Harin De Silva Wijeyeratne	26.09.2011	●	●	●	●	●	●	●	●	8	8
<b>INDEPENDENT NON-EXECUTIVE DIRECTOR</b>											
Ashan De Zoysa (Resigned w.e.f. 03.08.2018)	01.04.2009	●	●	●	N/A	N/A	N/A	N/A	N/A	3	3
Dumith Fernando Joined w.e.f. 03.08.2018)	03.08.2018	N/A	N/A	N/A	●	●	●	●	●	5	5
<b>NON-EXECUTIVE DIRECTOR</b>											
Suresh Rajendra	26.09.2011	●	●	●	●	●	●	●	●	8	8

● Attended ● Not Attended

## REPORT OF THE BOARD NOMINATIONS COMMITTEE

The Nominations Committee (NC) of John Keells Holdings PLC (the Parent) acts as the NC of the Company

**COMPOSITION**

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH) as at end of the financial year:

- ▶ M. A. Omar - Chairman of the Committee / Non-Executive Director of JKH
- ▶ S. Ratnayake\* - Executive Director/ Chairman and CEO of JKH
- ▶ M. P. Perera (Ms.), - Non-Executive Director of JKH
- ▶ S. S. H. Wijayasuriya - (Dr.), Non-Executive Director of JKH
- ▶ R. Coomaraswamy \*\* - Non-Executive Director JKH

\* Retired on 31st December 2018

\*\* Appointed on 01st October 2018

**TERMS OF REFERENCE**

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

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

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

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

Recommendations was made to appoint Mr. K. N. J. Balendra as the Chairman and Non Executive Director and Mr. S. A. Appleyard as an Independent Non-Executive Director with effect from 01 January 2019.

## CORPORATE GOVERNANCE

### REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee of UA was dissolved with effect 30th of May 2018 by virtue of the Board meeting held on the same day. As permitted by the listing rules Human Resources and Compensation Committee of parent Company John Keells Holding PLC (JKH) functioned as the Board Human Resources and Compensation Committee of UA from 1st June 2018.

The Board Human Resources and Compensation Committee of JKH as at 31st December 2018 comprised of the following members.

- ▶ A. Cabraal - Chairman of the Committee / Non-Executive Director of JKH
- ▶ A. Omar - Non-Executive Director of JKH
- ▶ H. Wijayasuriya (Dr.) - Non-Executive Director of JKH

The Chairman / CEO and Group Finance Director are present by invitation at all Committee meetings, unless Chairman / CEO or Executive Director remuneration is under discussion. The President, Human Resources and Legal of the Group is also present by invitation at all meetings.

### REPORT OF THE INVESTMENT COMMITTEE

#### COMPOSITION

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

Gihan Cooray - Chairman

Dirk Pereira - Principal Officer / Chief Executive Officer

Asha Perera - GM Finance and Planning (CFO)

Nimesha Liyanage - GM Actuarial

Angelo Keil - Head of Investments

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

The Chairman Mr. Gihan Cooray has extensive knowledge and experience in the fields of accounting, taxation, corporate finance and strategy, treasury and information technology. Mr. Cooray is Deputy Chairman / Group Finance Director of JKH and Chairman/ Non-Executive Director of Nations Trust Bank PLC. He serves as a Committee Member of the Ceylon Chamber of Commerce.

EVP / CFO Financial Services Industry Group JKH, Suran Wijesinghe and the CFO (designate) Financial Services Industry Group JKH, Sherin Cader, attended meetings of the Committee by invitation.

The members have an adequate blend of experience and knowledge to carry out their duties.

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

#### TERMS OF REFERENCE

The Committee is guided by the Board approved Investment Policy Statements (IPS) and the purpose of the Committee is to assist the Board of Directors to fulfil their responsibility to shareholders and policyholders, in relation to the management of the investment portfolios including the development of overall and portfolio specific investment guidelines. Within this framework, the Committee performs the following duties.

- ▶ Advice on the formulation of the investment strategy.
- ▶ Review and develop broad investment policies and guidelines for implementation
- ▶ Provide guidance on the asset allocation of the investment funds
- ▶ Review fund performance for the month and on a cumulative basis
- ▶ Manage risk exposure
- ▶ Ensure compliance with internal investment policy and procedures, and external investment regulations.

The minutes of the Committee meetings are presented to the Board of Directors along with a detailed list of investments made during the period. In carrying out its responsibilities, the Committee's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that the management of the Funds are performed to the highest standards possible and in accordance with all internal and external regulations. During the year, the Committee

reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements and market conditions.

#### MEETINGS

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

Attendance of the Committee members at the meetings is illustrated at the end of the report.

#### SUMMARY OF ACTIVITIES

The Committee obtained independent advice on macroeconomic forecasts, yield curve predictions and other factors, including key macro-economic indicators such as inflation, interest rates, exchange rates and their impact on the performance of capital markets. Based on expert advice, the Committee reviewed and assigned probabilities for different macro-economic scenarios and investment strategies were aligned accordingly.

At the beginning of the year, the Committee considered the profit plan together with the budgeted investment income for the Life fund and advised on the formulation of investment strategies taking into account the investment objectives for the planning period, the maturity profiles and risk tolerance of the respective funds.

Provided guidance on asset allocation for the funds under management, including Unit Linked Funds in order to achieve the budgeted investment income, and returns to policyholders taking into account the determinations issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), the maturity profiles of the funds and agreed investment strategies, and the investment policy statements of each fund.

The investment policy statements (IPS) of Life fund, Shareholder fund and two unit linked funds were updated based on the special investment review carried out by PwC in 2017. Key changes were made to the investment objectives, the strategic asset allocation and investment constraints as per PwC's recommendations. Further, the operational manuals for fixed income assets, equity and unit linked funds were also updated. These changes were in line with the recommendations by PwC and the Guidelines on investments for insurance companies issued by the IRCSL of Sri Lanka. The Committee reviewed the investment policies of the funds and was satisfied with the scope and principles covered in the IPS.

The framework for an investment middle office was established and approved during the year to improve the internal controls relating to investment. Accordingly, the middle office will operate from the second quarter of 2019.

The Committee discussed and agreed on duration of investments for asset liability management and provided advice on the proportion of long term versus short term investments to be maintained for the year. Maturity profile of liabilities were obtained for necessary realignment in the asset and liability structure.

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

The Committee has set separate exposure limits for banks and corporate entities, which are reviewed monthly. These limits are updated on a regular basis in line with

respective fund sizes and information pertaining to the financial stability of such entities.

The Committee reviewed compliance with internal and external investment regulations at each meeting, including IRCSL regulations related to solvency and approved assets.

The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.

The Committee monitors the performance of the unit linked equity fund that is outsourced to an external fund manager monthly and the external fund manager met with the Committee each quarter for a detailed review. This fund manager made five presentation during 2018 to discuss the performance, decisions and future plans on managing the fund.

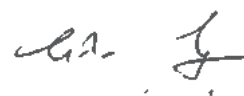
The core principles of asset management that were adopted:

1. An effective and efficient Governance structure
  - ▶ UA's investment function is governed by the Investment Committee with oversight provided by the Board, specialists in the field of fund management and members of the Senior Management team.
  - ▶ Solicit external expertise to advice on the economic climate and any other specialised areas.
  - ▶ Review investment performance on a monthly basis, appraise investment proposals submitted by the Management and set investment strategy.
2. Develop an investment strategy and implement policies and procedures to execute the strategy at the operational level.
  - ▶ Document investment policies for each of the Funds.
3. UA has an in-house investment division which operationalises the strategies set by the Committee and monitors and controls the investment portfolio effectively and efficiently.

- ▶ UA has invested in a world class ERP system (SAP) to provide MIS support to manage its investment portfolio. The Committee is provided with information on a monthly basis. The valuations of investments are carried out automatically by the system and manual processes are minimised to increase accuracy and integrity.
  - ▶ In the process of selecting investments, while reports from rating agencies are considered, UA conducts rigorous appraisal on market conditions and Issuer's performance. In relation to related party investments, the Company strictly complies with applicable regulatory requirements and all transactions are entered into on an arm's length basis and follows the guidelines set by the Parent Company's related party transactions review committee.
4. Establish internal control mechanisms specifically with respect to investment activities.
    - ▶ Processes streamlined to ensure the integrity of the investment activities. A back office and front office segregation is in place and signatories and system controls are in place to ensure that the work flow is properly segregated.
    - ▶ To strengthen the internal controls, UA implemented restricted access and call recording facility to the investment division.
    - ▶ Authority and dealing limits are strictly enforced via the Manual of Financial Authority (MOFA) limits.

## CONCLUSION

In view of all of the above, the Committee was satisfied with the performance of the funds under management during the year and the policies and procedures in place for the management of the invested funds.



Gihan Cooray  
Chairman Investment Committee

27 February 2019

# CORPORATE GOVERNANCE

## REPORT OF THE INVESTMENT COMMITTEE

The calendar of meetings of the Investment Committee in 2018 and attendance is given below.

Name	Year of Appointment to the Committee	Investment Committee Meeting Attendance												Eligible to Attend	Attended
		24.01.2018	26.02.2018	28.03.2018	26.04.2018	30.05.2018	25.06.2018	24.07.2018	21.08.2018	18.09.2018	25.10.2018	26.11.2018	18.12.2018		
<b>CHAIRMAN</b>															
Gihan Cooray*	26.02.2018	N/A	N/A	●	●	●	●	●	●	●	●	●	●	10	10
Krishan Balendra**	23.04.2009	●	●	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2	1
<b>INDEPENDENT NON-EXECUTIVE DIRECTOR</b>															
Ashan De Soyza***	30.03.2010	●	●	●	●	●	●	●	N/A	N/A	N/A	N/A	N/A	7	7
Dumith Fernando****	03.08.2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	●	●	N/A	N/A	N/A	2	1
<b>OTHER MEMBERS</b>															
Dirk Pereira	01.05.2004	●	●	●	●	●	●	●	●	●	●	●	●	12	12
Sherin Cader*****	01.06.2012	●	●	●	●	●	●	●	●	●	N/A	N/A	N/A	9	9
Asha Perera*****	01.10.2018	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	●	●	●	3	3
Nimesha Liyanage	01.09.2016	●	●	●	●	●	●	●	●	●	●	●	●	12	11
Angelo Keil	18.03.2015	●	●	●	●	●	●	●	●	●	●	●	●	12	12

● Attended    ● Not Attended

\* Mr. Gihan Cooray appointed to the committee w.e.f 26.02.2019

\*\* Mr. Krishan Balendra resigned from the committee w.e.f 26.02.2018

\*\*\* Mr. Ashan De Soyza resigned from the committee w.e.f 03.08.2018

\*\*\*\* Mr. Dumith Fernando appointed to the committee w.e.f 03.08.2018 and ceased to be a member w.e.f 18.09.2018

\*\*\*\*\* Ms. Sherin Cader resigned from the committee w.e.f 30.09.2018

\*\*\*\*\* Ms. Asha Perera appointed to the committee w.e.f 01.10.2018

## REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

On the basis that the Parent company is also a listed company, the securities and Exchange Commission of Sri Lanka (SEC) has permitted the Related Party Transactions Review Committee of the Parent Company, to represent the listed Companies in the JKH Group of which Union Assurance PLC is a member.

### COMPOSITION

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

- ▶ M. P. Perera (Ms.) - Chairperson of the Committee / Non-Executive Director of JKH.
- ▶ D. A. Cabraal - Non-Executive Director of JKH
- ▶ A. N. Fonseka - Non-Executive Director of JKH
- ▶ S. Ratnayake\* - Executive Director / Chairman and CEO of JKH

\* Retired with effect from 31st December 2018

Head of Group Business Process Review Mr. Hisham Nazeem served as the Secretary to the Committee during the year. In addition, Deputy Chairman/Group Finance Director Mr. G Cooray, (w.e.f. 01 January 2019), and EVP / Group Financial Controller attended meetings by invitation.

### OBJECTIVE

The objective of the Committee is to exercise oversight on behalf of the Board, of John Keells Holdings PLC and its listed subsidiaries,

in complying with the Code on Related Party Transactions (RPTs) as issued by the SEC ("The Code") and with the Listing Rules of the Colombo Stock Exchange (CSE). The Committee has also adopted best practices as recommended by the CA Sri Lanka and the CSE.

### FUNCTIONS

The Committee in discharging its functions primarily relied on processes that were validated from time to time and periodic reporting by the relevant entities and Key Management Personnel (KMP) with a view to ensuring that:

- ▶ there is compliance with the Code;
- ▶ shareholder interests are protected; and
- ▶ fairness and transparency are maintained.

The Committee reviewed and pre-approved all proposed non recurrent RPTs of the Company. Further recurrent RPTs were reviewed annually by the Committee.

### MEETINGS

The Committee held four meetings during the financial year. Information on the attendance at these meetings by the members of the Committee is given below.

The calendar of meetings of the Committee in 2018 and attendance is given below

Name	Year of Appointment to the Committee	Related Party Transactions Review Committee Meeting Attendance					
		29/01/2018	24/05/2018	25/07/2018	05/11/2018	Eligible to Attend	Attended
<b>NON-EXECUTIVE DIRECTORS (JKH)</b>							
P. Perera	24.07.2014	●	●	●	●	4	4
N. Fonseka	01.04.2014	●	●	●	●	4	3
A. Cabraal	01.04.2014	●	●	●	●	4	4
<b>EXECUTIVE DIRECTOR (JKH)</b>							
S. Ratnayake **	01.04.2014	●	●	●	●	4	4

● Attended ● Not Attended

\*\* Mr. S. Ratnayake ceased to be a member on his retirement from the Board on 31 December 2018

### CONCLUSION

The activities and views of the Committee have been communicated to the Board of Directors quarterly through verbal briefings, and by tabling the minutes of the Committee meetings.

## REPORT OF THE INFORMATION TECHNOLOGY COMMITTEE

### COMPOSITION

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

- ▶ Dirk Pereira - Chairman / CEO
- ▶ Harsha Senanayake - General Manger, Information Technology
- ▶ Iroshini Tittagalla - General Manger, Life Insurance
- ▶ Asha Perera - General Manager, Finance and Planning

Brief profiles of the committee members are provided on pages 115 to 116 of the Annual Report

### TERMS OF REFERENCE

The Information Technology Committee is established to ensure that IT strategies align

with the overall business operations and effective implementation of Board-approved IT strategies.

The Committee is responsible for;

- ▶ Developing and reviewing the IT strategic plan on an ongoing basis
- ▶ Approving and reviewing the progress of new IT projects / initiatives
- ▶ Ensuring post implementation system reviews
- ▶ Reviewing vendors for major IT supplies
- ▶ Ensuring proper IT governance

### MEETINGS

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

### SIGNIFICANT PROGRESS MADE DURING THE YEAR

Year 2018 concluded a successful implementation of multiple IT projects for the Company. During August 2018 the policy administration system along with the distributions management system and document management system was fully migrated on to the live environment. This integrated information technology platform enabled the Company to provide multiple efficiencies to varied stakeholders. Efficiencies in terms of straight through underwriting, flexible product developments, auto claim settlement to name a few.

The Committee reviewed regular updates from the business and IT units on the progress and strengthening of related controls. The committee will continue to monitor this process.

# CORPORATE GOVERNANCE

## REPORT OF THE INFORMATION TECHNOLOGY COMMITTEE

Implementation of SAP Success Factors. The module will be enabling an efficient and effective platform to manage the human capital of the Company from intimation by an employee up to the point of exit from the Company. The module is fully operational from the 2019 performance management cycle.

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

### CONCLUSION

The Committee confirms that the Company has made satisfactory progress in relation to the implementation of the strategic plans of 2018.



A. D. Pereira

Chairman

Information Technology Committee

27 February 2019

### 4. DIRECTOR REMUNERATION

**Remuneration Procedure:** The Company has established a formal and transparent procedure / policy on remuneration for individual Directors. No Director is involved in deciding his or her own remuneration. Accordingly, the Board Human Resources and Compensation Committee (HRCC) consisting exclusively of Non-Executive Directors has been set up to make recommendations to the Board within agreed terms of reference.

**Level and Make Up of Remuneration:** Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities and in reference to fees paid to other Non-Executive Directors of comparable companies.

The remuneration to Executive Director has a fixed and a variable component. The variable component is linked to the achievement of the objectives set by the Board. The HRCC is responsible for setting up the remuneration of the Executive Director.

### Disclosure of Remuneration:

The breakup of remuneration paid to Directors is disclosed among the other disclosures regarding remuneration on Note 44.4.(a) in the Annual Report.

### 5. ACCOUNTABILITY AND AUDIT

**Financial Reporting:** A balanced and understandable assessment of the Company's financial position, performance and prospects is presented by the Company. Various reports including the Chairman's Message, CEO's Review and Management Discussion and Analysis are used in addition to annual financial statements and interim accounts for this purpose.

The Board presents a Directors' Report with this Annual Report, containing information with regard to declarations by them in accordance with the guidelines of the Code of Best Practice issued by the CA Sri Lanka.

**Internal Controls:** The Board has delegated certain responsibilities to the Board Audit and Compliance Committee (BACC). The

BACC's main responsibilities are to ensure that good financial reporting systems are in place, internal control systems are effective, laws and regulations are complied with and the company's risk assessment processes are effective. The BACC ensures the independence and evaluates the performance of the auditors regularly. The company has issued a Code of Conduct applicable to all Directors and employees and any violation is disclosed. Details of the Code of Conduct and other policies are provided below.

Page 149 of this report disclose the extent to which the Company has complied with the Code of Best Practice and rules on Corporate Governance.

### Code of Business Conduct and Ethics:

The Company has in place a 'Code of Business Conduct and Ethics' for Directors, Key Management Personnel and all its employees.

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS

The following statement fulfils the requirement to publish the Directors' statement on Internal Controls as per the Code of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and Company assets.

The Board has structured an Enterprise Risk Management (ERM) process to identify the principle risks impacting the business and mitigating actions by Management. The Company's management implements policies on risk and control set by the Board and are accountable to the Board for monitoring and providing assurance as to their effectiveness. The Company has commissioned PricewaterhouseCoopers as independent Internal Auditors to ensure the effectiveness of the internal control systems. As a result of their activities, several processes have been enhanced during the year under review.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

Delegated certain responsibilities to Board Sub Committees where the members of these committees have expertise to assist in discharging the Board's duties and to improve the governance structure.

Instituted and maintained an effective Board Audit and Compliance Committee (BACC) and independent Internal Auditor to review and report on the internal control environment of the Company.

The minutes of the BACC meetings are tabled at regular Board meetings. The report of the BACC is provided on page 128 of the Annual Report.

The BACC reviews and approves the internal audit plan for the year. The audit plan is structured on a matrix based on key risk areas and delivery dates which is regularly monitored, and any delays highlighted and rectified.

During the year under review the audit committee reviewed 40 audit reports, four of which covered several Head Office processes while 36 covered different branch locations. The reports covered key findings with management comments and action taken to rectify any control weaknesses. Control weaknesses identified in previous reviews were also tracked to ensure that the

management has taken necessary action to eliminate or minimise any risks.

During the year under review the BACC reviewed the findings of the end-to-end process review of investment functions. Most of the recommendation made by the Internal Auditors have been implemented during the year with a few carried forward to be implemented in 2019.

On Information Technology (IT) controls, the Board has initiated multiple mechanisms:

IT system audits were carried out to ensure the integrity of financial information, data security and adequate access controls are in place with regard to processing of data

In addition to the year-end system review, the external auditors performed a follow up on all critical IT applications / systems reviewed during the previous year.

The Company continued to implement bottom-up Enterprise Risk Management (ERM) process. This is an ongoing process for identifying, evaluating and managing the risks faced by the Company. This is done at each department level in detail.

The company deployed a new policy administration system in August 2018. The key objectives are to increase the productivity of our agency and bancassurance distribution channels with faster product roll out, improved customer service, seamless integration with 3rd party systems and automation of incentives and compensation management. The new system also mitigates the risk of technical obsolescence, enhances data integrity and provides a platform for UA to launch digitally enabled distribution channels.

The board will continue to monitor post implementation process and strengthening of the control framework.

A summary of the key risks our updated on a risk grid and reported to the BACC on a quarterly basis. The quarterly updates also include new risks, mitigating actions and changes of risk status of earlier identified risks. The process continued to be effective during the year under review.

Business continuity plan was tested during the year under review.

The Internal Auditors conducted regular reviews to ensure the effective design and implementation of internal controls;

The effectiveness of the internal controls are measured based on the repetition of the control weaknesses or improvement areas that have been highlighted in the audit reports

Improvements in line with industry and / or non-industry best practices where relevant are also implemented on an on going basis

BACC continued to monitor the progress of the bottom up compliance sign off process which strengthened the control environment and provide comfort to senior management and Board that staff at all functions are aware and conducts business transactions as per laid down rules and procedures. The process was subject to an independent audit by the internal auditors to ensure that the process is working as intended.

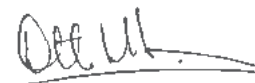
### CONCLUSION

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and financial statements have been prepared in accordance with applicable accounting standards, requirements of the Company's Act No.7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments and the listing rules of the Colombo Stock Exchange.



**Krishan Balendra**  
Chairman



**Dumith Fernando**  
Director



**H. A. J. De Silva Wijerathne**  
Chairman  
Board Audit and Compliance Committee

27 February 2019

# CORPORATE GOVERNANCE

## 6. RELATIONS WITH SHAREHOLDERS

Objective: To enhance long-term shareholder value through regular communication with both individual and institutional shareholders.

AGM and Conduct of General Meetings: The Board uses the AGM to communicate with shareholders and encourages their participation. Each substantially separate issue is proposed as a separate resolution at the AGM including the proposal for the adoption of the Annual Report and accounts. The Chairman ensures that the Chairman of the Board Audit and Compliance Committee, Directors, senior management and representatives of the external auditors are available to answer questions at the AGM, if required. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.

Extraordinary General Meetings (EGM): When regulation requires, the Company calls for EGMs to engage with shareholders.

Communication with Shareholders: All institutional and other investors are encouraged to participate and cast their votes at the Company's AGM. The Company uses the AGM as the forum to have structured, objective dialogue with shareholders.

Sufficient information is included in the interim and annual reports for shareholders to make informed decisions. From time to time, the Company communicates other information to shareholders by way of announcements and / or circulars, in compliance with regulatory requirements or otherwise.

### Major and Material Transactions:

Disclosures have been made where required to shareholders on major transactions which materially alter the Company's net asset base.

Further details and the policy on shareholder communication is provided in the Engagement with Stakeholders section of the Annual Report on page 29.

## 7. THE CEO AND EXECUTIVE COMMITTEE (EXCO) COMPOSITION

Committee members as at 31st December 2018 comprises of D. Pereira – Director / Chief Executive Officer as Chairman and the Executive Committee as provided on page 116 of this report.

### Role and Structure

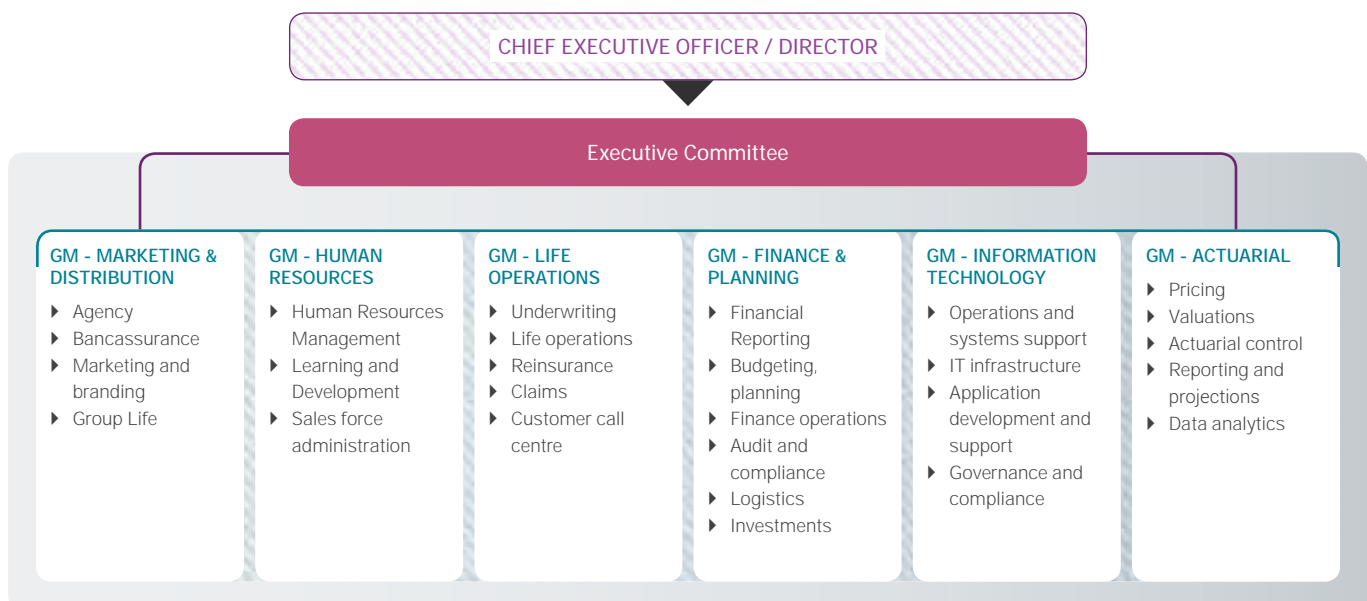
Led by D. Pereira, the ExCo drives the Company strategy and operationalises the Company policies. The ExCo is responsible

for the day to day operational management of the business.

The ExCo met 12 times during the year under review. The Chairman ensured that all proceedings were conducted smoothly and efficiently, approving the agenda for each meeting.

The key areas of focus as per the ExCo agenda of meetings during the year included;

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



**(B) INTEGRITY OF OPERATIONS**

**Audit and Assurance**

**1. Three Levels of Assurance**

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

- ▶ Process control at corporate management level
- ▶ Internal assurance - Internal Auditors
- ▶ External assurance - External Auditors

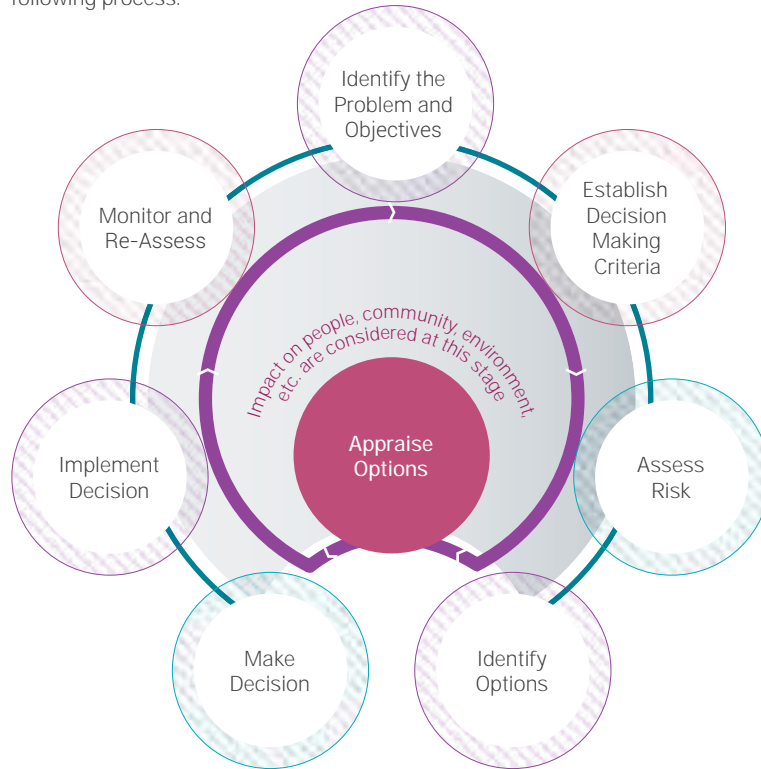
**1.1 Process Control at Corporate Management Level**

The Corporate Management with the guidance of the BACC periodically reviews the adequacy of processes and procedures in place to ensure the highest level of internal controls within the organisation. During the year, the internal assurance process was reviewed and further strengthened.

The following are the main areas of process control adopted at Corporate Management level by the Company:

- ▶ Decision making process
- ▶ Compliance assurance
- ▶ Employee participation in assurance
- ▶ Resource management
- ▶ IT governance
- ▶ Fraud and risk assessment

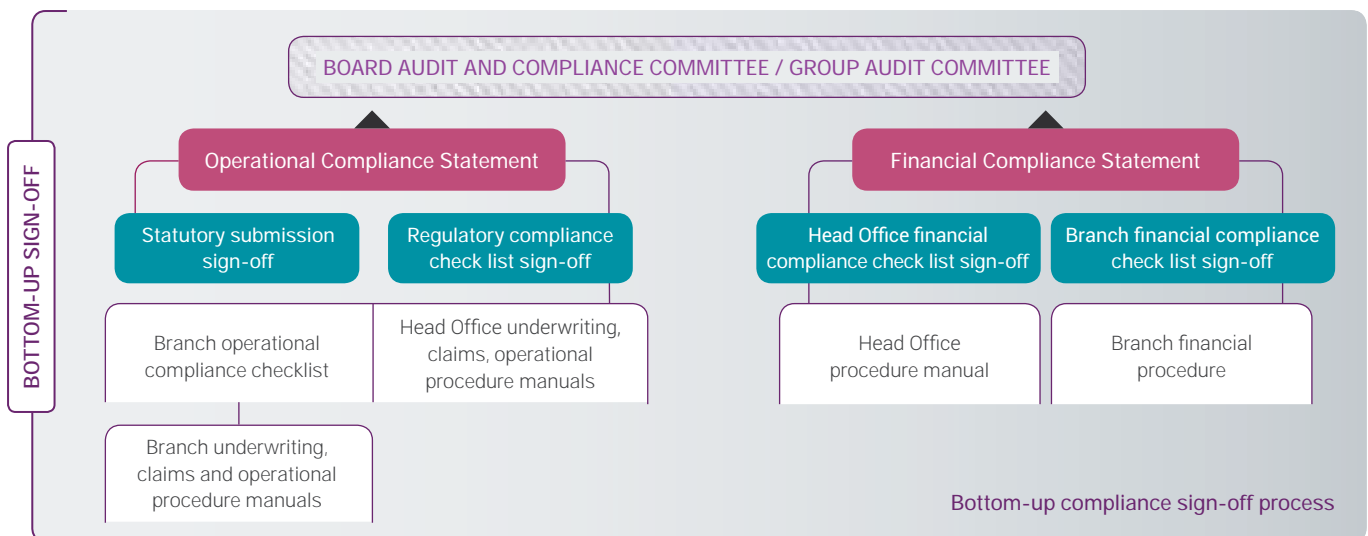
Decision Making Process The deliberations and decision making of the ExCo broadly takes the following process:



**COMPLIANCE ASSURANCE**

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

policies on all areas of business operations. This mechanism is adopted to monitor reporting and compliance with all mandatory reporting requirements with the intention of establishing a fully compliant corporate governance and risk mitigating culture.



## CORPORATE GOVERNANCE

### Bottom-up Compliance Sign Off Process

Compliance assurance is derived through a bottom-up sign-off process, and sign off checklists are based on the internal policies and procedure manuals. The Company obtains assurance on financial controls, regulations compliance as well as operational compliance aspects. The diagram in the previous page summarises the process adopted by the Company:

The financial compliance statement as well as the operational compliance statement are signed off and submitted to the BACC on a quarterly basis. These are reported to the JKH Group Audit and Compliance Committee on a quarterly basis as well. The regulatory sign-off is maintained on a monthly basis.

### Employee Participation in Assurance

The Company is continuously working towards introducing innovative and effective ways of employee awareness. The importance of communication - top-down, bottom-up

and lateral-in gaining employee commitment to organisational goals has been conveyed extensively through various communications issued by the CEO and the Management. Whilst employees have many opportunities to interact with Senior Management, the Company has created formal channels for such communication through feedback as listed below.

- ▶ Skip level meetings
- ▶ Exit interviews
- ▶ 360 degree evaluation
- ▶ Employee surveys
- ▶ Monthly staff meetings
- ▶ Focus group discussions
- ▶ Coffee with CEO
- ▶ Continuously reiterating the 'Open Door' policy
- ▶ Ladies forum

Additionally, the Company continued with its whistleblower policy, ombudsperson

and securities trading policy. The Company has witnessed an increased level of communication flow from employees. Such communication and feedback received from the employees by the Management are recorded, irrespective of the level of anonymity, and subsequently discussed and followed up. The respective outcomes are duly recorded.

### Resource Management

The Board has delegated certain of its financial authority to the CEO and General Managers within a comprehensively documented Manual of Financial Authority (MOFA).

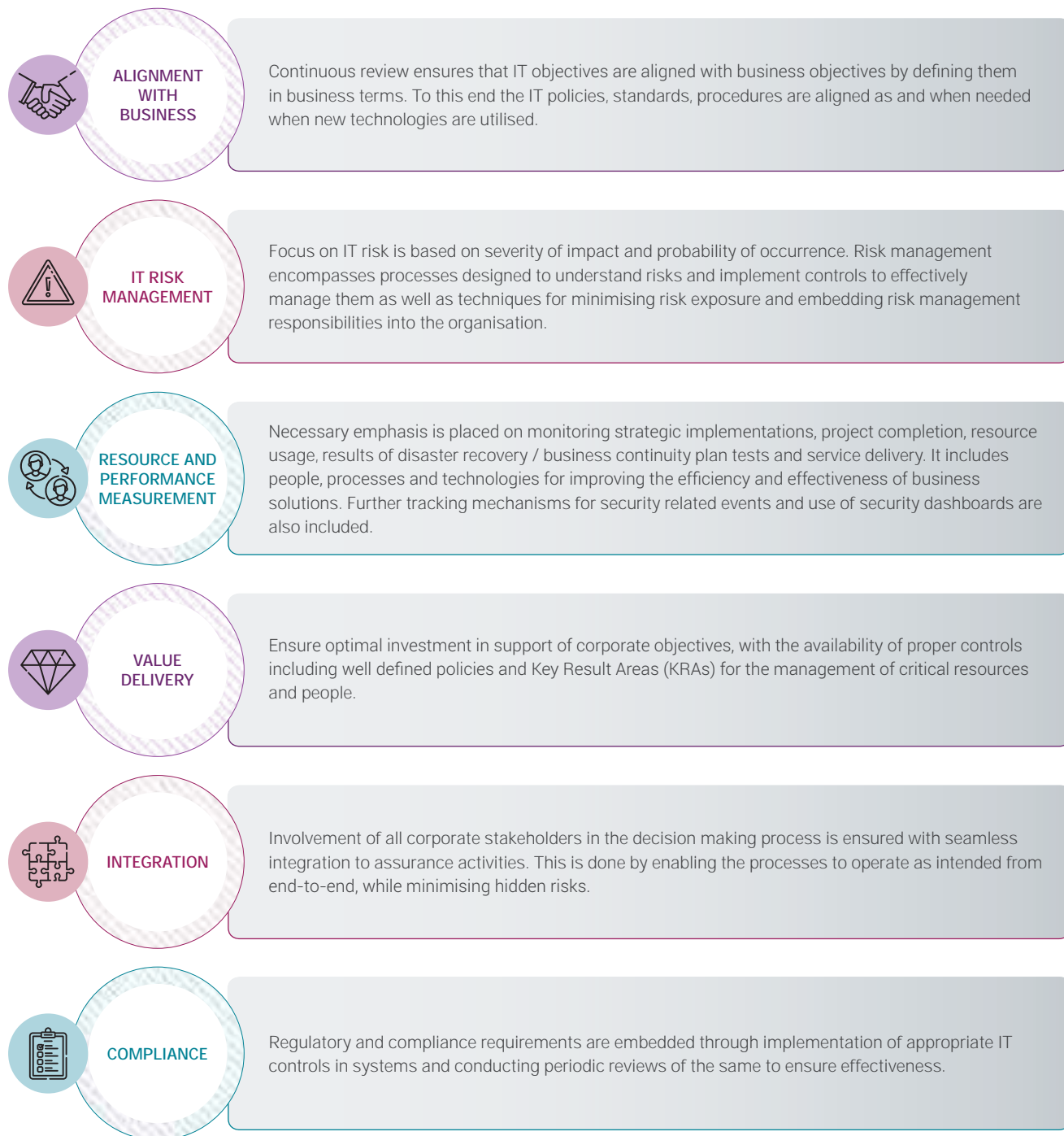
The MOFA indicates the responsibilities of all staff members who enter into financial transactions and commitments on behalf of the Company, including persons responsible for recommendation, approval and payment. All General Managers including the CEO are required to provide a sign off on compliance with the MOFA on a quarterly basis.

In addition, the following committees comprising of Senior Management personnel have been set up to manage expenses in an efficient, transparent and in an effective manner.

Resource Management Committee	Objectives and Functions	Composition
Capital Expenditure Committee	Review and rationalise capital expenditure (excluding IT-related expenses)	CEO (Chair) GM - Finance and Planning GM - HR GM - Life Operations GM of the division for which the item is required (without voting rights)
IT Steering Committee	Review and rationalise IT-related capital and revenue expenditure in order to: <ul style="list-style-type: none"> <li>▶ Improve overall productivity, efficiency and effectiveness across distribution and service functions</li> <li>▶ Improve quality of management information</li> <li>▶ Provide secured and uninterrupted IT facilities</li> <li>▶ Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources</li> </ul>	CEO (Chair) GM - Information Technology GM - Finance and Planning GM - Life Operations
Supplies Committee	<ul style="list-style-type: none"> <li>▶ Transparent supplier registration</li> <li>▶ Optimise purchases and ensure quality, reliability and value for money</li> </ul>	GM - Finance and Planning (Chair) GM - Marketing and Distribution GM - HR AGM - Logistics
Staff Committee	Review cadre increases in line with expected volume growth and required service standards. Recommend promotions based on annual performance appraisal process and review any organisational requirements outside this cycle	GM - HR (Chair) All other GMs

## IT Governance

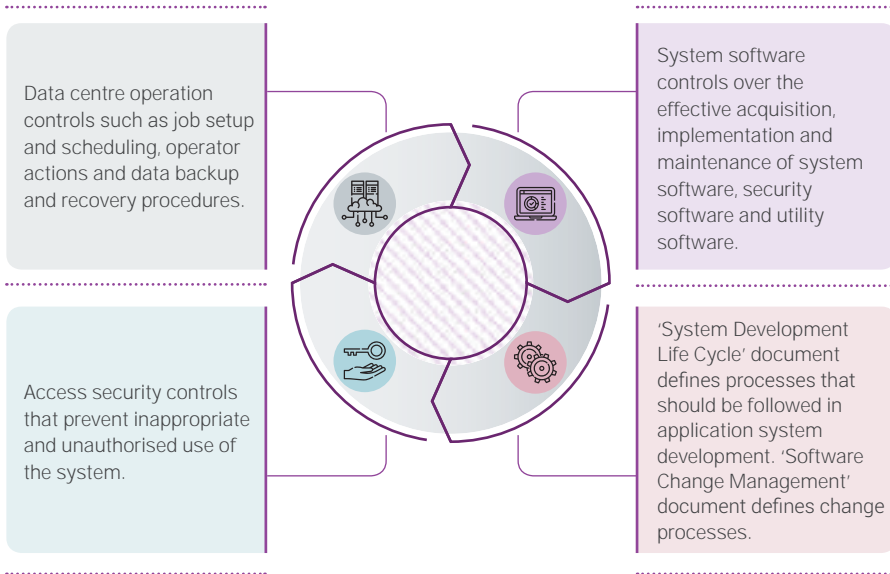
IT Governance plays a critical role in assuring integrity, confidentiality and continuity of information management within the Company. The core areas of IT governance at UA are as follows:



# 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.



## Fraud Risk Assessment

The Company has set up a committee to manage customer complaints channelled through the Customer Feedback System (CFS). These include premium misappropriation complaints, wrong selling, etc. A well-structured process has been set up to handle these as well as detect risks related to fraud in customer premiums. A summary of all complaints and the resolution status of each is reported to the BACC each quarter.

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

### 1.2 Assurance by the Internal Auditors

The internal audit function of the Company has been outsourced to PricewaterhouseCoopers. There are clear processes for monitoring and following up on corrective actions on control

weaknesses or failures reported. These audit findings together with the Management comments are reviewed by the BACC and the Board. These are also reported to the Group Finance Director and reviewed by the Group Audit Committee.

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

## Assurance by the External Auditors

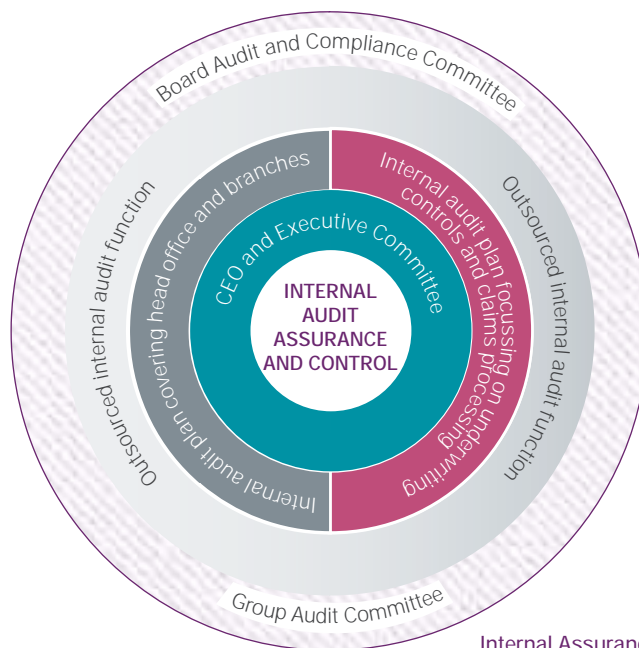
KPMG, the Company's External Auditors performs an interim audit in addition to the audit at year end to obtain assurance that the internal controls and processes that are in place in preparation and presentation of the financial statement are effective. This audit covers IT security and data assurance as well. UA, the Board of Directors and Management do not have any relationship with KPMG, apart from latter's engagement as the Independent External Auditor of the Company.

## 2. Other Internal Governance Practices

### Governance of Ethics

The Board, while assuming ultimate responsibility for the Company's ethical performance, delegates this function to the Management, which utilises the following mechanisms to fulfil this mandate:

- ▶ HR policy
- ▶ Code of business conduct and ethics
- ▶ Employee induction programme and employee induction handbook
- ▶ Performance evaluation programme
- ▶ Supplier code of conduct



Internal Assurance Framework

### Regulatory and Accounting Benchmarks

The Board of Directors also took all reasonable steps in ensuring that all financial statements were prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the CA Sri Lanka and the requirements of the CSE and other applicable authorities. Information contained in the financial statements of this Annual Report is supplemented by a detailed Management Discussion and Analysis which explains to shareholders, the strategic, operational, investment, sustainability and risk related aspects of the Company, and the means by which value is created and how it is translated into the reported financial performance and is likely to influence future results.

### Code of Conduct for Field Staff

UA has also implemented a Code of Conduct for the field staff covering their responsibility, commitment and level of service to clients. The formal code is read as a pledge at all formal meetings of the sales force during the year.

### Re-enforcement of the Company's Code of Conduct

The Company continued to keep the code of conduct live by ensuring the formal online sign-off from each staff member annually to ensure that the message was received and staff committed.

### Other Policies Within the Company

In addition to our charters and codes of conduct, we have implemented policies covering the following areas;

- ▶ Recruitment and selection
- ▶ Financial integrity
- ▶ Financial authority levels
- ▶ Outside employment
- ▶ Confidentiality of information
- ▶ Use of Company property including use of computers
- ▶ Harassment and non-discrimination in the workplace
- ▶ Environmental, health and safety at work
- ▶ Fraud
- ▶ Media
- ▶ IT security
- ▶ Prevention of money laundering and terrorist financing

## (C) SUSTAINABLE BUSINESS MODEL

### Enterprise Risk Management

Stemming from the stewardship commitment towards our stakeholders and to ensure the sustainability of our business operations, it is a prerequisite that the Company has an effective risk management model across the organisation and a tested business continuity plan.

## 1. Risk Management

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

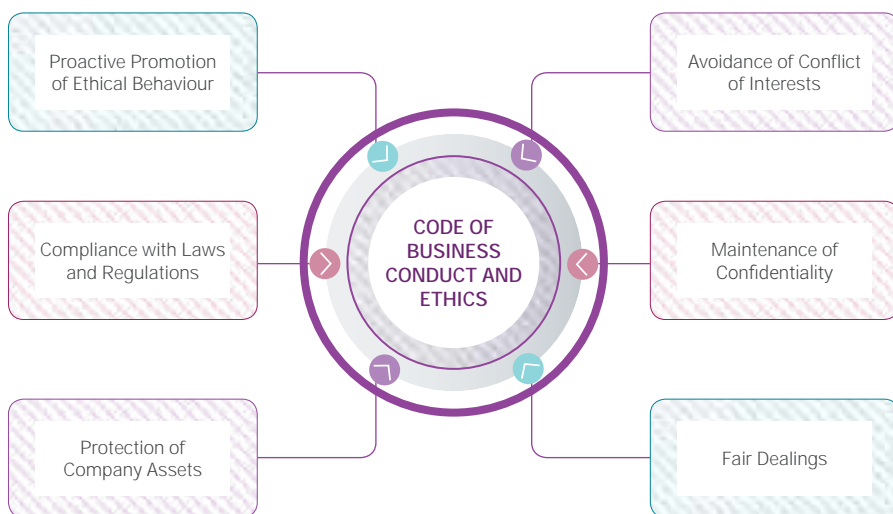
The risk management process has been revamped from a top-down approach to a bottom-up approach. The heads of departments conduct risk management workshops with their relevant teams to identify the key strategic / operational risks which affect their functions and list out mitigating action plans, responsibilities and target dates. The risk grids prepared by the departments are summarised at a corporate level and reviewed by the senior management and the BACC. The review is done and presented to the BACC on a quarterly basis. A detailed report on risk management is provided on pages 150 to 157.

## 2. Business Continuity Planning

The Business Continuity Plan (BCP) is an essential part of our organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time. We have an effective BCP developed with the support of an external consultancy firm to ensure that our Company is well prepared to respond to any unforeseen disaster situation, minimising any potential economic, social and environmental impact.

During the year the following were carried out in our BCP testing process;

- ▶ An integrated recovery test was conducted to recover both business and technology processes at alternate sites. The test was simulated on a real-time scenario by carrying out a simulated interruption to production at a primary site.
- ▶ 13 core business processes and five support processes were covered in the BCP test that was conducted.



Code of Business Conduct and Ethics

# CORPORATE GOVERNANCE

## (D) ENGAGEMENT WITH STAKEHOLDERS

### Structure of Charters

The Board is responsible to ensure that the Company has a well-structured policy and procedures in place to engage with various stakeholders. To address apparent conflicts between various stakeholder groups, the Company has developed several Charters.

The key expectations of our stakeholders and the progress during 2018 are provided in the Stakeholder Relationships and Materiality sections on pages 29 to 35.

## EXTERNAL GOVERNANCE STRUCTURE

### (E) COMPLIANCE WITH REGULATORY REQUIREMENTS

#### Regulatory Framework

The internal assurance process is designed by the Board to provide assurance that the Company has checks and controls to ensure that it complies with all the regulatory requirements that govern the Company.

#### Principal Officer (PO) / Chief Financial Officer (CFO) Sign Off Required by the Insurance Regulatory Commission of Sri Lanka (IRCSL)

In accordance with the determinations issued by the IRCSL, the Company provides Compliance Certificate (A) and (B) to IRCSL on a quarterly basis signed off by the Chief Executive Officer (who is the Company's PO) and the CFO on behalf of the Board of Directors of the Company.

#### Compliance Certificate A: Certifies that the Company has;

- ▶ Complied with all provisions in the regulation of Insurance Industry (RII) Act No.43 of 2000, rules, regulations, determinations, directions issues by IRCSL; Complied with all orders made by the Ministry of Finance and Planning under the RII Act, No.43 of 2000,
- ▶ Complied with terms and conditions pertaining to reinsurance placements issued by IRCSL in terms of section 31(1) of the RII Act, No. 43 of 2000,

- ▶ Complied with conditions pertaining to co-insurance issued by IRCSL and

- ▶ Complied with all applicable circulars issued by IRCSL.

#### Compliance Certificate B: Certifies that the Company has;

- ▶ Complied with all provisions in the Financial Transactions Reporting Act, No. 6 of 2006,
- ▶ Complied with rules on Know Your Customer (KYC) and Customer Due Diligence (CDD) for the Insurance Industry issued by the Financial Intelligence Unit established under the Financial Transactions Reporting Act, No. 6 of 2006,
- ▶ Complied with guidelines on Anti Money Laundering Program for Insurers issued by IRCSL.

#### Compliance With Regulations Governing Investments

The Life fund is fully backed by 'approved investments' as per Section 25 (1) of the RII Act and subsequent determinations.

#### Ability to Meet Policyholder Obligations

An insurance company's ability to meet its obligations to policyholders is measured by Capital Adequacy Ratio (CAR). CAR reflects UA's total available capital as against Risk Capital required at a particular date.

The CAR as of 31 December 2018 is 262%. The minimum regulatory requirement is 120%.

#### Actuarial Valuation of Insurance Liabilities

Life insurance liabilities have been validated by an independent external actuary in accordance with the RII Act. The actuary's report is available on page 167.

#### Reinsurance Arrangements

The IRCSL has stipulated that insurance companies must enter into reinsurance arrangements with companies which at a minimum having a rating of BBB. As per details on page 76, 100% of our reinsurance placements are with reinsurance companies

that have been assigned at the minimum, an 'A+' rating by an international rating agency

#### Capital Structure

As at 31 December 2018 the Company's stated capital of Rs. 1,000 million, exceeds the minimum share capital requirement set by the IRCSL for a life insurance company of Rs. 500 million.

#### Compliance Framework and Self-Regulation

The Board recognises its responsibility of ensuring that business is conducted in accordance with relevant laws, rules and regulations

#### Statutory Submission Sign-Off

A statutory submission checklist is signed off on a monthly basis by persons responsible for ensuring compliance with such requirements. Changes to regulations are updated in the checklist on a regular basis with relevant evidence of compliance. This is a proactive measure to ensure that no violations take place. Any deviations detected are reported to the BACC with the quarterly compliance sign-off.

#### Regulatory Compliance Sign Off

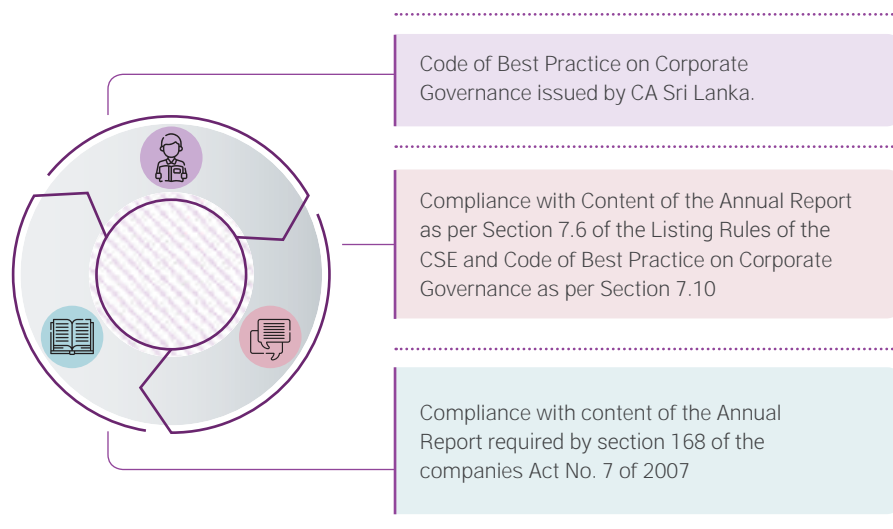
A regulatory compliance checklist is signed off on a quarterly basis by the respective head of department ensuring compliance with the applicable laws and regulations governing the Insurance business. Changes to regulations are updated in the checklist as and when changes occur. This is a proactive measure to ensure that no violations take place. Any deviations are reported to the BACC with the quarterly submission of the summary of the sign-off.

The Company is in compliance with the statutory and regulatory requirements as summarised below;

Compliance Requirement 2018	No. of Submissions
Inland Revenue	105
IRCSL Directives and RII Ac	126
National Insurance Trust Fund	04
Employees' Provident Fund	12
Employees' Trust Fund	12
Colombo Stock Exchange	04
SLAAS Monitoring Board	01
Central Bank of Sri Lanka	12
Municipal Council	04
Total Compliance 2018	180
Total Non Compliance 2018	Nil

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

The extent of Company's adherence with the Code of Best Practices on Corporate Governance 2017 (the Code) issued by the Institute of Chartered Accountants of Sri Lanka is given in the pages that follow:



The Code covers the following seven fundamental principles.

#### Section 1: The Company

- A. Directors
- B. Directors' Remuneration
- C. Relations with Shareholders
- D. Accountability and Audit

#### Section 2: Shareholders

- E. Institutional Investors
- F. Other Investors
- G. Sustainability Reporting

## 8. COMPLIANCE SUMMARY

Towards the continuous stride in achieving a more cohesive and efficient approach to corporate reporting, and in order to keep the report relevant and concise, the ensuing sections reflect a highlevel summary of UAL conformance with standards and governance codes.

### 8.1 Statement of Compliance under Section 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure

#### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule	Compliance Status	Reference (within the Report)
(i) Names of persons who during the financial year were directors of the entity	Yes	Refer details on page 114 and 115.
(ii) Principle activities of the entity and its subsidiaries during the year and any changes therein	Yes	please refer accounting policy 'Principle Activities' on page 182.
(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	Yes	Refer details on page 64.
(iv) Public holding percentage	Yes	Refer details on page 63.

## CORPORATE GOVERNANCE

Rule	Compliance Status	Reference (within the Report)
(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	Yes	Refer details on page 63.
(vi) Information pertaining to material foreseeable risk factors of the entity	Yes	Refer pages 150 to 157 and Note 07 to the Financial Statements.
(vii) Details of material issues pertaining to employees and industrial relations of the entity	Yes	Refer pages 80 to 91 for details.
(viii) Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Yes	Refer property, plant and equipment Note 26 on pages 221 to 226.
(ix) Number of shares representing the entity's stated capital	Yes	Refer details on page 09
(x) A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the given categories	Yes	Refer details on page 65
(xi) List of ratios and market price information	Yes	Refer the shareholder information section on pages 60 to 62.
(xii) Significant changes in the entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value as at end of the year	Yes	Refer Note 26 to the financial statements.
(xiii) If during the year the entity has raised funds either through a public issue, Rights Issue, and private placement	Yes	No funds were raised during 2018 in such manner
(xiv) Employee share Option Schemes and Employee Share Purchase Scheme	Yes	Please refer Note 37 to the financial statements.
(xv) Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 C, and 7.10.6 C of section 7 of the listing rule.	Yes	Refer following for details. Rule 7.10.3 on page 145 Rule 7.10.5 C on page 146 Rule 7.10.6 C on page 147
(xvi) Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per audited financial statements, whichever is lower	Yes	There were no material transactions during the year with related parties other than what is disclosed in Note 44 to the Financial Statements

## 8.2 Statement of Compliance under Section 7.10 of the Listing Rules of the CSE on Corporate Governance

## MANDATORY PROVISIONS - FULLY COMPLIANT

Rule	Compliance Status	Reference (within the Report)
<b>7.10 COMPLIANCE WITH CORPORATE GOVERNANCE RULES</b>	Yes	
<b>7.10.1 Non-Executive Directors (NED)</b>		
(a) The Board of directors of a Listed Entity shall include at least, <ul style="list-style-type: none"> <li>▶ two NEDs; or</li> <li>▶ such number of NEDs equivalent to one-third of the total number of Directors, whichever is higher.</li> </ul>	Yes	Six out of the seven Directors on UA's Board are NEDs of whom three are Independent.
(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.	Yes	No change to the number of Directors since the last AGM.
(c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	Yes	No impact to the ratio since no change to the composition since last AGM
<b>7.10.2 Independent Directors</b>		
(a) Two or one-third of NEDs, whichever is higher, should be independent.	Yes	The Board has determined that three Directors out of six NEDs are Independent.
(b) The Board shall require each NED to submit signed declaration of independence / non-independence annually	Yes	All Directors have submitted annual declarations in respect of the year under review.
<b>7.10.3 Disclosures Relating to Directors</b>		
(a) Names of Independent Directors should be disclosed in the Annual Report.	Yes	Please refer pages 114 and 115 of the Annual Report.
(b) In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	N/A	No such determination was required to be made by the Board, as the Independent Directors of the Company met the specified criteria.
(c) A brief resume of each Director should be published in the annual report including the areas of expertise	Yes	Please refer page 114 and 115 for brief profiles of the Directors.
(d) A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	Yes	A brief resume of all Directors who has been appointed to the Board, has been provided to the CSE.
<b>7.10.4 Criteria for Defining Independence</b>		
(a to h) Requirements for meeting the criteria to be an Independent Director	Yes	The Company's independent NEDs meet the required criteria. Refer Note 44 to the financial statements and page 124 for a summary of Non-Executive / Independent Directors' interests.
<b>7.10.5 Human Resources and Compensation Committee (HRCC)</b>		
A Listed Entity shall have a HRCC	Yes	The Human Resources and Compensation Committee (HRCC) of John Keells Holdings PLC (the Parent) acts as the HRCC of the Company

## CORPORATE GOVERNANCE

Rule	Compliance Status	Reference (within the Report)
(a) The HRCC shall comprise a minimum of two Independent NEDs or a majority of Independent NEDs, whichever is higher  One NED shall be appointed as Chairman of the committee by the Board	Yes	Please refer report of the HRCC on page 130 of the Annual Report.
(b) Functions of the HRCC shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors	Yes	Please refer report of the HRCC on page 130 of the Annual Report.
(c) The Annual Report shall set out: The names of the Directors that comprise the HRCC. A Statement of Remuneration Policy. Aggregate remuneration paid to Executive and Non-Executive Directors.	Yes Yes Yes	Please refer report of the HRCC on page 130 of the Annual Report.  Please refer report of the HRCC on page 130 of the Annual Report. Please refer Note 21 to the Financial Statements.
<b>7.10.6 (A) Composition and role of the audit committee.</b>		
<b>7.10.6 A listed Company shall have an Audit Committee.</b>	Yes	The Company has its own Board Audit and Compliance Committee (BACC)
(a) The Audit Committee shall comprise a minimum of two Independent NEDs, or a majority of Independent NEDs, whichever is higher  One NED shall be appointed as Chairman of the Audit Committee by the Board  The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings  The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Yes Yes Yes Yes	Please refer report of the BACC on pages 127 to 129 of the Annual Report.  Please refer report of the BACC on pages 127 to 129 of the Annual Report.  The CEO and CFO attended all BACC meetings.  Two out of the three members of the BACC are members of professional accounting bodies.
<b>7.10.6 (B) Audit Committee – Functions</b>		
(b) The functions of the Audit Committee shall include: <ul style="list-style-type: none"><li>▶ Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards,</li><li>▶ Overseeing the compliance with financial reporting and 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, and</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>	Yes	Please refer report of the BACC on pages 127 to 129 of the Annual Report.

Rule	Compliance Status	Reference (within the Report)
(c) The Annual Report shall set out the names of the Directors who comprise the Audit Committee.	Yes	Please refer report of the BACC on pages 127 to 129 of the Annual Report.
The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Yes	Please refer report of the BACC on pages 127 to 129 of the Annual Report.
A report by the Audit Committee setting-out the manner of compliance of the functions set out in above, during the period to which the annual report relates.	Yes	Please refer report of the BACC on pages 127 to 129 of the Annual Report.

**8.3 Statement of Compliance under Section 9.3.2 of the Listing Rules of the CSE on Related Party Transactions (Should include to 1st page table)**

**MANDATORY PROVISIONS - FULLY COMPLIANT**

Rule	Compliance Status	Reference (within the Report)
(a) Details pertaining to Non-Recurrent Related Party Transactions	Yes	Refer Financial Statements on Pages 256 to 259 for details on related party transactions
(b) Details pertaining to Recurrent Related Party Transactions	Yes	
(c) Report of the Related Party Transactions Review Committee	Yes	Refer pages 132 and 133 for details on the Related Party Transactions Review Committee.
(d) Declaration by the Board of Directors as an affirmative statement of compliance with the rules pertaining to Related Party Transactions, or a negative statement otherwise	Yes	

## CORPORATE GOVERNANCE

### 8.4 Statement of Compliance pertaining to Companies Act No. 7 of 2007

#### MANDATORY PROVISIONS - FULLY COMPLIANT

Rule	Compliance Status	Reference (within the Report)
168 (1) (a) The nature of the business together with any change thereof	Yes	Refer page 182 of this report.
168 (1) (b) Signed financial statements of the Group and the Company	Yes	Refer financial information section on pages 161 to 261 of this Report.
168 (1) (c) Auditors' Report on financial statements	Yes	Refer pages 169 to 172 for the "Independent Auditors' Report
168 (1) (d) Accounting policies and any changes therein	Yes	Significant Accounting Policies adopted in the preparation of the Financial Statements of the Company are given on pages 182 to 261.
168 (1) (e) Particulars of the entries made in the Interests Register	Yes	All Directors have made declarations as required by the Sections 192 (1) and (2) of the Companies Act aforesaid and all related entries were made in the Interests Register during the year under review.  The Interests Register is available for inspection by shareholders or their authorised representatives as required by Section 119 (1) (d) of the Companies Act No. 07 of 2007.
168 (1) (f) Remuneration and other benefits paid to Directors of the Company	Yes	Refer Note 21 to the Financial Statements on page 216.
168 (1) (g) Corporate donations made by the Company	Yes	Refer Note 21 to the Financial Statements on page 216.
168 (1) (h) Information on Directorate of the Company at the end of the accounting period.	Yes	Refer Board of Directors' brief profiles on pages 114 and 115
168 (1) (i) Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered	Yes	Refer Note 21 to the Financial Statements on pages 114 to 115.
168 (1) (j) Auditors' relationship or any interest with the Company	Yes	Auditors do not have any other relationship or interest in contracts with the Company, or its Associate other than being the Auditors for the Company and Associate. Refer pages 169 to 172.
168 (1) (k) Acknowledgement of the contents of this Report and signatures on behalf of the Board	Yes	Refer the Statement of Directors' Responsibility on page 168.

8.5 Code of Best Practice of Corporate Governance 2017 Issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

**VOLUNTARY PROVISIONS - FULLY COMPLIANT**

<p><b>A</b> DIRECTORS</p>	<ul style="list-style-type: none"> <li>▶ The Company is directed, controlled and led by an effective Board that possess the skills, experience and knowledge and thus all Directors bring independent judgement on various subjects, particularly financial acumen.</li> <li>▶ The posts of Chairman and the CEO are held separately thereby, ensuring the balance of power and authority. The CEO is appraised annually. Board Balance is maintained as the Code stipulates.</li> <li>▶ Whilst there is a transparent procedure for Board appointments, election and re-election, subject to shareholder approval, takes place at regular intervals.</li> </ul>
<p><b>B</b> DIRECTORS' REMUNERATION</p>	<ul style="list-style-type: none"> <li>▶ The Human Resources and Compensation Committee, consisting of exclusively NEDs is responsible for determining the remuneration of CEO / Executive Director.</li> <li>▶ Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and be sufficient enough to attract and retain the quality of personnel needed to run the Company.</li> </ul>
<p><b>C</b> RELATIONSHIP WITH SHAREHOLDERS</p>	<ul style="list-style-type: none"> <li>▶ There is constructive use of the AGM, as per Code. Notice of Meeting, with adequate details, is circulated to shareholders as per statute.</li> <li>▶ The Board has formulated a process of responding to shareholder matters and it is disclosed in the annual report each year. Shareholder matters will be responded to through the same mode the query was directed to the Company or through a mode agreed with shareholder/s.</li> </ul>
<p><b>D</b> ACCOUNTABILITY AND AUDIT</p>	<ul style="list-style-type: none"> <li>▶ Interim and other price sensitive and statutorily mandated reports are disclosed to regulators. As evident from the Annual Report of the Board of Directors, the Company carried out all business in accordance with regulations and applicable laws, equitably and fairly.</li> <li>▶ The Company continues to be a going concern and remedial action for any material events is in place. All related party transactions are reported under the Notes to the Financial Statements.</li> <li>▶ There is an annual review of effectiveness of internal control which ensures the maintenance of a sound system of internal control.</li> <li>▶ The internal audit function and the Audit Committee, functions as stipulated by the Code.</li> </ul>
<p><b>E</b> INSTITUTIONAL INVESTORS</p>	<ul style="list-style-type: none"> <li>▶ The Company conducts regular and structured dialogue with shareholders based on a mutual understanding of objectives. This is done via the Investor Relations team and through the AGM.</li> <li>▶ The Internal Audit function and the Audit Committee, functions as stipulated by the Code.</li> </ul>
<p><b>F</b> OTHER INVESTORS</p>	<ul style="list-style-type: none"> <li>▶ Individual shareholders investing directly in shares of the Company are encouraged to carry out adequate analysis and seek independent advice in all investing and/or divesting decisions. They are encouraged to participate at the AGM and exercise their voting rights and seek clarity, whenever required.</li> </ul>
<p><b>G</b> SUSTAINABILITY REPORTING</p>	<ul style="list-style-type: none"> <li>▶ UA places emphasis on sustainable development and value creation. The company sustainability management framework includes strategies for entrenchment of sustainability through awareness creation, monitoring and sustainability assurance.</li> <li>▶ This Report has been prepared in accordance with the GRI Standards: Core option.</li> </ul>

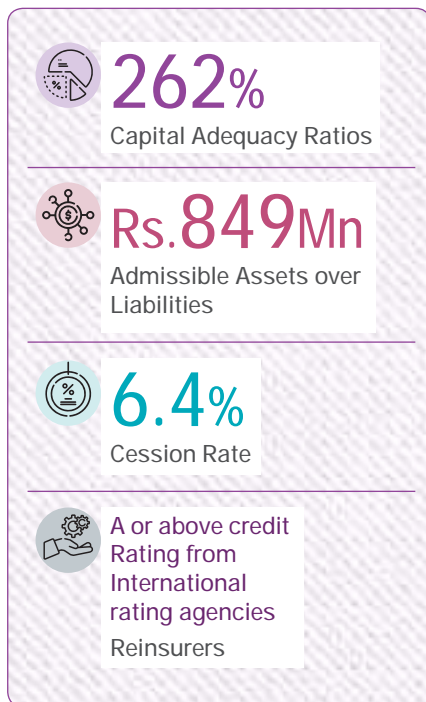


Detailed discussions pertaining to UAL corporate governance voluntary disclosure (Code of Best Practice of Corporate Governance 2017) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) are found on the corporate website.

# ENTERPRISE RISK MANAGEMENT

“UA’s approach to risk management aims to protect the Company’s capital, enhance value creation, optimise its risk-return profile, support decision making and protect UA’s reputation and brand.

This section describes the Company’s risk management framework, risk governance, reports on capital adequacy, and presents an analysis of its main risks.”



## MISSION AND OBJECTIVES OF RISK MANAGEMENT

The mission of risk management at UA is to enhance the value of the Company by embedding disciplined risk taking in its culture. It ensures decision are taken after careful consideration fully aware of the trade off's, rewards and risks' affiliated to such decisions.

The Company's risk management objectives are to:

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

## RISK MANAGEMENT FRAMEWORK

The risk management framework is based on a governance process that sets forth clear responsibilities for taking, managing, monitoring and reporting risks by the Executive Committee. UA risk policy is the Company's main risk governance document; it specifies the Company's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions and procedures for referring risk issues to Board

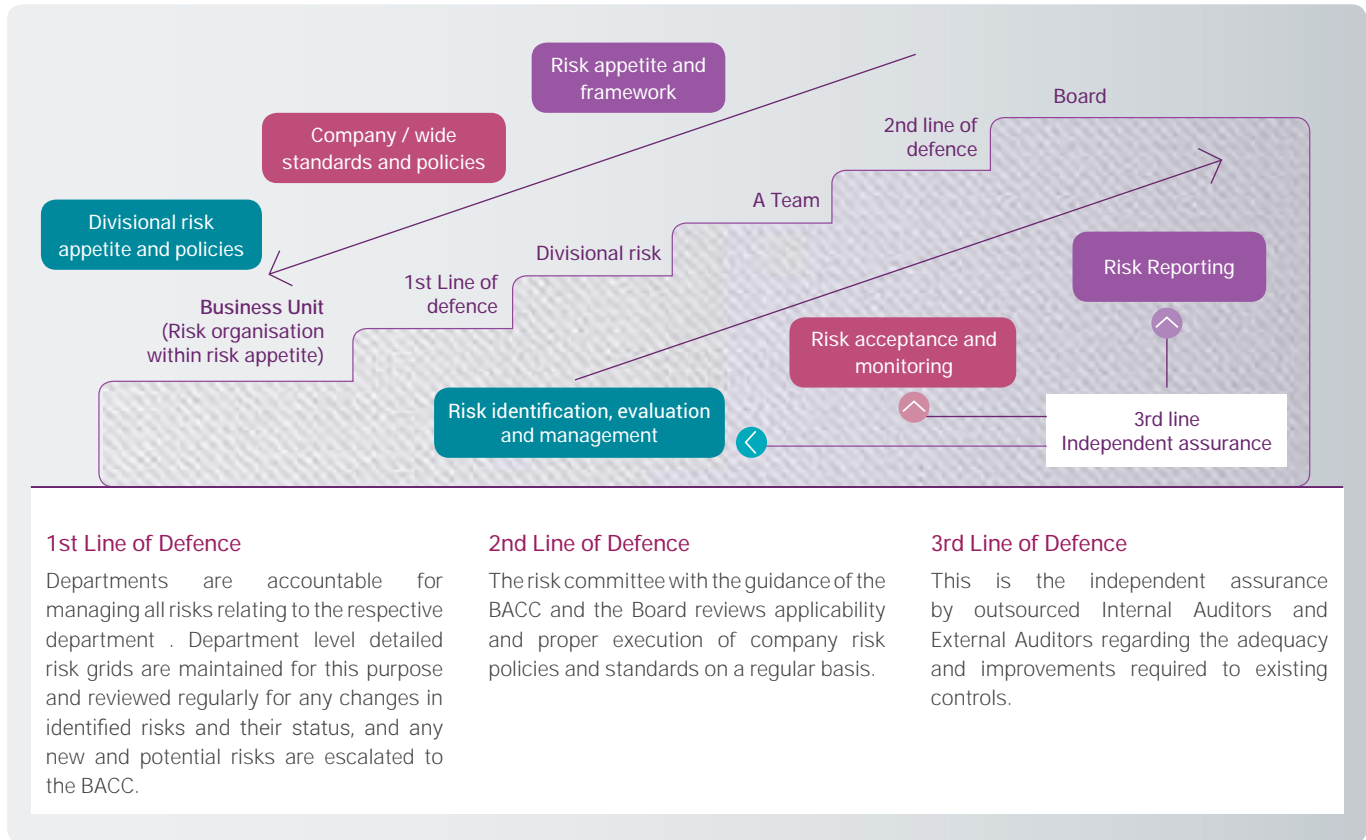
Audit and Compliance Committee (BACC) and the Board of Directors. The Company has procedures to refer risk issues to the BACC and the Board of Directors in a timely manner. To foster transparency, the Board receives quarterly risk grid reports and additional updates where required. The company regularly measures and quantifies material risks which it is exposed to.

## RISK GOVERNANCE

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

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

**Risk Reporting Mechanism**



**1st Line of Defence**

Departments are accountable for managing all risks relating to the respective department . Department level detailed risk grids are maintained for this purpose and reviewed regularly for any changes in identified risks and their status, and any new and potential risks are escalated to the BACC.

**2nd Line of Defence**

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

**3rd Line of Defence**

This is the independent assurance by outsourced Internal Auditors and External Auditors regarding the adequacy and improvements required to existing controls.

**KEY ELEMENTS OF RISK MANAGEMENT**

**CAPITAL ADEQUACY RATIO (CAR)**

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

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



**"The management ensures continuous and regular measurement of risks, and reports the Company's risk performance to the BACC"**

The table given on the next page shows the estimated impact on the company's CAR if one percentage point increase / decrease in the yield curve occurs. The sensitivities are considered as separate scenarios.

## ENTERPRISE RISK MANAGEMENT

Objectives	Base Case Rs. '000	One Percent Point Increase In Yield Curve Rs. '000	One Percent Point Decrease In Yield Curve Rs. '000
Total Available Capital (TAC)	14,382,478	14,764,520	13,976,853
Formula Risk-based Capital Required (FRCR)	5,495,855	5,992,934	5,016,795
Surrender Value Capital Charge (SVCC)	164,406	430,604	-
Risk Based Capital requirement(RCR)	5,495,855	5,992,934	5,016,795
	%	%	%
Risk-based Capital Adequacy Ratio (CAR)	262%	246%	279%

In addition to the sensitivities shown above, the Company also evaluates certain stress scenarios on the CAR. Scenarios are defined as events that have a very low probability of occurring but that could, if realised, negatively affect the CAR. As reflected below, lapse risk represents the company's largest life insurance specific risk- exposure.

### Scenario: Lapse Risk

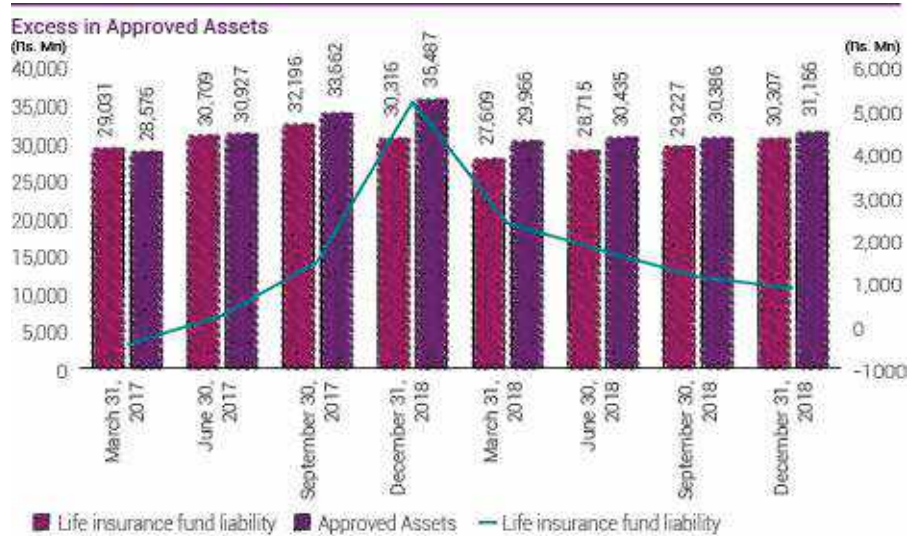
- ▶ Parallel upward shift of 300 basis points to the risk-free yield curves
- ▶ Increase in base lapse rates of 50% for all future years

Objectives	Base Case Rs. Mn.	Three Percent Points Decrease In Yield Curve Rs. Mn
TAC	14,382,478	14,539,008
FRCR	5,495,855	2,942,905
SVCC	164,406	-
RCR	5,495,855	2,942,905
	%	%
CAR	262%	494%

### DETERMINATION 1 EXCESS IN ADMISSIBLE ASSETS

Every insurer carrying on a long-term insurance business shall invest the balance assets of the long-term Insurance Fund (referred to in Section 38 of the Regulation of Insurance Industry Act, No 43 of 2000 and also known as Insurance Provision Life) in certain types of investments (Admissible assets) subject to limitations stipulated therein: The admissible assets have higher credit profiles which ensure that the life fund is secured.

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



### Risk Capital Required by Risk Type

#### Risk Based Capital (RBC)

The chart below shows UA's risk capital required by type of risk as of 31 December 2018 and 31 December 2017 respectively. As of 31 December 2018, the largest proportion of UA risk capital required arose from market risk which comprised 66% of the total. Liability risk was the second largest, comprising 16%.

#### Risk Capital Required By Type of Risk (%)



#### MARKET RISK

# 66%

2017 - 62%

## ANALYSIS BY RISK TYPE

### UA Risk Categories

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



### LIABILITY / INSURANCE RISK

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

- ▶ Establishing limits for underwriting authority
- ▶ Requiring specific approvals for transactions above established limits or new products
- ▶ Using a variety of reserving and modelling methods

- ▶ Ceding insurance risk through external proportional or non-proportional reinsurance treaties and facultative single-risk placements.

Risks associated with life insurance include:

- ▶ **Mortality risk** – when on average, the death incidence among policyholders is higher than expected
- ▶ **Longevity risk** – when on average, annuitants live longer than expected
- ▶ **Morbidity risk** – when on average, the incidence of sickness or disability among policyholders is higher or recovery rates from disability are lower than expected
- ▶ **Policyholder behaviour risk** – on average, policyholders discontinue or reduce contributions or withdraw benefits prior

to the maturity of contracts at a rate that is different from expected

- ▶ **Expense risk** – expenses incurred in acquiring and administering policies are higher than expected
- ▶ **New business risk** – volumes of new business are lower than sufficient to cover fixed acquisition expenses
- ▶ **Market risk** – the risk associated with the Company's balance sheet positions where the value or cash flow depends on financial markets, which is analysed in the 'market risk' section
- ▶ **Credit risk** – the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations, which is analysed in the 'credit risk' section.

# ENTERPRISE RISK MANAGEMENT

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

From a risk management perspective, unit-linked products are designed to reduce much of the market and credit risk associated with UA's traditional business. Risks that are inherent in these products are largely passed on to the policyholder, although a portion of the company's management fees are linked to the value of funds under management, and hence are at risk if fund values decrease. To the extent that there are guarantees built into the product design, unit-linked products carry mortality / morbidity and market risks. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by mortality and morbidity charges.

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

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

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

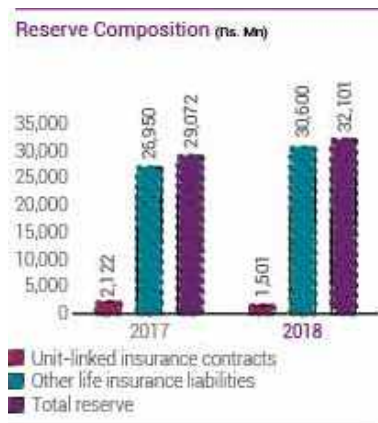
## NATURAL CATASTROPHE RISK

Impact of natural catastrophes such as spread of contagious diseases are being periodically evaluated. Sufficient excess of loss (XOL) levels are ensured. UA has retained the XOL limits per annum as well as per event relating to catastrophes.

## CONCENTRATION RISK

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

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



**"From a risk-management perspective, unitlinked products are designed to reduce much of the market and credit risk associated with UA's traditional business."**

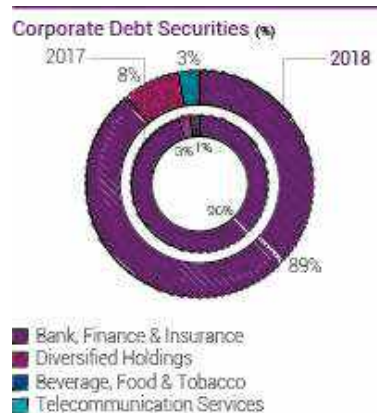
## REINSURANCE

The Company's objective in purchasing reinsurance is to provide market-leading capacity for customers while protecting the financial position and achieving capital efficiency. UA structures and aligns its reinsurance programs to achieve an optimum risk-return ratio. The Company is able to manage its risks to retain a significant and stable portion of its risk exposure. The cession rate for reinsurers was 6.4% and 4.9% as of December 31, 2018 and December 31, 2017, respectively.



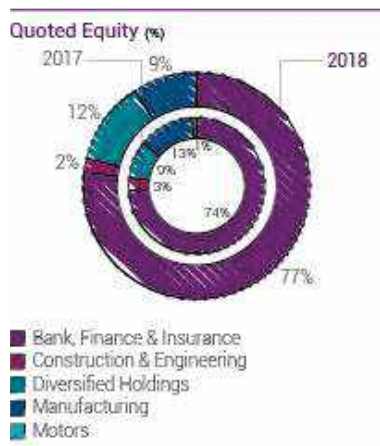
Change in the reinsurance programs has resulted in increase in cession ratio.

## Corporate Debt Securities - Concentration Risk by Industry



88% of UA corporate debt securities represent the investment in the banking, finance and insurance sector. This is mainly due to credit quality and stability in the banking finance and insurance sector.

### Quoted Equities – Concentration Risk by Industry

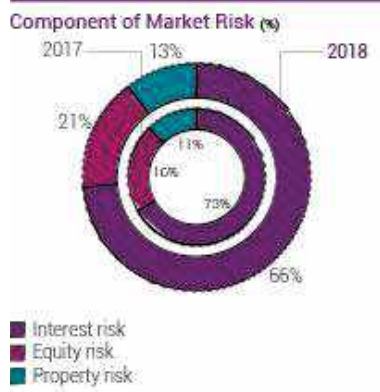


UA predominantly invested in equities of the banking, finance and insurance sector considering credit risk and stability.

### MARKET RISK

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

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



As of 31 December 2018, the largest proportion of UA's market risk arose from interest rate risk which accounted for 66% of the total market risk. Equity risk was the second largest, accounting for 21%. Compared with the 31 December 2017, as at 31 December 2018 composition of the market risk has changed significantly. Prominence of the equity risk increased due to the volatility of the market.

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

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

The Company has set limits on concentration in investments in single issuers and certain asset classes as well as by how much asset interest rate sensitivities can deviate from liability interest-rate sensitivities. The Company also limits illiquid investments.

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

### Risk from Equity Securities

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

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

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

### Risk from Interest Rates

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

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

# ENTERPRISE RISK MANAGEMENT

## CREDIT RISK

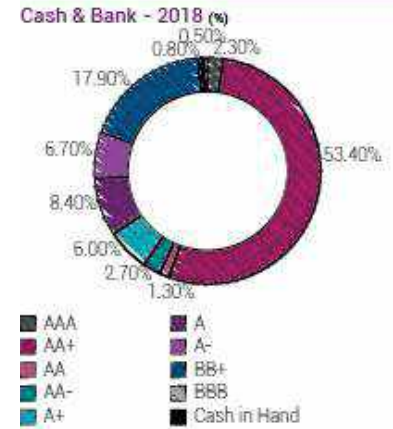
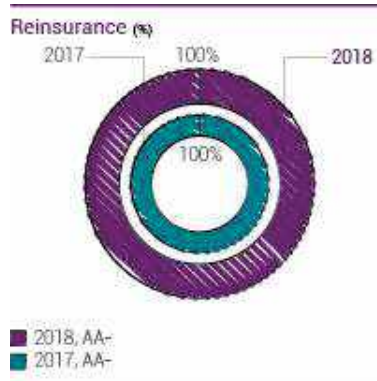
Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfill their financial obligations. UA's exposure to other credit risks is derived from the following main categories of assets:

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

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

### Credit Risk Concentration

The Company limits and regularly monitors credit exposures to individual and related counterparties. There is no unapproved material exposure in excess of the Company's limits for counterparty aggregation as of December 31, 2018 or December 31, 2017.



### Policyholders Loans

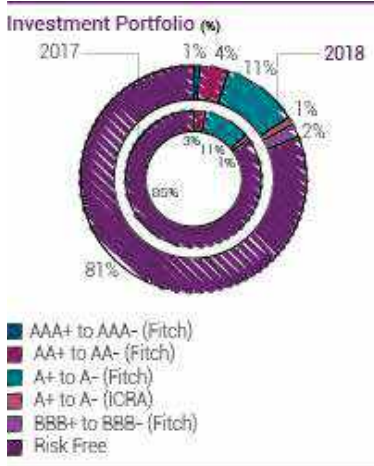
Age Analysis	31.12.18 Rs Mn	31.12.17 Rs Mn
Past due not impaired	86	77
61 - 90 days	47	31
91-180 days	112	82
181 days +	974	812
	1,219	1,002
Surrender value of the Life policies	1,998	1,693

### OPERATIONAL RISK

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

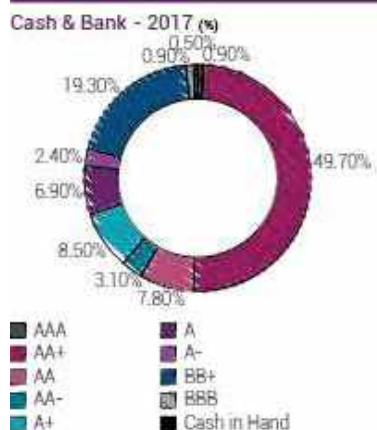
UA has a comprehensive framework with a common approach to identify, assess, quantify, mitigate, monitor and report operational risks. Within this framework, the Company:

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



### Premium Receivable

Age Analysis	31.12.18 Rs Mn	31.12.17 Rs Mn
0-30 days	332	269
Over 30 days	Nil	Nil



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

## DATA SECURITY RISK

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

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

## 3RD PARTY SUPPLIER RISK

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

## FRAUD RISK

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

Risk alert tool The Forestpin, a risk alerting and monitoring tool has been used in the areas of claims payments and other vendor payments.

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

It can provide only reasonable, not absolute, assurance against material financial misstatement or loss.

## AWARENESS AND INTERNAL CONTROLS

The Company encourages risk awareness and understanding of controls with communication and training. Primary risk management and internal control systems are established at Company level and implemented company-wide. The management is responsible for identifying, evaluating and addressing significant risks, and designing and maintaining internal controls. Key processes and controls in UA are subject to reviews by outsourced internal auditors. Significant risks and mitigation actions are reported regularly to the BACC.

The details of UA's internal audit function and external audit are given in pages 127 to 128.

## LIQUIDITY RISK

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

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

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

The maturity profile of the investments of the Company is given on pages 187 to 202.

## STRATEGIC RISK

Strategic risk corresponds to the risk that UA is unable to achieve its strategic targets. Strategic risks can arise from:

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

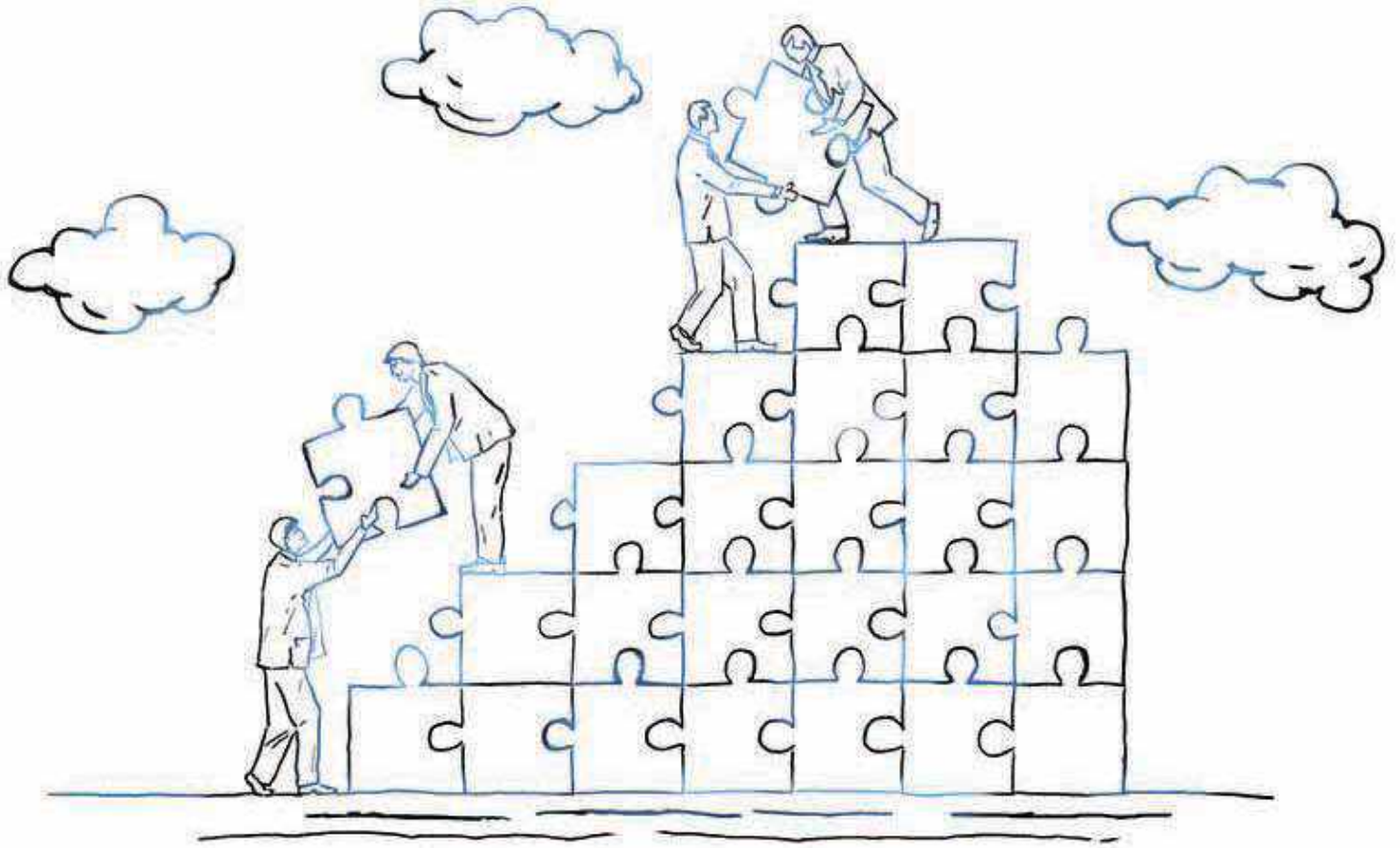
UA defines the strategy as the long-term plan of action designed to allow the Company to achieve its goals and aspirations. The Company works to reduce unintended risks of strategic business decisions through its risk assessment processes and tools. In 2018, the Executive Committee assessed the key strategic risk scenarios, looking at 2018 and beyond. UA assessed risks in executing the Company's transformation programs for agency, bancassurance and operations, delivering on its customer strategy, information security and cyber risks.

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

## RISK TO UA'S REPUTATION

Risks include acts or omissions by the Company or any of its employees that could damage the Company's reputation or lead to a loss of trust among its stakeholders. Every risk type has potential consequences for UA's reputation. Effectively managing each type of risk helps to reduce threats to UA's reputation. UA aims to preserve its reputation by adhering to applicable laws and regulations, and by following the core values, principles and the code of conduct of the Company, which promotes integrity and good business practices.

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



BUILDING SKILLS AND CREATING VALUE

# FINANCIAL INFORMATION

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178   Statement of Changes in Equity
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**FINANCAL CALENDER**

	2018	2019
32 Annual General Meeting to be held on	N/A	29-Mar-2019
31 Annual General Meeting held on	9-May-2018	N/A
The first and final dividends for the year 2017 paid on	20-Mar-2018	N/A
Audited financial statements of preceding year authorized on	29-Mar-2018	27-Feb-2019
<b>Interim financial statements will be published as per rule 7.4 of the Colomco Stock Exchange</b>		
Interim results for the three months ended 31 March (Unaudited)	14-May-2018	15-May-2019
Interim results for the three months ended 30 June (Unaudited)	13-Aug-2018	15-Aug-2019
Interim results for the three months ended 30 September (Unaudited)	5-Nov-2018	15-Nov-2019
Interim results for the three months ended 31 December (Unaudited)	27-Feb-2019	28-Feb-2020

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

## OVERVIEW

The Directors have pleasure in presenting the Annual Report of your Company together with the audited financial statements for the year ended 31st December 2018.

## PRINCIPAL ACTIVITIES

The principal activity of the Company, which is 'Life Insurance', remained unchanged during the financial year. The Company has not engaged in any activities, which contravene laws and relevant regulations.

## VISION, MISSION AND CORPORATE CONDUCT

The corporate vision and mission are provided on page 17 of this report. In achieving its vision and mission, the Company has ensured that all Directors and employees conduct their activities in compliance with the highest level of ethical standards and integrity as set out in the Code of Conduct.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

A review of the financial and operational performance and future business developments of the Company is contained in the Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis section of the Annual Report, as required under Section 168 (1) (a) of the Companies Act No 07 of 2007 ('Companies Act'). These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of affairs of the Company.

## TURNOVER

The total gross written premium generated by the Company for the year 2018 was Rs. 11,244 million (2017 - Rs. 10,118 million).

## FINANCIAL RESULTS AND APPROPRIATIONS

The net profit after tax of the Company was Rs.3,244 million for the year (2017 - Rs.7,384 million).

A synopsis of the performance is presented below;

For the year ended 31 December Union Assurance PLC	2018 Rs. '000	2017 Rs. '000
Profit after tax	3,243,842	7,384,128
Balance brought forward from previous year	5,438,052	2,049,189
Profit available for appropriation	8,681,894	9,433,317
<b>Appropriations</b>		
Dividend paid for previous year	(1,060,715)	(618,750)
Transfer of one - off surplus to restricted regulatory reserve	-	(3,381,934)
Transfer from revaluation reserve	4,615	5,419
Un - appropriated profit carried forward	7,625,794	5,438,052

## FINANCIAL STATEMENTS AND AUDITORS' REPORT

The financial statements for the year ended 31st December 2018 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 175 to 261 and the Auditors' Report on the financial statements is provided on pages 169 to 172 of this Annual Report.

## ACCOUNTING POLICIES

Details of accounting policies are presented on Pages 182 to 261 to the financial statements and comply with Section 168 (1) (d) of the Companies Act. There have been no changes in the accounting policies adopted by the Company during the year under review. For all periods up to and including the year ended 31st December 2018, the Company prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) which have materially converged with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

## DIVIDENDS

The board of directors has declared a first and final dividend of Rs 20 per share for the year 2018 (2017 - Rs. 18) subject to relevant regulatory adherence. The Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 56

of the Companies Act No. 7 of 2007 and has obtained a certificate from the auditors prior to declaring the dividend. The dividend is paid partly out of dividends received and partly out of taxable profits of the Company.

The dividend paid out of profits will be subject to withholding tax.

## PROVISION FOR TAXATION

The Company is liable to income tax at 28% (2017 - 28%) in terms of the Inland Revenue Act No. 24 of 2017 and amendments thereto. The tax position of the Company is disclosed in Note 22 to the financial statements on page 217.

## PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 154 million. The carrying value of property, plant and equipment as at 31st December 2018 was Rs. 2,083 million. The details of property, plant and equipment are shown in Note 26 to the financial statements on page 221.

## INTANGIBLE ASSETS

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 1,263 million. The carrying value of intangible assets was Rs. 1,392 million as at the reporting date. The details of intangible assets are shown in Note 25 to the financial statements on page 219.

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

The company deployed a new policy administration system in August 2018. The key objectives are to increase the productivity of our agency and bancassurance distribution channels with faster product roll out, improved customer service, seamless integration with 3rd party systems and automation of incentives and compensation management. The new system also mitigates the risk of technical obsolescence, enhances data integrity and provides a platform for UA to launch digitally enabled distribution channels.

The board will continue to monitor post implementation process and strengthening of the control framework.

## MARKET VALUE OF FREEHOLD PROPERTIES

The land and building owned by the Company at No. 6, Rajapihilla Road, Kurunegala and at No. 20, St. Michael's Road Colombo 3 were revalued as at 31st December 2017 to reflect its market value as per Company policy.

The revaluation was performed by Mr. P B Kalugalagedera and Associates, Chartered Valuation Surveyor. The details of the revaluation and relevant accounting policies are provided in Note 26.9 to the financial statements on page 225.

## INVESTMENTS

Details of investments held by the Company are disclosed in Note 29 to the financial statements on page 232.

## STATED CAPITAL AND RESERVES

In compliance with the Companies Act No. 7 of 2007, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31st December 2018 was Rs. 1,000 million (2017 - Rs. 1,000 million) and the total capital and reserves was Rs. 13,672 million (2017 - Rs. 11,965 million).

As explained in Note 36 on page 244, based on the directions issued by IRCSL dated 20 March 2018 and subsequent approval, Company has transferred the one - off surplus of Rs. 3,382 million attributable to non-participating and non unit fund of unit linked business from

life policyholder fund to life shareholder fund (SHF) through Income Statement as at 31 December 2017. The distribution of this one - off surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL. The one - off surplus in the SHF is invested in government debt securities as per the directions of the IRCSL.

## SHARE INFORMATION

Information relating to earnings, dividends, net assets and market value per share is given in the UA share performance on pages 63 to 66 of this report.

## SHARE HOLDINGS

There were 1,476 registered shareholders, holding ordinary voting shares as at 31st December 2018 (2017 - 1,333). The distribution of shareholding including the percentage held by the public is given on page 63 of this report.

## EQUITABLE TREATMENT TO ALL SHAREHOLDERS

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

## SUBSTANTIAL SHAREHOLDINGS

The list of top twenty shareholders as at 31st December 2018 is given on page 64 of this report, together with comparative shareholding as at 31st December 2017.

## INFORMATION TO SHAREHOLDERS

The Board strives to be transparent and provide accurate information to shareholders in all published material. The quarterly financial information during the year has been sent to the Colombo Stock Exchange in a timely manner.

## CORPORATE GOVERNANCE

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A more comprehensive report on corporate governance is found on pages 113 to 149.

## DIRECTORS' DECLARATION

The Directors declare that;

- The Company has not engaged in any activity, which contravenes laws and regulations
- The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested
- The Company has made all endeavours to ensure the equitable treatment of shareholders
- The business is a going concern
- A review of the internal controls covering, financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained reasonable assurance of their effectiveness and successful adherence therewith
- The Company, being listed on the Colombo Stock Exchange (CSE), is compliant with the rules on corporate governance under the listing rules of the CSE with regard to the composition of the Board and its sub committees
- The Company is in compliance with the Code of Best Practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka (CASL).

## BOARD AUDIT AND COMPLIANCE COMMITTEE

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 128. 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 127 to 129 of this report.

## SYSTEM OF INTERNAL CONTROLS

The Board of Directors has put in place an effective and comprehensive system of internal controls covering financial, operational and compliance controls and have obtained reasonable assurance of their

effectiveness. An enterprise risk management initiative has been implemented. The Board is satisfied that the process is sufficiently robust to identify and manage risks which have an impact on the Company's performance.

## RISK MANAGEMENT

The Board and the executive management of the Company have put in place a comprehensive risk identification, measurement and mitigation process. The risk management process is an integral part of the annual strategic planning cycle. A detailed overview of the process is outlined in the Enterprise Risk Management report in the Corporate Governance section on page 150.

## THE BOARD OF DIRECTORS

As at 31st December 2018 the Board of Directors of Union Assurance PLC consisted of Directors with diverse knowledge and experience. Brief profiles of the Directors are given in the Corporate Governance section on pages 114 and 115.

## RESIGNATION AND APPOINTMENT OF DIRECTORS

Mr. S. C. Ratnayake and Mr. G. F. C. De Saram resigned from the Board of Directors of the Company with effect from 31st December 2018. Mr. A. S. De Zoysa resigned from the Board of Directors of the Company with effect from 03rd August 2018.

Mr. D. H. Fernando was appointed to the Board as an Independent Non Executive Director of the Company with effect from 03rd August 2018. Mr. K. N. J. Balendra was appointed to the Board as a Non Executive Director and Chairman of the Company with effect from 01st January 2019. Mr. S. A. Appleyard was appointed to the Board as a Independent Non Executive Director of the Company with effect from 01st January 2019.

## RETIREMENT AND RE - ELECTION /RE - APPOINTMENT OF DIRECTORS

In terms of Article 84 of the Articles of Association of the Company, Mrs. D C Alagaratnam and Mr. A D Pereira retire by rotation and are eligible for re - election. A brief profile of the said Directors are given on pages 114 and 115. In terms of Article 90 of

the Articles of Association of the Company, Mr. K N J Balendra, Mr. S A Appleyard, and Mr. D H Fernando are eligible for re - election. Brief profiles of said Directors are given on page 115.

## RESPONSIBILITY OF THE BOARD

Details of responsibilities of the Board and the manner in which those responsibilities were discharged during the year are disclosed in the Corporate Governance section on page 122.

## REVIEW OF PERFORMANCE OF THE BOARD

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

## BOARD SUB COMMITTEES

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

Details of the sub committees, their mandate and composition are provided in the Corporate Governance section on pages 126 to 133.

## DIRECTORS' INTERESTS REGISTER

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

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

### a) Directors' Interests in Transactions

The Directors of the Company have made general declarations as provided for in Section 192 (2) of the Companies Act. Arising from this, details of contracts in which they have an interest are provided in Note 44 on page 256 to the financial statements, under related party transactions.

### b) Directors' Interests in Shares

The Directors' individual shareholdings in the Company is provided on page 64 of the Annual Report.

## c) Share Dealings

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

## d) Indemnities and Remuneration to Directors

Directors' remuneration is established within a framework approved by the Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The remuneration of the Non - Executive Directors is determined according to scales of payment decided upon by the Board. Details of Directors' fees and emoluments paid during the year along with the corresponding amounts for the previous year are set out in Note 21 of the financial statements.

- The Board approved payment to the executive Director of Union Assurance PLC, Mr. A D Pereira, from 01st January 2018, a remuneration comprising of:
  - A fixed element; and a variable element in the form of Short Term Incentive which is based inter alia, on the individual performance and organization performance; and
  - A Long Term Incentive in the form of Employee Share Options at John Keells Holdings PLC.

as recommended by the Human Resources and Compensation Committee of John Keells Holdings PLC, the Holding Company, in keeping with the John Keells Group remuneration policy.

- Mr. S C Ratnayake was appointed as a Non-Executive Director of Union Assurance PLC from 01st January 2018 at the standard Non-Executive Fees recommended by the Chairman of the Human Resources and Compensation Committee of John Keells Holdings PLC, the holding Company of Union Assurance PLC, which fees are commensurate with the market complexities of the Company.

The sums payable to Non executive directors nominated by John Keells Holdings PLC are remitted to John Keells Holdings PLC rather than to individual directors.

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

3. Mr. D H Fernando was appointed as a Independent Non-Executive Director of Union Assurance PLC from 03rd August 2018 at the standard Non-Executive Fees recommended by the Chairman of the Human Resources and Compensation Committee of John Keells Holdings PLC, the holding Company of Union Assurance PLC, which fees are commensurate with the market complexities of the Company.
4. Mr. K N J Balendra was appointed as Chairman / Non-Executive Director and Mr. S A Appleyard was appointed as Independent Non-Executive Director of Union Assurance PLC from 01st January 2019 at the standard Non-Executive Fees recommended by the Chairman of the Human Resources and Compensation Committee of John Keells Holdings PLC, its holding company, which fees are commensurate with the market complexities of the Company.

The sums payable to Non executive directors nominated by John Keells Holdings PLC are remitted to John Keells Holdings PLC rather than to individual directors.

## DIRECTORS' MEETINGS

Details of Board meetings and Board subcommittee meetings are presented on pages 125 to 133 of the Annual Report.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the financial statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

## RELATED PARTY TRANSACTIONS

There are no related party transactions which exceed the lower of 10% of equity or 5% of the total assets of the Company. Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard LKAS 24 – Related Party Disclosures, in Note 44 to the financial statements and have complied with Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practice on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (C) of the Securities Exchange Commission Act.

## COMPLIANCE WITH THE TRANSFER PRICING REGULATIONS

All transactions entered into with associated persons during the period are on an arm's length basis, and are comparable with transactions carried out with non - associated persons.

## DONATIONS

There were no donations made during the year.

## CORPORATE SOCIAL RESPONSIBILITY

The Company manages a range of programmes towards its stakeholders in order to bring about sustainable development in all areas of business. The CSR initiatives are detailed in the Social and Relationship Capital section on pages 67 to 79.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company has complied with all applicable laws and regulations. A compliance checklist is signed off on a monthly basis by responsible officers and any violations are reported to the Board Audit and Compliance Committee. Refer page 143 for a statement of compliances.

## RISK BASED CAPITAL REQUIREMENT (RBC)

With effect from 1st January 2016 all insurance companies were required to maintain a capital amount as computed under the risk based capital framework

introduced by the IRCSL or Rs. 500 million whichever is higher. From the first quarter of 2016 onwards, the Company reported RBC requirements on a quarterly and annual basis within the reporting time lines. Refer page 152 for details on RBC of the Company.

## INTEGRATED CORPORATE REPORTING

The integrated annual report has been prepared in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). The Board Audit and Compliance Committee has reviewed the framework presented in this Annual Report and based on their recommendation, the Board has adopted the framework as a transparent basis to report the Company's activities and results to all stakeholder groups.

## SUSTAINABILITY

The Company is aware of the need to pursue its business goals from a stakeholder perspective of business governance. Hence, through the structured stakeholder engagement process, the Company has identified material issues in relation to each stakeholder group and endeavours to achieve its business goals with due respect to all stakeholder needs. This integrated Annual Report, combining financial information with sustainability information aims to provide its stakeholders a more holistic set of information.

Messrs. KPMG has issued an assurance of the financial performance data disclosed and the content of the report which represents the Company's sustainability policies, objectives, management approach and performance, and as prepared under the requirements of the GRI Standards. The report has also gone through a GRI Materiality Disclosures Service.

## HUMAN RESOURCES

The Company continued to implement appropriate human resource management policies to develop employees and optimize their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees. The Company also adopts equality of opportunity for all employees irrespective of

ethnic origin, religion, political opinion, gender, marital status or physical disability. Some of the processes and procedures adopted in this regard are mentioned in the Human Capital report on page 152. The number of persons employed by the Company as at 31st December 2018 was 614 (2017 - 529).

There were no material issues pertaining to employees and industrial relations of the Company during the year under review.

### CODE OF CONDUCT

The Company demands impeccable standards of conduct from its Directors and employees in the performance of their official duties and in situations that could affect the Company's image. The Company has also implemented a code of conduct for field staff covering their responsibility, commitment and level of service to the client. During the year no material violations of the code was noted.

### ENVIRONMENT PROTECTION

Initiatives taken by the Company to preserve the environment are presented in the Natural Capital report on page 99. The Company has not engaged in any activity that is harmful to the environment.

### SUPPLIER POLICY

The Company applies an overall policy of agreeing and clearly communicating terms of payments as part of the commercial agreements negotiated with suppliers, and endeavours to pay for all items properly charged in accordance with those agreed terms. As at 31st December 2018, the other payments of the Company amounted to Rs. 2,608 million (2017 - Rs. 1,564 million).

### STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to employees as at the reporting date have been paid or, where relevant provided for, except as detailed in Note 47 to the financial statements, relating to contingent liabilities.

### CAPITAL COMMITMENTS

No significant capital commitments exist as at 31st December 2018 other than those disclosed in Note 45 to the financial statements.

### CONTINGENCIES AND OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Company will not have a material impact

on the reported financial results or future operations of the Company.

### EVENTS AFTER THE REPORTING DATE

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than those disclosed in Note 46 to the financial statements.

### GOING CONCERN

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued jointly by the ICASL and the SEC of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the going concern basis is adopted in preparing the financial statements.

### AUDITORS

The Company's external auditors during the period under review were Messrs. KPMG. The fee amount paid / payable for the services provided to the Company during the year 2018 and 2017 is presented below.

Rs.'000	2018	2017
Audit and audit related fees	2,050	4,355
Non audit fees	2,593	1,332

### INDEPENDENCE OF AUDITORS

Based on the declaration from Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest other than that of an Auditor in the Company.

### RE - APPOINTMENT OF AUDITORS

The retiring auditor Messrs. KPMG have intimated their willingness to continue in office and a resolution to re - appoint them as auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

### AUDITORS' REPORT

Auditors' Report on the financial statements is given on page 169 of this annual report.

### APPROVAL OF FINANCIAL STATEMENTS

The audited financial statements were approved by the Board of Directors on 27 February 2019. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3, on Friday, 29th March 2019 at 9.00 a.m. The notice of the meeting relating to the thirty second Annual General Meeting is given on page 290.

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



**K. N. J. Balendra**  
Chairman



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



**Keells Consultants (Private) Limited**  
Secretaries

27 February 2019

# CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Union Assurance PLC as at 31st December 2018 are prepared and presented in compliance with the following;

- ▶ Sri Lanka Accounting Standards (SLFRSs / LKASs) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL)
- ▶ Requirements of the Companies Act No. 7 of 2007
- ▶ Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- ▶ Listing rules of the Colombo Stock Exchange (CSE)
- ▶ The Regulation of Insurance Industry (RII) Act No. 43 of 2000 and subsequent amendments thereto
- ▶ Code of best practice on corporate governance issued by the ICASL.

Accordingly, the Company has prepared the financial statements which comply with SLFRSs / LKASs and related interpretations applicable for the year ended 31st December 2018, together with the comparative data as at and for the year ended 31st December 2017, where required, as described in the accounting policies.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the financial statements. There have been no changes in the accounting policies adopted by the Company during the year under review.

The accounting policies applicable to Fairfirst Insurance Limited, the associate Company of Union Assurance PLC have been disclosed separately in Note 28 to the financial statements.

Significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with our external auditors and the Board Audit and Compliance Committee (BACC).

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the Company as of, and for, the periods presented in this Annual Report. We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us and for safeguarding the Company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the Company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report and on an ongoing basis.

We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

Our Internal Auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed. The financial statements were audited by Messrs. KPMG, Chartered Accountants, Independent Auditors.

The BACC pre - approves the audit and non - audit services provided by Messrs. KPMG, in order to ensure that the provision of such services does not impair KPMG's independence. The BACC also reviews the external audit plan, the internal audit plan, all internal audit reviews and management letters and follows up on any issues raised during the statutory audit as well as the internal audits. The BACC also meets with the external and internal auditors to review the effectiveness of the audits.

We confirm that the company has complied with all applicable laws and regulations and

guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business. We also confirm that the Company has complied with the following Insurance Regulatory Commission of Sri Lanka (IRCSL) requirements;

- ▶ All provisions in the RII Act No. 43 of 2000, and subsequent amendments there to, and all rules, regulations, determinations, directions issues by IRCSL; complied with all orders made by the Ministry of Finance and Planning under the RII Act, No. 43 of 2000
- ▶ Terms and conditions pertaining to reinsurance placements issued by IRCSL in terms of section 31(1) of the RII Act, No. 43 of 2000
- ▶ Conditions pertaining to co \_ insurance issued by IRCSL
- ▶ All applicable circulars issued by IRCSL
- ▶ All provisions in the Financial Transactions Reporting Act, No. 06 of 2006
- ▶ Rules on Know Your Customer (KYC) and Customer Due Diligence (CDD) for the Insurance Industry issued by the Financial Intelligence Unit established under the Financial Transactions Reporting Act, No. 06 of 2006
- ▶ Guidelines on Anti Money Laundering Programme for Insurers issued by IRCSL



**Dirk Pereira**  
Chief Executive Officer



**Asha Perera**  
Chief Financial Officer

27 February 2019

# ACTUARY'S REPORT

Willis Towers Watson 

Private and Confidential

27 February 2019

The Board of Directors  
Union Assurance PLC  
No 20, St. Michael's Road,  
Colombo 03,  
Sri Lanka

## Actuarial Valuation of the Long Term Insurance Business as at 31 December 2018

In accordance with the engagement letter dated 9 September 2015, Willis Towers Watson India Private Limited ("Willis Towers Watson", "we", "our" or "us"), formerly called Towers Watson India Private Limited has carried out an actuarial review of the valuation of long term insurance liabilities of Union Assurance PLC's Long Term Insurance Business as at 31 December 2018.

We hereby certify that:

1. Reasonable steps have been taken by the Company to ensure that data used for the actuarial valuation of the liabilities of the Long Term Insurance Fund is complete and accurate;
2. Adequate and proper reserves have been provided as at 31 December 2018, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date.
3. The total long term insurance provisions maintained within the life fund for conventional business is LKR28,254 million. The value of assets held in respect of conventional life business is LKR30,287 million. The surplus in respect of the conventional life business after making an allowance for a shareholder transfer of LKR1,085 million is LKR2,033 million. The surplus in respect of the conventional business before shareholder transfer is LKR3,118 million.
4. The total long term insurance provisions within the life fund for the non-unit liabilities in respect of unit-linked business is LKR3 million. The value of assets (other than assets backing unit-linked liabilities) held in respect of this business is LKR20 million. The surplus in respect of the unit-linked business after making an allowance for a shareholder transfer of LKR15 million is LKR18 million. The surplus in respect of the unit-linked business before shareholder transfer is LKR33 million.
5. The risk based capital required under the Regulation of Insurance Industry Act No. 43 of 2000 is LKR5,496 million, and the Company's CAR (after allowing for the LKR1,100 million shareholder transfer) is 262%, compared to the regulatory minimum requirement of 120%.
6. We have undertaken a liability adequacy test for long term insurance provisions maintained within the life fund of Union Assurance PLC as contemplated by SLFRS 4. In carrying out the liability adequacy test, we have compared the provisions held as per the audited accounts with the actuarial liability. For this purpose, the value of the actuarial liability is determined following the principles laid out within the risk based capital framework as prescribed by the IBSL [the Solvency Margin (Risk Based Capital) Rules 2015]. Based on this test, we conclude that the long term insurance provisions maintained within the life fund of Union Assurance PLC as per the audited accounts of the Company for the year ended 31 December 2018 is in excess of the liabilities computed in the above mentioned manner.



Vivek Jalan, FIA, FIAI  
Head of Insurance Consulting & Technology, India  
Willis Towers Watson

Towers Watson India Private Limited  
Registered Office:  
Unitech Business Park 2nd floor  
Tower-8, South City, Sector 41  
Gurgaon-122002  
India  
T: +91 124 4322800  
F: +91 124 4322801  
E: TW.Fin.India@willistowerswatson.com  
W: willistowerswatson.com  
CIN: U67190HR1996PTC051336

# STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors in relation to the financial statements is set out in the following statement. The responsibility of the Auditors in relation to the financial statements prepared in accordance with the provision of the Companies Act No. 7 of 2007 is set out in the Report of the Auditors on pages 169 to 172. As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare, for each financial year and place before a general meeting, financial statements which comprise of;

- ▶ a statement of income and statement of profit or loss and other comprehensive income of the Company which present a true and fair view of the profit or loss of the Company for the financial year; and
- ▶ a statement of financial position, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year; and
- ▶ a statement of changes in equity; and
- ▶ a statement of cash flows for the year then ended and notes to the financial statements

The Directors have ensured that, in preparing these financial statements;

- ▶ the appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained; and
- ▶ all applicable accounting standards in accordance with the Sri Lanka Accounting Standards (SLFRSs / LKASs) as relevant have been applied; and
- ▶ reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and
- ▶ it provides the information required by and otherwise complies with the Companies Act No. 7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto

and the Listing Rules of the Colombo Stock Exchange and requirements of any other regulatory authority as applicable to the Company.

The Directors have also ensured that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion.

Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors has 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 has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 20 per share subject to relevant regulatory adherence for the year ended 31st December 2018.

The company deployed a new policy administration system in August 2018. The key objectives are to increase the productivity

of our agency and bancassurance distribution channels with faster product roll out, improved customer service, seamless integration with 3rd party systems and automation of incentives and compensation management. The new system also mitigates the risk of technical obsolescence, enhances data integrity and provides a platform for UA to launch digitally enabled distribution channels. The Directors reviewed regular updates from the business and IT units on the progress and strengthening of related controls. The Directors will continue to monitor this process.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

## COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or, where relevant provided for except as detailed in Note 47 to the financial statements, relating to contingent liabilities.

By order of the Board



**Keells Consultants (Private) Limited**  
Secretaries

27 February 2019

# 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 6872  
+94 - 11 244 6058  
+94 - 11 254 1248  
**Internet** : [www.kpmg.com/lk](http://www.kpmg.com/lk)

## TO THE SHAREHOLDERS OF UNION ASSURANCE PLC

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Union Assurance PLC ("the Company"), which comprise the statement of financial position as at 31 December 2018, and the income statement, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 175 to 261 of this Annual Report.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka

(Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company's financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INSURANCE CONTRACT LIABILITIES

Refer to Note 39 (page 247) and Note 40 (page 253) to these financial statements.

The Insurance Contract Liabilities and Insurance Contract Liabilities \_ Unit Linked as at 31 December 2018 amounted to Rs.30.6 Bn and Rs.1.5 Bn respectively.

### Risks Description

The valuation of these liabilities is highly judgemental and requires a number of key assumptions to be made that have high estimation, uncertainty. The accuracy and completeness of the data used in calculating insurance liabilities or forming judgments over key assumptions, would have material impact on the valuation of insurance liabilities.

The valuation of insurance liabilities depends on the accuracy of data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims.

Changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims and where appropriate the discount rates for longer tail classes of business by territory and line of business.

### Our responses - Our audit procedures included:

- ▶ Testing design, implementation and operating effectiveness of key controls around the claims handling and case reserve settling processes of the Company. Examining evidence of the operation of controls over the valuation of individual claims reserves.
- ▶ Testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process (including both current and prior year case reserve data).
- ▶ Re-performing reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations.
- ▶ Assessing the rationale for the margin including consideration of the level of prudence within the margin, the consistency with which the underlying judgments have been applied in relation to the current year and prior periods and the existence of any management bias.

Review of our own actuarial specialist involved:

- ▶ Assessing the accuracy and completeness of data used for estimates;

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. Abeyratne FCA	S.T.D.L. Perera FCA
G.A.U. Kanunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA

Principals - S.R.L. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

## INDEPENDENT AUDITORS' REPORT



<p>The appropriate margin added to the actuarial best estimate of insurance liabilities, to provide for the risk of adverse development in the claims involves judgment by the management, based on the perceived uncertainty and potential for volatility in the underlying claim. As such it is subjective estimate.</p> <p>As a result of all of the above factors, insurance contract liabilities have been identified as a key audit matter.</p>	<ul style="list-style-type: none"> <li>▶ Assessing the key assumptions and reserving methodologies driving the value of the insurance liabilities by; :             <ul style="list-style-type: none"> <li>▶ Comparing the assumptions to expectations based on, current trends and our own industry knowledge</li> <li>▶ Evaluating the level of prudence applied and compared this to prior periods;</li> <li>▶ Applying our industry knowledge and experience to benchmark the Company's reserving methodologies assumptions, and estimates of losses, and</li> <li>▶ Reviewing sensitivity analysis over key judgments and assumptions</li> </ul> </li> <li>▶ Independently re-projected the reserve balances for certain classes of business</li> <li>▶ Assessing the adequacy of the Company's disclosure in relation to insurance liabilities, including the discount rate and historic claims development, actuarial best estimate, and the degree of estimation and sensitivity to key assumptions.</li> </ul>
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### RECOVERABILITY OF DEFERRED TAX ASSETS AND NOTIONAL TAX RECEIVABLES

Refer to Note 27 (page 226) and Note 33.5(a) (page 242) to these financial statements.

The deferred tax assets and notional tax receivable recognized as at 31 December 2018 amounted to Rs.1.079 Bn and Rs.541 Mn respectively.

<p><b>Risks Description</b></p> <p>The Income Tax computation methodology of the Life Assurance Business has changed with the introduction of the Income Tax Act No 24 of 2017 which became effective from 1 April 2018. Based on the said Act, the Life Assurance business have become liable for tax based on the surplus with effect of 1 April 2018.</p> <p>Further, the new Act provides specific basis to recognize/ deduct the losses brought forward based on any provisions of the Inland Revenue Act, No. 10 of 2006 ( previous Act).</p> <p>Accordingly, the Company has recognised assets on accumulated tax losses and tax credits on notional tax based on the internal assessment made by the management of the recoverability against future taxable profits. The recognition of deferred tax assets arising from accumulated tax losses and notional tax credits involves significant judgment made by the management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated.</p> <p>We identified the recognition of deferred tax assets and notional tax credit as a key audit matter because on the significance to the financial statements and the level of management judgment and estimation used in the forecasting future taxable profit.</p>	<p><b>Our responses -</b></p> <p>Our audit procedures included;</p> <ul style="list-style-type: none"> <li>▶ Challenging the key assumptions driving the forecast of future taxable profits on which the recognition of the deferred tax asset and notional tax receivable relies.</li> <li>▶ Assessing the accuracy and consistency of the forecasting process in the past and considered whether projected margins are achievable with reference to the business's recent performance and revised operating plans approved by the board of directors. Evaluating the robustness of the internal review process adopted by the Board during the development of the operational plan, the extent to which alternative outcomes are considered prior to approval of the operational plan.</li> <li>▶ Assessing the validity of the conclusion made by the Company to limit recognition of Deferred Tax Asset and notional tax receivable only to the extent to which recoverability could be assessed with reasonable certainty.</li> <li>▶ Assessing the adequacy of the Company's disclosures in respect of the assumptions supporting the recognition of deferred tax asset and notional tax receivable.</li> </ul>
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**IMPLEMENTATION OF NEW IT SYSTEMS**

Refer to Note 25 (page 219) to these financial statements.

The intangible assets as at 31 December 2018 amounted to Rs.1.4 Bn which included new system implemented amounting to Rs. 472 Mn.

Risks Description	Our responses
<p>The Company operates number of different IT systems across the business units. The Company has made on-going investments on upgrading systems, in particular the development of the new core system (eBaO), which replaced the previous system AS 400. During the year the Company has implemented discrete elements of the eBaO system.</p> <p>The implementation of a new system has an inherent risk of possible loss of key financial data being migrated, errors in mapping relevant balances and completeness of relevant reconciliations. The temporary lapses in operation or monitoring of IT dependent controls within critical business processes such as claims, underwriting and recording transactions which could lead to errors in financial reporting.</p> <p>The Company's financial accounting and reporting systems are heavily dependent on the new system accordingly this has been considered as a significant area of focus during our audit.</p>	<p>Our audit procedures included involvement of our IT specialist for the following;</p> <ul style="list-style-type: none"> <li>▶ Reviewing the framework of governance over the Company's IT organization and controls over program development and changes, access to programs and data and IT operations, including compensating controls where required.</li> <li>▶ Assessing the design and operating effectiveness of the key controls over the continued integrity of both the old and the new systems that were relevant for financial reporting during the year.</li> <li>▶ In relation to system migration, on a sample basis we assessed and tested the accuracy and completeness of the key financial data transferred migration from legacy to the new single operating system</li> <li>▶ On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.</li> </ul>

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statement and our auditor's report there on.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company and Investee's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company and Investee's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

## INDEPENDENT AUDITORS' REPORT



those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Company and Investee's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes

public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

**KPMG**  
Colombo, Sri Lanka

27 February 2019

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# INCOME STATEMENT

For the year ended 31 December			2018	2017	Change
	Note	Page	Rs. '000	Rs. '000	%
Gross written premium	10	210	11,243,915	10,117,630	11
Premium ceded to reinsurers	11	211	(716,441)	(497,612)	44
<b>Net written premium</b>			<b>10,527,474</b>	<b>9,620,018</b>	<b>9</b>
<b>Other revenue</b>					
Net investment income	12	211	4,638,140	3,636,008	28
Net realised gains	13	213	123,474	75,591	63
Net fair value gains / (losses)	14	213	(803,075)	258,360	(411)
Other income	15	213	42,960	63,176	(32)
<b>Total other revenue</b>			<b>4,001,499</b>	<b>4,033,135</b>	<b>(1)</b>
<b>Total net revenue</b>			<b>14,528,973</b>	<b>13,653,153</b>	<b>6</b>
<b>Benefits, claims and expenses</b>					
Net insurance benefits and claims paid	16	214	(3,350,600)	(2,673,733)	25
Net change in insurance claims outstanding	17	214	442,761	(5,302)	8,451
Change in contract liabilities - Life Fund	18	215	(3,905,191)	(2,709,661)	44
Change in contract liability due to transfer of one off surplus	36	244	-	3,381,934	(100)
Underwriting and net acquisition costs (net of reinsurance)	19	216	(2,055,051)	(1,841,151)	12
Other operating, administrative and selling expenses	20	216	(3,523,372)	(2,504,333)	41
Depreciation and amortisation	25 / 26	219/221	(154,935)	(104,623)	48
<b>Total benefits, claims and expenses</b>			<b>(12,546,388)</b>	<b>(6,456,869)</b>	<b>94</b>
<b>Profit from operations</b>			<b>1,982,585</b>	<b>7,196,284</b>	<b>(72)</b>
Share of results of equity accounted investee, net of tax	28	228	149,807	187,844	(20)
<b>Profit before tax</b>	21	216	<b>2,132,392</b>	<b>7,384,128</b>	<b>(71)</b>
Income tax reversal	22	217	1,111,450	-	100
<b>Profit for the year</b>			<b>3,243,842</b>	<b>7,384,128</b>	<b>(56)</b>
<b>Earnings per share</b>					
Basic (Rs.)	23	218	55.05	125.31	(56)
Diluted (Rs.)	23	218	55.05	125.31	(56)

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

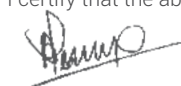
For the year ended 31 December			2018	2017	Change
	Note	Page	Rs. '000	Rs. '000	%
<b>Profit for the year</b>			3,243,842	7,384,128	(56)
<b>Other comprehensive income</b>					
<b>Items that will never be reclassified to profit or loss</b>					
Net gains on revaluation of land and buildings	26.1	223	-	539,365	
Share of net change in actuarial gains / (losses) on defined benefit plan of equity accounted investee, net of tax	28.1(a)	232	433	(2,291)	
Actuarial gains / (losses) on defined benefit plan	37.2(b)	245	6,643	(4,271)	
Related tax			3,555	-	
			10,631	532,803	(98)
<b>Items that are or may be reclassified to profit or loss</b>					
<b>Fair value reserve (available for sale financial assets)</b>					
Net change in fair value of available for sale financial assets	37.2(a)	245	(54,762)	80,850	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	28.1(a)	232	(15,583)	32,823	
Net change in fair value of available for sale financial assets transferred to the income statement			(11,729)	-	
Related tax			-	-	
			(82,074)	113,673	(172)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	37.2(a)	245	(416,275)	652,979	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement			35,479	23,666	
Related tax	37.2(a)	245	(35,959)	-	
			(416,755)	676,645	(162)
			(498,829)	790,318	(163)
<b>Other comprehensive income, net of tax</b>			(488,198)	1,323,121	(137)
<b>Total comprehensive income for the year, net of tax</b>			2,755,644	8,707,249	(68)

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

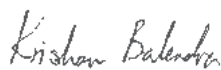
As at 31 December	Note	Page	2018 Rs. '000	2017 Rs. '000
<b>Assets</b>				
Intangible assets	25	219	1,392,191	212,817
Property, plant and equipment	26	221	2,082,990	2,000,716
Deferred tax assets	27	226	1,079,046	-
Investment in equity accounted investee	28	228	1,130,379	995,722
Financial investments, including derivatives	29	232	39,138,073	36,792,921
Loans to life policyholders	30	239	1,218,949	1,001,538
Reinsurance receivable	31	240	371,126	267,417
Premiums receivable	32	241	331,539	268,511
Receivables and other assets	33	241	1,675,601	947,239
Cash in hand and at bank	34	243	696,835	580,126
<b>Total assets</b>			<b>49,116,729</b>	<b>43,067,007</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	35	243	1,000,000	1,000,000
Restricted regulatory reserve	36	244	3,381,934	3,381,934
Reserves	37	244	1,663,960	2,144,728
Retained earnings	38	247	7,625,794	5,438,052
<b>Total equity</b>			<b>13,671,688</b>	<b>11,964,714</b>
<b>Liabilities</b>				
Insurance contract liabilities	39	247	30,599,881	26,949,613
Insurance contract liabilities - Unit Linked	40	253	1,501,271	2,121,609
Employee benefit liabilities	41	254	115,516	122,588
Reinsurance payables	42	255	669,314	345,146
Other liabilities	43	255	2,314,884	1,368,031
Bank overdraft	34	243	244,175	195,306
<b>Total liabilities</b>			<b>35,445,041</b>	<b>31,102,293</b>
<b>Total equity and liabilities</b>			<b>49,116,729</b>	<b>43,067,007</b>

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements. I certify that the above financial statements comply with the requirements of the Companies Act No. 07 of 2007.



**Asha Perera**  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements. Signed on behalf of the Board:



**K. N. J. Balendra**  
Chairman



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

# STATEMENT OF CHANGES IN EQUITY

Rs. '000	Note	Stated capital	Restricted regulatory reserve	Reserves			Retained earnings	Total	
				Revaluation reserve	Reserve on merger	Other reserves			
					Available for sale reserve	Other capital reserves			
<b>Balance as at 1 January 2017</b>		1,000,000	-	1,154,363	16,752	(376,875)	22,763	2,049,189	3,866,192
Profit for the year		-	-	-	-	-	-	7,384,128	7,384,128
<b>Other comprehensive income for the year, net of tax</b>									
Net change in fair value of available for sale financial assets	37.2(a)	-	-	-	-	80,850	-	-	80,850
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	37.2(a)	-	-	-	-	676,645	-	-	676,645
Revaluation gains on land and buildings	26.1	-	-	539,365	-	-	-	-	539,365
Actuarial loss on defined benefit plan	37.2(b)	-	-	-	-	-	(4,271)	-	(4,271)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	37.2(a)	-	-	-	-	32,823	-	-	32,823
Share of net change in actuarial losses on defined benefit plan of equity accounted investee, net of tax	37.2(b)	-	-	-	-	-	(2,291)	-	(2,291)
Tax on other comprehensive income		-	-	-	-	-	-	-	-
<b>Total other comprehensive income</b>		-	-	539,365	-	790,318	(6,562)	-	1,323,121
<b>Total comprehensive income for the year</b>		-	-	539,365	-	790,318	(6,562)	7,384,128	8,707,249
<b>Transactions with owners, transfers, recorded directly in equity</b>									
<b>Contributions and distributions</b>									
First and final dividend 2016	24.1	-	-	-	-	-	-	(618,750)	(618,750)
Share based payments	37.3	-	-	-	-	-	10,023	-	10,023
Transfer of one - off surplus	36	-	3,381,934	-	-	-	-	(3,381,934)	-
Transfer from revaluation reserve to retained earnings	26.11	-	-	(5,419)	-	-	-	5,419	-
<b>Total contributions and distributions</b>		-	3,381,934	(5,419)	-	-	10,023	(3,995,265)	(608,727)
<b>Balance as at 31 December 2017</b>		1,000,000	3,381,934	1,688,309	16,752	413,443	26,224	5,438,052	11,964,714

Rs. '000	Note	Stated capital	Restricted regulatory reserve	Reserves			Retained earnings	Total	
				Revaluation reserve	Reserve on merger	Other reserves Available for sale reserve Other capital reserves			
<b>Balance as at 1 January 2018</b>		1,000,000	3,381,934	1,688,309	16,752	413,443	26,224	5,438,052	11,964,714
Profit for the year		-	-	-	-	-	-	3,243,842	3,243,842
<b>Other comprehensive income for the year, net of tax</b>									
Net change in fair value of available for sale financial assets	37.2(a)	-	-	-	-	(66,491)	-	-	(66,491)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	37.2(a)	-	-	-	-	(380,796)	-	-	(380,796)
Actuarial gain on defined benefit plan	37.2(a)	-	-	-	-	-	6,643	-	6,643
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	37.2(a)	-	-	-	-	(15,583)	-	-	(15,583)
Share of net change in actuarial gain on defined benefit plan of equity accounted investee, net of tax	37.2(b)	-	-	-	-	-	433	-	433
Tax on other comprehensive income	37.1(b)/ 37.2(a) / 37.2(b)	-	-	7,042	-	(35,959)	(3,487)	-	(32,404)
<b>Total other comprehensive income</b>		-	-	7,042	-	(498,829)	3,589	-	(488,198)
<b>Total comprehensive income for the year</b>		-	-	7,042	-	(498,829)	3,589	3,243,842	2,755,644
<b>Transactions with owners, transfers, recorded directly in equity</b>									
<b>Contributions and distributions</b>									
First and final dividend 2017	24.1	-	-	-	-	-	-	(1,060,715)	(1,060,715)
Share based payments	37.3	-	-	-	-	-	12,045	-	12,045
Transfer from revaluation reserve to retained earnings	26.11	-	-	(4,615)	-	-	-	4,615	-
<b>Total contributions and distributions</b>		-	-	(4,615)	-	-	12,045	(1,056,100)	(1,048,670)
<b>Balance as at 31 December 2018</b>		1,000,000	3,381,934	1,690,736	16,752	(85,386)	41,858	7,625,794	13,671,688

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

For the year ended 31 December		2018	2017	
	Note	Page	Rs. '000	Rs. '000
<b>Cash flows from operations</b>				
Insurance premiums received			11,180,888	10,095,919
Reinsurance premiums paid			(392,273)	(361,208)
Insurance benefits and claims paid	16	214	(3,509,084)	(2,828,188)
Reinsurance claims received	16	214	158,484	154,455
Payments to intermediaries to acquire insurance contracts			(2,498,772)	(1,793,544)
Cash paid to and on behalf of employees			(1,031,559)	(925,873)
Interest received			3,559,184	2,990,027
Dividends received			95,803	121,026
Other operating cash flows			(2,366,805)	(2,139,507)
<b>Cash generated from operating activities</b>	Note A	181	<b>5,195,866</b>	<b>5,313,107</b>
Retiring gratuity paid	41.3	254	(25,705)	(12,408)
<b>Net cash flow from operating activities</b>			<b>5,170,161</b>	<b>5,300,699</b>
<b>Cash flows used in investing activities</b>				
Acquisition of investments			(26,186,414)	(30,401,850)
Maturity proceeds of investments			20,315,433	24,067,766
Proceeds from sale of investments			2,712,014	1,986,068
Acquisition of property, plant and equipment			(153,751)	(40,357)
Acquisition of intangible assets			(866,840)	(151,196)
Proceeds on sale of property, plant and equipment			1,298	36
<b>Net cash used in investing activities</b>			<b>(4,178,260)</b>	<b>(4,539,533)</b>
<b>Net cash inflow before financing activities</b>			<b>991,901</b>	<b>761,166</b>
<b>Cash flows used in financing activities</b>				
Dividends paid to equity holders of the company			(956,495)	(559,272)
Dividend tax paid			-	(23,699)
Obligation to repurchase securities			1,998,230	-
Settlement of obligation to repurchase securities			(1,998,230)	-
<b>Net cash used in financing activities</b>			<b>(956,495)</b>	<b>(582,971)</b>
<b>Net increase in cash and cash equivalents</b>			<b>35,406</b>	<b>178,195</b>
Cash and cash equivalents at the beginning of the year			417,254	239,059
<b>Cash and cash equivalents at the end of the year</b>	Note B	181	<b>452,660</b>	<b>417,254</b>

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements.

For the year ended 31 December		2018	2017
	Note	Page	Rs. '000
<b>NOTE A.</b>			
<b>Reconciliation of profit before taxation with cash from operating activities</b>			
Profit before tax			2,132,392
<b>Non - cash items included in profit before tax</b>			
Depreciation and amortisation	25.1 / 26.1	220 / 223	154,935
Provision for employee benefits	41.3	254	22,557
Provision for doubtful debts	33.2 (a)	242	2,847
Net realised gains	13	213	(123,474)
Net fair value (gains) / losses	14	213	803,075
(Gain) / losses on sale of property, plant and equipment	15	213	(759)
Amortisation of financial investments			(144,150)
Scrip dividend income			(57,151)
Share of results of equity accounted investee	28.1	231	(149,807)
Interest expense on obligation to repurchase securities			3,179
Share based payment expenses	37.3	247	12,045
<b>Profit before working capital changes</b>			<b>2,655,689</b>
<b>Net change in operational assets</b>			
Net change in reinsurance assets / liabilities			220,459
Net change in premiums receivable			(63,028)
Net change in receivables and other assets			(1,152,379)
<b>Net change in operational liabilities</b>			
Net change in life insurance contract liabilities			3,029,930
Net change in other liabilities			505,195
<b>Cash generated from operating activities</b>			<b>5,195,866</b>
<b>NOTE B.</b>			
<b>Cash and cash equivalents at the end of the year</b>			
Cash in hand and at bank			696,835
Bank overdraft			(244,175)
Short term deposits			-
<b>Cash and cash equivalents</b>			<b>452,660</b>

For the purpose of the cash flow statement, cash and cash equivalent consist of cash in hand & at bank and short - term deposits, net of outstanding bank overdraft as shown above.

The notes to the financial statements as set out on pages 182 to 261 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 CORPORATE INFORMATION

### Reporting Entity

Union Assurance PLC ('the Company') is a public limited liability Company incorporated and domiciled in Sri Lanka and the ordinary shares of the Company are listed on the Colombo Stock Exchange. The registered office and principal place of business of the Company is located at Union Assurance Centre, No. 20, St. Michael's Road, Colombo 03.

### Parent Entity and Ultimate Parent Entity

The Company's controlling entity and ultimate parent undertaking is John Keells Holdings PLC which is incorporated in Sri Lanka.

### Principal Activities and Nature of Operations

#### The Company

Union Assurance PLC is in the Life insurance business providing Life insurance solutions for both Individual and corporate customers. There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

#### Associate Company

Union Assurance General Limited (UAGL) and Fairfirst Insurance Limited (FIL) were amalgamated on 28 February 2017. Consequent to the above amalgamation, UAGL ceased to exist as a legal entity, and FIL was recognised as the continuing entity.

Accordingly, the Company's shareholding in UAGL was transferred to the amalgamated entity, Fairfirst Insurance Limited, and remains unchanged at 22% (2017 - 22%).

Fairfirst Insurance Limited is in the Non - Life insurance business and there were no significant change in the nature of the principal activity of the associate during the year.

#### Number of Employees

The staff strength of the Company as at 31 December 2018 is 614 (2017 - 529).

#### Financial Statements

The financial statements for the year ended 31 December 2018, comprise of the Company and the results of the equity accounted investee. The results of equity accounted investee of the Company, Fairfirst Insurance Limited has been presented in the financial statements in accordance with LKAS 27.

### Approval of Financial Statements

The financial statements for the year ended 31 December 2018 were authorised for issue by the Directors on 27 February 2019.

### Responsibility for Financial Statements

The responsibility of the Board of Directors in relation to the financial statements is set out in the Statement of Directors' Responsibility report in the annual report.

### Statement of Compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs / LKASs) as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act No. 07 of 2007, Regulation of Insurance Industry (RII) Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

These financial statements include the following components:

- ▶ an Income Statement and Statement of Profit or Loss and Other Comprehensive Income providing information on the financial performance of the Company for the year under review; (Refer pages 175 and 176)
- ▶ a Statement of Financial Position providing information on the financial position of the Company as at the year end; (Refer page 177)
- ▶ a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company; (Refer pages 178 and 179)
- ▶ a Statement of Cash Flows providing information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 180 and 181)
- ▶ Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 182 to 261)

The Company has opted to defer full application of SLFRS 9 - Financial Instruments, until the earlier of 2022 or adopting the SLFRS 17 - Insurance Contracts, exercising the temporary exemption provided to an insurer. (Refer Note 5.1).

## 2 BASIS OF ACCOUNTING

### Basis of Measurement

These financial statements have been prepared on an accruals basis and under the historical cost convention except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.	Page reference
Non - derivative financial assets			
at fair value through profit or loss	Fair value	9	205
Derivative financial instruments	Fair value	9	205
Available for sale financial assets	Fair value	9	205
Financial assets - Unit linked	Fair value	9	205
Freehold land and buildings	Fair value	26.7	224
Insurance contract liabilities	Actuarially valued in line with the guidelines issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL)	39	247
Net defined benefit liabilities	Actuarially valued and recognised at present value	41	254

No adjustments have been made for inflationary factors affecting the financial statements.

### Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (LKR), which is the primary economic environment in which the Company operates and is also the Functional Currency.

There was no change in the Company's Presentation and Functional Currency during the year under review.

All values presented in rupees have been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

### Materiality and Aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 - Presentation of financial statements.

### Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### Supplementary Statements - Statement of Financial Position of the Life Insurance Fund

Supplementary statement of financial position of the Life insurance fund together with the notes are disclosed in pages 280 to 284, continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for insurance contracts then applicable, adopted by the ICASL.

### Comparative Information

The presentation and classification of assets and liabilities in the financial statements of the previous year have been amended, where relevant for better presentation and to be comparable with those of the current year.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

## NOTES TO THE FINANCIAL STATEMENTS

- 3.1 Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

Critical Judgements	Note No.	Page reference
Classification of financial assets	9	205
Classification of insurance, reinsurance and investment contracts: assessing whether the contract transfers significant insurance risk and whether an insurance contract contains direct participation features	39	247
Equity accounted investee : whether the Company has significant influence over an investee	28	228
Measurement of insurance and reinsurance contracts : determining the techniques for estimating risk adjustments for non-financial risk and the quantity of benefits provided under a contract	39	247

- 3.2 Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities is included in the following notes:

Critical Accounting Estimates	Note No.	Page reference
Impairment of financial assets	9	205
Determination of the fair value of financial instruments and investments and owner occupied properties with significant unobservable inputs	26	221
Measurement of defined benefit obligations: key actuarial assumptions	41	254
Recognition and measurement of provisions and contingencies: key assumptions on the likelihood and magnitude of an outflow of resources	47	260
Recognition of deferred tax assets and notional tax credits: availability of future taxable profits against which tax losses carried forward and notional tax credits can be used	27/12	226/211
Impairment of non financial assets: key assumptions underlying recoverable amounts	6	186
Measuring insurance and reinsurance contracts: key assumptions	39	247
Liability Adequacy Test	39	247
Measurement of GWP accrual adjustment	10	210
Valuation of derivative financial instruments	9	205
Revaluation of land and buildings	26	221

#### 4 OPERATING SEGMENTS

For management purposes the Company has only one business segment, which is the life insurance business. All operating results are reviewed regularly by the Chief Executive Officer (CEO) and corporate management to make decisions regarding resource allocation and assess its performance, and for which financial information is available.

#### 5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards have been issued and are effective for annual periods beginning after 1 January 2019.

Accordingly, these standards have not been applied to these financial statements.

##### 5.1 SLFRS 9 - Financial Instruments and SLFRS 17 - Insurance Contracts

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018. It replaces LKAS 39 - Financial Instruments: Recognition and Measurement.

Based on the proposed amendments to SLFRS 4 - Insurance contracts (to be replaced by SLFRS 17), the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until the earlier of 2022 or adoption of SLFRS 17, which is currently expected to commence in 2022.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss.
- its activities are predominantly connected with insurance, as its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date.

##### Disclosures on Qualifying for the Temporary Exemptions

Based on the proposed SLFRS 17 - Insurance Contracts, the Company is permitted to apply the temporary exemption as the Company meets the following eligibility criteria:

- The Company has not applied SLFRS 9 before; and
- The Company's activities are predominantly connected with insurance as the ratio of its liabilities connected with insurance, including investment contracts measured at fair value through profit or loss, compared with total liabilities is greater than 90%. Accordingly, the Company qualifies as a pure insurance company.

As at 31 December	2018 Rs. '000	2017 Rs. '000
Insurance contract liabilities	30,599,881	26,949,613
Insurance contract liabilities - Unit Link	1,501,271	2,121,609
Reinsurance payables	669,314	345,146
<b>Liabilities connected with insurance</b>	<b>32,770,466</b>	<b>29,416,368</b>
<b>Total liabilities</b>	<b>35,445,041</b>	<b>31,102,293</b>
Predominance ratio	92%	95%

## Disclosures to Provide Comparability

### Business Model Assessment

The Company will make an assessment of the objective of the business model when a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

### i. Classification - Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, Fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). It replaces the existing four categories under LKAS 39 of held to maturity (HTM), loans and receivables (L&R), fair value through profit or loss (FVTPL) and available for sale (AFS).

The table below provides an initial assessment made by the Company on its financial assets portfolio:

Financial assets that meet the Solely Payment of Principal and Interest (SPPI) Test (excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instrument	Current classification	Credit risk grading	Carrying value under LKAS 39 Rs.'000	Fair value Rs. '000	Classification under SLFRS 9
Treasury bond	HTM	N/A	19,044,788	18,212,403	Amortised cost
Bank Deposit	L & R	AA-	757,417	757,417	Amortised cost
Reverse repurchase agreements	L & R	N/A	808,398	808,398	Amortised cost
Debenture	HTM / L & R	Please refer Note 29.3 (a) & 29.4 (a)	6,295,304	6,208,711	Amortised cost

All other financial assets (that meet the definition of held for trading or managed and evaluated on a fair value basis)

Instrument	Current classification	Carrying value under LKAS 39 Rs.'000	Fair value Rs. '000	Classification under SLFRS 9
Equity shares	FVTPL	3,297,029	3,297,029	FVTPL
Treasury bond	AFS / FVTPL	8,616,106	8,616,106	FVTOCI / FVTPL
Treasury bill	AFS / FVTPL	115,202	115,202	FVTOCI / FVTPL

### Impact Assessment

The standard will affect the classification and measurement of financial assets held, as follows;

- Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at fair value under LKAS 39, will also be measured at fair value under SLFRS 9.
- Loans and receivables measured at amortised cost under LKAS 39 will also be measured at amortised cost under SLFRS 9.
- Held to maturity investment securities measured at amortised cost under LKAS 39 will be measured at amortised cost under SLFRS 9.
- Debt investment securities that are classified as available for sale under LKAS 39 may, under SLFRS 9, be classified

## NOTES TO THE FINANCIAL STATEMENTS

under FVOCI or amortised cost and measured at fair value / amortised cost depending on the particular circumstance.

- ▶ The majority of the equity investment securities that are classified as available for sale under LKAS 39 will be classified under FVTOCI and measured at fair value under SLFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as FVTOCI on initial recognition, and measured at fair value.

### ii. Impairment - Financial Assets, Loan Commitments and Financial Guarantee Contracts

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with a forward looking 'expected credit loss' model. This will be required considerable judgement over how changes in economic factors affect Expected Credit Loss (ECL), which will be determined on a probability weighted basis.

The new impairment model applies to financial assets that are debt instruments, that are not measured at FVTPL.

SLFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

### 5.2 SLFRs 16 Leases - Effective from 1 January 2019

The Company is required to adopt SLFRS 16 Leases from 1 January 2019. The Company has assessed the estimated impact the initial application of SLFRS 16 will have on its financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because, the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognised a right-of-use asset representing its right to use the underlying assets and lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard \_ i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16, replace existing leasing guidance, including LKAS 17 lease, IFRIC 4 Determining whether an arrangement contains a lease, SIC -15 Operating leases \_ Incentives and SIC-27 Evaluating the Substance of transactions involving the legal form of a lease.

### i. Lease in which the Company is a lessee

The Company will recognised new assets and liabilities for its operating leases of branches. The nature of expenses related to those leases will not change because the Company will recognised a depreciation charge for the right-of-use assets and interest expenses on lease liabilities.

Previously, the Company recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expenses recognised.

In addition, the Company will no longer recognised provisions for operating leases that it assessed to be onerous. Instead, the Company will include the payments due under the lease in its lease liability. No significant impact is expected for the Company's finance leases.

Based on the information currently available, the Company estimates that it will recognised additional lease liabilities of Rs.230Mn as at 1 January 2019.

### ii. Leases in which the Company is a lessor

The Company will reassess the classification of sub-leases in which the Company is a lessor.

No significant impact is expected for leases in which the Group is a lessor.

### iii. Transition

The Company plans to apply SLFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019, without no restatements of comparative information.

## 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these financial statements. The accounting policies are presented along with the respective notes.

### 6.1 Changes in significant accounting policies

The Company has initially applied SLFRS 15 from 1 January 2018. A number of other standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

**SLFRS 15 Revenue from Contracts with Customers**

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control- at a point in time or over time- requires judgement.

The adoption of SLFRS 15 does not have a significant effect on the Company's Financial Statements.

**6.2 Set out below is an index of the significant policies;**

Note	Significant Accounting Policies	Page
6.1	Impairment of non financial assets	186
6.1	Foreign currency transactions and balances	186
7	Financial risk management	186
8	Fair value measurement and related fair value disclosures	202
9	Financial assets and liabilities	205
10	Gross written premium	210
11	Premium ceded to reinsurers	211
12	Net investment income	211
13	Net realised gains	213
14	Net fair value gains / (losses)	213
15	Other income	213
16	Net insurance benefits and claims paid	214
17	Net change in insurance claims outstanding	214
18	Change in contract liabilities	215
19	Underwriting and net acquisition costs	216
20	Other operating, administrative and selling expenses	216
22	Income tax expenses	217
23	Earnings per share	218
24	Dividends per share	219
25	Intangible assets	219
26	Property, plant and equipment / leases	221
28	Investment in equity accounted investee	228
29	Financial investments (including derivatives)	232
30	Loans to life policyholders	239
31	Reinsurance receivable	240
32	Premiums receivable	241
33	Receivables and other assets	241
34	Cash and cash equivalents	243
35	Stated capital	243
39	Insurance contract liabilities	247
40	Insurance contract liabilities - unit linked	253
41	Employee benefits liabilities	254
42	Reinsurance payables	255
46	Events after the reporting date	260
47	Provisions and contingencies	260

**Other Significant Accounting Policies Not Covered With Individual Notes**

Following accounting policies which have been applied consistently by the Company, are considered to be significant but are not covered in any other section.

**Impairment on Non Financial Assets**

The carrying amounts of the Company's non financial assets (other than insurance and reinsurance contract assets, deferred tax assets and employee benefit assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Foreign Currency Transactions and Balances**

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected.

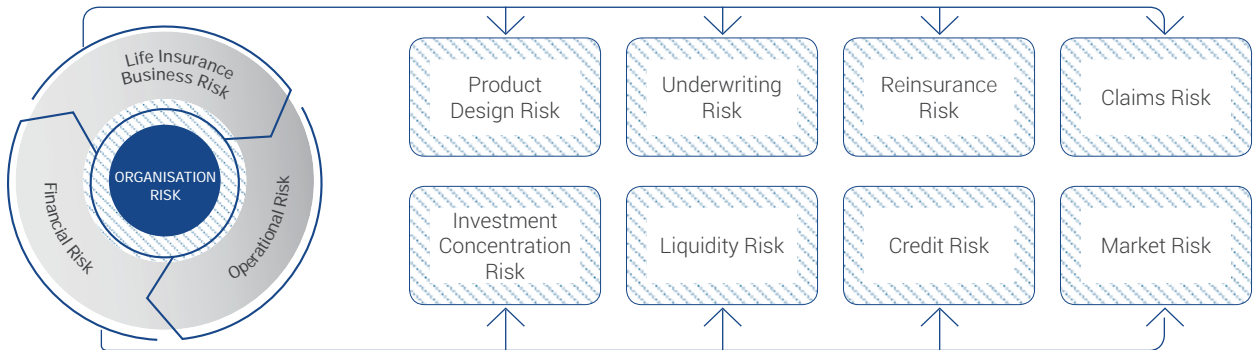
Monetary assets and liabilities denominated in foreign currency are re-translated to functional currency equivalents at the spot exchange rate prevailing at the reporting date.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The gain or loss arising on translation of non monetary items is treated in line with the recognition of gain or loss on fair value of the item.

**7 FINANCIAL RISK MANAGEMENT**

The following presents the risks that the Company considers in Risk Management. This note presents information about the Company's exposure to each of the stated risks, the Company's objectives, policies and processes for measuring and managing such risks.

# NOTES TO THE FINANCIAL STATEMENTS



### Risk Management Framework

Primary objective of the Company's business and financial risk management framework is to protect the Company's shareholders from events that could hinder the sustainable delivery of financial objectives. The risk management process comprises the identification and evaluation of existing and potential risks associated with the Company's operations and strategy, followed by appropriate management responses such as tolerance, mitigation, transfer, avoidance, termination or a combination of such responses.

The Company's Board of Directors (the Board) has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risk faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits.

The Board has delegated the responsibility to design, implement and monitor the risk management plan to the Risk Committee comprising the senior management. The management ensures effective management of risk through continuous and regular measurement and reports the Company's risk management performance to the Board Audit and Compliance Committee (BACC) which in turn updates the Board.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Financial risk management can be qualitative and quantitative. As a specialisation of risk management, financial risk management focuses on when and how to use financial instruments to manage costly exposures.

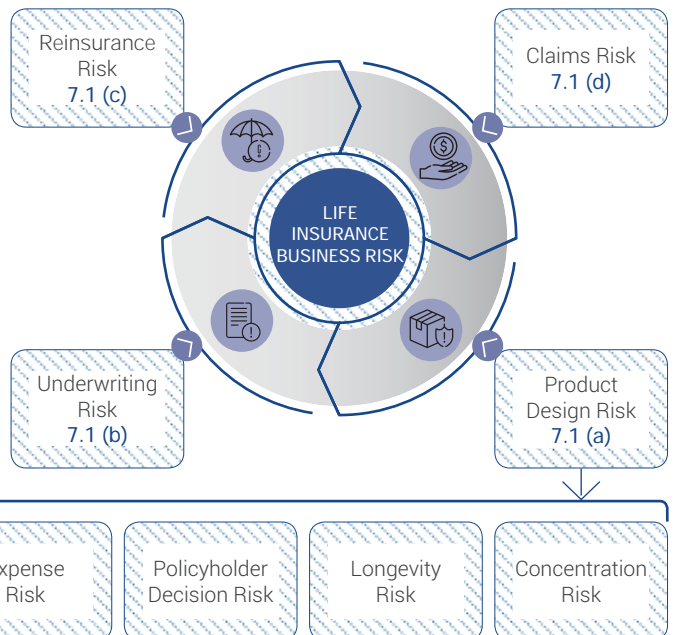
Details of our risk management framework, objectives and regulatory framework is provided under Corporate Governance and Enterprise Risk Management section.

### Regulatory Framework

The Insurance Regulatory Commission of Sri Lanka (IRCSL) safeguards policyholders through supervisory control of insurance companies in line with the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments. All insurance companies need to comply with rules with respect to the solvency position and the determination requirements to ensure the Company maintains appropriate level of admissible and approved investments in excess of liabilities to meet risks arising from unforeseen events. Further the Company is in compliance with the Risk Based Capital (RBC) requirement as per IRCSL. The Company has adequate Total Available Capital (TAC) in policyholder's and shareholder's funds collectively, to support the Risk based Capital Required (RCR).

The operations of the Company are also subject to oversight by various other regulators such as the Securities and Exchange Commission of Sri Lanka (SEC), the Colombo Stock Exchange (CSE), the Central Bank of Sri Lanka (CBSL), the Department of Inland Revenue, etc. The Company is also regulated by the Companies Act No. 7 of 2007.

### 7.1 Business Risk



### Business Risk - Life Insurance Risk

The Company being in the insurance industry, life insurance business risk is the risk that the Company is exposed to as a result of the insurance contracts undertaken. Insurance risk is the inherent uncertainty regarding the occurrence, amount or timing of insurance liabilities.

#### Risk Response

The objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The risk exposure is mitigated by;

- ▶ Diversification across a large portfolio of insurance contracts and geographical spread.
- ▶ Careful selection and implementation of underwriting guidelines.
- ▶ The use of reinsurance arrangements.

Risk management procedures adopted by the Company to manage insurance risk is given on pages 150 to 157.

### Traditional Life Insurance

Life insurance is a contractual agreement between a policyholder and a life insurance Company. Policyholders agree to make premium payments to the Company, and the Company agrees to pay beneficiaries a sum of money if the policyholder dies or an insured event occurred.

Traditional life insurance products include protection and annuity covers. Protection products carry product designing, underwriting, claims and reinsurance risk.

#### 7.1 (a) Product Design Risk

Life insurance product design largely depends on futuristic hypothetical assumptions. Accordingly there is a risk of introducing unprofitable products to the market due to inappropriate use of assumptions or judgements. The fundamental assumptions used in product development are explained below.

Risk	Description	Assumptions used / risk response
Mortality risk	Risk of loss arising due to policyholders death experience being different from expected	Use of standard mortality tables with adjustments to reflect the Company's mortality experience.
Morbidity risk	Risk of loss arising due to policyholders health experience being different from expected	Assumptions are based on reinsurance tables, adjustments made when appropriate to reflect the Company's own risk experience.
Investment return risk	Risk of loss arising from actual returns being different from expected	The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the long term asset allocation strategy.
Expense risk	Risk of loss arising from the expense experience being different from expected	Operating expense assumptions reflect the projected costs of maintaining and servicing in _ force policies and associated overhead expenses.
Policyholder decision risk	Risk of loss arising due to policyholders experiences (lapses and surrenders) being different from expected	Lapse and surrender rates are projected according to the Company's past experience.
Longevity Risk	Risk of loss arising due to the annuitant living longer than expected	Terms and conditions included in insurance applications have been designed to address non standard and unpredictable risks.
Concentration risk	Risk of losses due to not maintaining a balanced product portfolio	Developing a proper product mix in line with Company strategy.

## NOTES TO THE FINANCIAL STATEMENTS

### Overall Risk Mitigation Approach in Traditional Life Insurance

Product	Key risks	Risk mitigation
Traditional participating	<ul style="list-style-type: none"> <li>▶ Market risk: Investment return on underlying items falling below guaranteed minimum rates</li> <li>▶ Policyholder behaviour risk</li> </ul>	<ul style="list-style-type: none"> <li>▶ Management discretion to determine amount and timing of policyholder bonuses (within limits)</li> <li>▶ Surrender penalties</li> </ul>
Non Participating	<ul style="list-style-type: none"> <li>▶ Market risk: Insufficient fees to cover cost of guarantees and expenses</li> <li>▶ Policyholder behaviour risk</li> </ul>	<ul style="list-style-type: none"> <li>▶ Derivative hedging programme</li> <li>▶ Surrender penalties</li> </ul>
Universal life	<ul style="list-style-type: none"> <li>▶ Interest rate risk: Differences in duration and yield of assets and liabilities</li> <li>▶ Investment credit risk</li> </ul>	<ul style="list-style-type: none"> <li>▶ Matching of asset and liability cash flows</li> <li>▶ Investing in investment grade assets</li> </ul>
Unit linked product	<ul style="list-style-type: none"> <li>▶ Market risk: Insufficient fees to cover expenses</li> <li>▶ Policyholder behaviour risk</li> </ul>	<ul style="list-style-type: none"> <li>▶ Surrender penalties</li> </ul>

### Unit Linked Products

Unit linked products have been designed in order to reduce much of the market and credit risks associated with traditional products. It is a type of insurance vehicle in which the policyholder purchases units at their net asset values and also makes contributions toward another investment vehicle. Unit linked insurance plans allow for the coverage of an insurance policy.

Under unit linked contracts, risks are largely passed on to the policyholder, although a portion of the Company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease.

Unit linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are minimised by explicit mortality and morbidity charges.

### Participating Fund vs Non-Participating Fund

The following table shows the concentration of the Participating and Non Participating funds position of the Company.

As at 31 December Type of contract	2018		2017	
	Rs. '000	%	Rs. '000	%
Participating	10,107,525	33	10,427,564	39
Non Participating	20,449,795	67	16,484,493	61
<b>Total traditional</b>	<b>30,557,320</b>	<b>100</b>	<b>26,912,057</b>	<b>100</b>
Non unit fund of linked insurance	42,561		37,556	
<b>Total value of insurance liabilities</b>	<b>30,599,881</b>		<b>26,949,613</b>	

The table below presents the sensitivity of the value of insurance liabilities to movements in the key assumptions used in the estimation of insurance liabilities with other assumptions held constant. For liabilities under life insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No adjustments were required in 2018 or 2017, based on the results of the liability adequacy test.

Assumption	Change %	Impact on liabilities %		Impact on liabilities Rs. '000	
		2018	2017	2018	2017
Mortality	+10	0.20	0.34	47,982	60,092
	-10	(0.20)	(0.34)	(48,273)	(60,237)
Discount rate	+1	(1.29)	(1.56)	(315,744)	(348,476)
	-1	1.37	1.67	334,457	373,811

**7.1 (b) Underwriting Risk**

Underwriting risk arise from an inaccurate assessment of the risks entailed in writing an insurance policy. As a result, the policy may cost the insurer much more than it has earned in premiums.

**Risk Response**

- ▶ Validation of policyholder data before underwriting. Accordingly, policyholder undergoes a medical test at Company's expense
- ▶ Appropriate training is provided to insurance advisors.
- ▶ Use of common pricing policy.

**7.1 (c) Reinsurance Risk**

Notwithstanding the advantages reinsurance provide, it can expose them at varying degrees to various risks inherent in its use. A new or continuing reinsurance contract could give rise to one or more of the following risks:

- ▶ Residual insurance risk may arise from discrepancies between reinsurance needs and the actual coverage provided for in the contract, resulting in the insurer retaining greater risk than anticipated.
- ▶ Legal risk may arise when the terms of the contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced;
- ▶ Counterparty risk may result from the inability or potential refusal of the reinsurer, or a stakeholder in the case of an alternative risk transfer mechanism, to honour its obligations towards the ceding insurer
- ▶ Liquidity risk may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable.
- ▶ Operational risk may result from inadequate contractual arrangements or from insufficient technological or administrative capacity to manage and collect sums owed by reinsurers

**Risk Response**

- ▶ Reinsurance is placed in line with policy guidelines approved by the Board of Directors on an annual basis based on the guidelines issued by the IRCSL.
- ▶ Management assesses the credit worthiness of reinsurers on a regular basis to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

The Company reinsures approximately 5% - 6% of gross written premium.

For the year ended 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Gross Written premium	11,243,915		10,117,630	
Reinsurance	(716,441)	6	(497,612)	5
<b>Net Written Premium</b>	<b>10,527,474</b>		<b>9,620,018</b>	

The Company has recovered approximately 5% of gross claims from reinsurers during the period under review.

For the year ended 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Gross claims paid	3,509,084		2,828,188	
Claims recovered from reinsurers	(158,484)	5	(154,455)	5
<b>Net claims</b>	<b>3,350,600</b>		<b>2,673,733</b>	

**7.1 (d) Claims Risk**

The possibility of adverse variance in claim pattern of the product which is not expected at the product development stage.

**Risk Response**

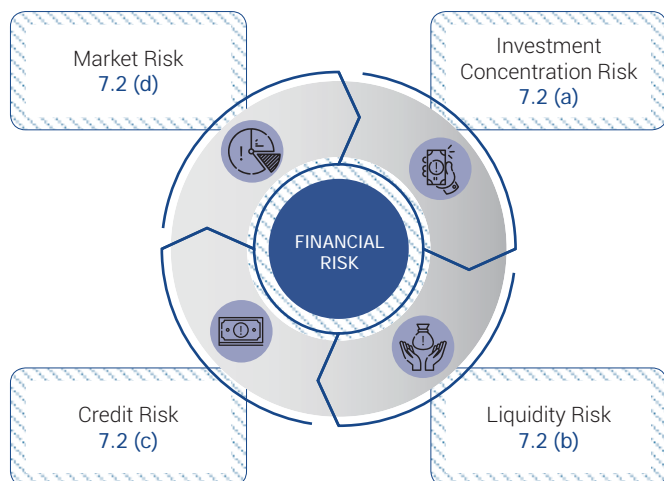
- ▶ Obtaining adequate reinsurance cover.
- ▶ Adequate information is gathered to confirm the event occurred prior to processing the claim.
- ▶ In-house actuarial department closely monitors claim reserves.

**7.2 Financial Risk**

Financial risk is the probability of loss inherent in financing methods which may impair the ability to provide adequate returns. The Company is exposed to a range of financial risks through financial assets and financial liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

Financial risks can be categorised as follows;



### 7.2 (a) Investment Concentration Risk

Investment concentration risk is the risk that an investor will suffer from lack of diversification, investing too heavily in one industry, one geographic area or one type of security. It may also be defined as the risk of loss due to over exposure to one investment, asset class, risk factor, etc.

#### Risk Response

- ▶ The Investment Committee (IC) sets an overall asset allocation target at the start of the year. The decision is based on a number of factors including an analysis of the macroeconomic environment, regulatory requirements, liquidity position and return expectations during the plan period.
- ▶ The IC sets sectorial asset allocation limits for equity investments as well as related party exposure limits.
- ▶ The Company limits the maximum cash amount that can be deposited with a single counterparty.

The above is based on the approved investment policy of the Company. Investment concentration related to financial investments is given below;

As at 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Government securities and related institutions	28,456,819	75	26,704,668	77
Corporate debt securities	6,295,304	17	4,916,292	14
Fixed deposits	757,417	2	647,447	2
Investment in quoted equity	2,129,129	6	2,344,572	7
Derivative financial instruments	-	-	50,737	-
<b>Total</b>	<b>37,638,669</b>	<b>100</b>	<b>34,663,716</b>	<b>100</b>

#### Government Securities and Related Institutions

This includes investments made in treasury bills, treasury bonds, and reverse repurchase agreements.

#### Corporate Debt Securities

The Company has predominantly invested in Banking, finance and insurance sectors for which the Company believes, the credit risk and market risk is low.

As at 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	5,580,976	89	4,723,242	96
Diversified Holdings	509,253	8	146,307	3
Telecommunication	205,075	3	-	-
Beverage, Food and Tobacco	-	-	46,743	1
<b>Total</b>	<b>6,295,304</b>	<b>100</b>	<b>4,916,292</b>	<b>100</b>

#### Fixed Deposits

This includes investments made in fixed deposits issued by DFCC Bank PLC and Seylan Bank PLC.

#### Investment in Quoted Equity

Considering the market return and risk, the Company has predominantly invested in Banking, Finance and Insurance sectors and regularly reviews market risk of the portfolio to assess adequacy of diversification.

As at 31 December Sector	2018		2017	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	1,611,644	77	1,729,058	74
Diversified Holdings	260,307	12	218,137	9
Manufacturing	197,931	9	306,107	13
Construction and Engineering	41,817	2	69,695	3
Motors	7,578	-	10,810	1
Hotels and Travels	9,852	-	10,765	-
<b>Total</b>	<b>2,129,129</b>	<b>100</b>	<b>2,344,572</b>	<b>100</b>

### 7.2 (b) Liquidity Risk

Liquidity risk is the risk, that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic / unexpected large claim events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

#### Risk Response

- ▶ The Investment Committee manages this risk by diversifying investment durations and reviewing cash flow projections regularly.
- ▶ Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure availability of sufficient funding to meet insurance and investment contract obligations.
- ▶ Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.
- ▶ Availability of stand by overdraft facility to be used only in the event of an emergency.
- ▶ Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
- ▶ Maintaining sufficient cash balances, overnight investments and other short tenure investments to accommodate expected obligations and commitments of the Company.

Excess liquidity position of the Company excluding insurance contract liabilities is given below;

As at 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Up to one year	9,169,329	13	7,229,190	11
1 - 5 Years	24,409,476	34	23,303,309	36
Over 5 years	36,310,870	50	31,707,547	49
No maturity	2,129,129	3	2,344,572	4
	<b>72,018,804</b>	<b>100</b>	<b>64,584,618</b>	<b>100</b>



For reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Unit linked liabilities are repayable or transferable on demand and are included as 'current' repayments.

## NOTES TO THE FINANCIAL STATEMENTS

The table below summarises the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

As at December 2018 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
<b>Financial assets</b>						
Held to maturity	19,261,339	-	4,063,284	10,478,131	29,082,121	43,623,537
Loans and receivables	7,644,568	-	3,009,028	5,714,115	2,032,952	10,756,094
Available for sale	8,603,633	-	1,909,715	7,054,079	4,979,517	13,943,311
Fair value through profit or loss	2,129,129	2,129,129	-	-	-	2,129,129
Other financial assets	608,830	-	229,735	418,339	145,721	793,795
Loans to life policyholders	1,218,949	-	504,684	643,706	70,559	1,218,949
Reinsurance receivable	371,126	-	270,020	101,106	-	371,126
Premiums receivable	331,539	-	331,539	-	-	331,539
Cash in hand and at bank	696,835	-	696,835	-	-	696,835
<b>Total undiscounted assets</b>	<b>40,865,948</b>	<b>2,129,129</b>	<b>11,014,840</b>	<b>24,409,476</b>	<b>36,310,870</b>	<b>73,864,315</b>
<b>Financial liabilities</b>						
Reinsurance payables	669,314	-	669,314	-	-	669,314
Other financial liabilities	932,022	-	932,022	-	-	932,022
Bank overdraft	244,175	-	244,175	-	-	244,175
<b>Total undiscounted liabilities</b>	<b>1,845,511</b>	<b>-</b>	<b>1,845,511</b>	<b>-</b>	<b>-</b>	<b>1,845,511</b>
<b>Total excess liquidity</b>	<b>39,020,437</b>	<b>2,129,129</b>	<b>9,169,329</b>	<b>24,409,476</b>	<b>36,310,870</b>	<b>72,018,804</b>

As at December 2017 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
<b>Financial assets</b>						
Held to maturity	18,319,379	-	4,068,090	11,037,738	26,124,171	41,229,999
Loans and receivables	5,883,031	-	1,715,672	5,086,501	-	6,802,173
Available for sale	8,065,997	-	1,182,908	6,718,074	4,892,838	12,793,820
Fair value through profit or loss	2,395,309	2,344,572	50,737	-	-	2,395,309
Other financial assets	361,181	-	135,110	195,971	94,837	425,918
Loans to life policyholders	1,001,538	-	140,812	265,025	595,701	1,001,538
Reinsurance receivable	267,417	-	267,417	-	-	267,417
Premiums receivable	268,511	-	268,511	-	-	268,511
Cash in hand and at bank	580,126	-	580,126	-	-	580,126
<b>Total undiscounted assets</b>	<b>37,142,489</b>	<b>2,344,572</b>	<b>8,409,383</b>	<b>23,303,309</b>	<b>31,707,547</b>	<b>65,764,811</b>
<b>Financial liabilities</b>						
Reinsurance payables	345,146	-	345,146	-	-	345,146
Other financial liabilities	639,741	-	639,741	-	-	639,741
Bank overdraft	195,306	-	195,306	-	-	195,306
<b>Total undiscounted liabilities</b>	<b>1,180,193</b>	<b>-</b>	<b>1,180,193</b>	<b>-</b>	<b>-</b>	<b>1,180,193</b>
<b>Total excess liquidity</b>	<b>35,962,296</b>	<b>2,344,572</b>	<b>7,229,190</b>	<b>23,303,309</b>	<b>31,707,547</b>	<b>64,584,618</b>

The table below sets out the availability of the company's financial assets to support future funding.

As at 31 December Unencumbered Rs.'000	2018			2017		
	Restricted as collateral	Available as collateral	Total	Restricted as collateral	Available as collateral	Total
Held to maturity	15,517,649	3,743,690	19,261,339	17,727,184	592,195	18,319,379
Loans and receivables	7,572,228	72,340	7,644,568	5,806,251	76,780	5,883,031
Available for sale	4,306,043	4,297,590	8,603,633	6,538,609	1,527,388	8,065,997
Fair value through profit or loss	3,628,533	-	3,628,533	4,524,514	-	4,524,514
Loans to life policyholders	1,218,949	-	1,218,949	1,001,538	-	1,001,538
Reinsurance receivable	371,126	-	371,126	267,417	-	267,417
Premiums receivable	331,539	-	331,539	268,511	-	268,511
Other financial assets	324,642	284,188	608,830	125,230	235,951	361,181
Cash in hand and at bank	682,430	14,405	696,835	580,120	6	580,126
<b>Total</b>	<b>33,953,139</b>	<b>8,412,213</b>	<b>42,365,352</b>	<b>36,839,374</b>	<b>2,432,320</b>	<b>39,271,694</b>

Assets restricted as collateral represents the assets owned by the policyholders of the Company.

Financial assets pledged as collateral represents the assets owned by the shareholders of the Company. There were no financial assets pledged as collateral during the year ended 31 December 2018.

## 7.2 (c) Credit Risk

Credit risk is the risk associated with a loss or potential loss from counterparties failing to fulfil their financial obligations.

The Company's exposure to credit risk is derived from the following main categories of assets and the analysis of maximum credit exposure is given below.

As at 31 December Risk element	2018		2017	
	Rs. '000	%	Rs. '000	%
Financial investments	35,509,540	92	32,268,407	92
Loans to life policyholders and others	1,716,121	4	1,305,579	4
Amounts due from related parties	22,290	-	11,954	-
Reinsurance receivable	371,126	1	267,417	1
Premiums receivable	331,539	1	268,511	1
Cash in hand and at bank	696,835	2	580,126	2
<b>Total</b>	<b>38,647,451</b>	<b>100</b>	<b>34,701,994</b>	<b>100</b>

## Credit Risk Related to Financial Investments

The Company is exposed to credit risk from counterparties where the Company holds securities issued by those entities.

### Risk Response

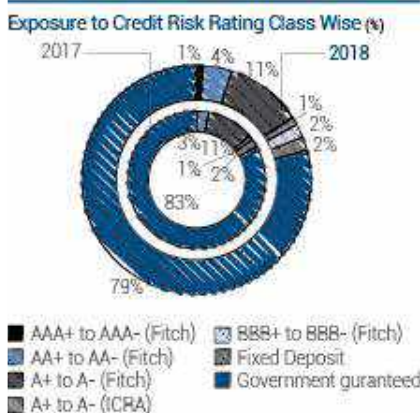
- ▶ The company's investment policy prohibits non-graded investments, unless specifically authorised.
- ▶ Appropriate actions are implemented when the Company identifies investments that are expected to be downgraded.
- ▶ The Company identifies and selectively reduces unsecured and subordinated credit exposure issued by 3rd parties with weak credit profiles.
- ▶ Structured finance exposures are assessed on a look through basis prior to acquisition and not merely on the strength of prevailing credit ratings or credit profiles.

The Company actively manages its investment portfolio to ensure that there is no significant concentration of credit risk. The Company monitors concentration of credit risk by sector and instrument. An analysis of concentration of credit risk and credit quality of financial investments are shown below.

## NOTES TO THE FINANCIAL STATEMENTS

As at December 2018 Rs. '000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Total	%
<b>Maximum exposure to credit risk, carrying amount</b>	19,261,339	7,644,568	8,603,633	-	35,509,540	
<b>Government securities and related institutions</b>						
Treasury Bonds	19,044,788	-	8,573,954	-	27,618,742	77
Treasury Bills	-	-	29,679	-	29,679	-
Reverse Repo	-	808,398	-	-	808,398	2
<b>Corporate debt securities</b>						
AAA+ to AAA - (Fitch)	-	205,075	-	-	205,075	1
AA+ to AA - (Fitch)	-	1,281,272	-	-	1,281,272	4
A+ to A- (Fitch)	216,551	3,592,512	-	-	3,809,063	11
A+ to A- (ICRA)	-	204,125	-	-	204,125	1
BBB+ to BBB- (Fitch)	-	795,769	-	-	795,769	2
<b>Fixed deposits</b>						
Deposit with Licensed Commercial Banks	-	757,417	-	-	757,417	2
<b>Total</b>	19,261,339	7,644,568	8,603,633	-	35,509,540	100
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	
Impaired	Nil	Nil	Nil	Nil	Nil	

As at December 2017 Rs. '000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Total	%
<b>Maximum exposure to credit risk, carrying amount</b>	18,319,379	5,883,031	8,065,997	-	32,268,407	
<b>Government securities and related institutions</b>						
Treasury Bonds	18,028,394	-	7,900,165	-	25,928,559	80
Treasury Bills	-	-	165,832	-	165,832	1
Reverse Repo	-	610,277	-	-	610,277	2
<b>Corporate debt securities</b>						
AA+ to AA - (Fitch)	74,395	863,559	-	-	937,954	3
A+ to A- (Fitch)	216,590	3,329,240	-	-	3,545,830	11
A+ to A- (ICRA)	-	255,821	-	-	255,821	1
BBB+ to BBB- (Fitch)	-	176,687	-	-	176,687	-
<b>Fixed deposits</b>						
Deposit with Licensed Commercial Banks	-	647,447	-	-	647,447	2
<b>Total</b>	18,319,379	5,883,031	8,065,997	-	32,268,407	100
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	
Impaired	Nil	Nil	Nil	Nil	Nil	



#### Collateral of Debt Securities

Reverse repo investments which fall under government securities is backed by Treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the reporting date, the Company held Treasury bonds and Treasury bills worth Rs 928 million as collateral for reverse repo investments amounting to Rs. 808 million.

#### Credit Risk Related to Policy Loans and Others

Financial losses could arise due to non-settlement of loans obtained by policyholders.

#### Risk Response

- ▶ Policy loans are collateralised by the surrender value of the policy.
- ▶ System controls are in place to automatically convert a policy to surrender stage when the policy loan amount together with the interest reaches the surrender value of the policy.

Analysis of maximum exposure to credit risk related to life policyholder loans can be summarised as follows;

As at 31 December	2018		2017	
	Rs. '000	%	Rs. '000	%
Reinsurance receivables on outstanding claims	177,180	48	135,657	51
Reinsurance receivables on settled claims	193,946	52	131,760	49
<b>Total reinsurance receivables / Maximum exposure to credit risk</b>	<b>371,126</b>	<b>100</b>	<b>267,417</b>	<b>100</b>

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Neither past due nor impaired</b>		
Past due but not impaired	85,905	76,593
61- 90 days	46,939	31,396
91-180 days	111,820	81,571
181 days +	974,285	811,978
<b>Total</b>	<b>1,218,949</b>	<b>1,001,538</b>
Impaired	Nil	Nil
<b>Total - Maximum exposure to credit risk</b>	<b>1,218,949</b>	<b>1,001,538</b>

The Company considers the surrender value of the life policy as collateral for loans issued. As at the reporting date, the value of policy loans granted amounted to Rs. 1,219 million (2017 - Rs. 1,002 million) and its related surrender value is Rs. 1,998 million (2017 - Rs. 1,693 million).

#### Credit Risk Related to Amounts Due From Related Parties

Financial losses could arise due to non settlement of amounts due from related parties.

#### Risk Response

- ▶ Related party transaction are settled within pre agreed specific duration according to the Company policy.

#### Credit Risk Related to Reinsurance Assets

This is the risk of reinsurers failing to fulfil their financial obligations towards the company.

#### Risk Response

- ▶ The Company operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used, and applying strict limits to each reinsurer.
- ▶ Regular review of creditworthiness of reinsurers.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2018, 100% (2017 - 100%) of our reinsurance receivables was due from reinsurers with a rating of AA-. There were no collateral against reinsurance receivables as at reporting date.

As at 31 December			2018		2017	
			Reinsurance receivables	%	Reinsurance receivables	%
Reinsurers	Rating Agency	Rating				
Munich	Fitch	AA	332,036	89	217,717	81
Hannover	Standard & Poor's	AA-	37,731	10	48,341	18
RGA	Fitch	AA-	1,359	1	1,359	1
<b>Total</b>			<b>371,126</b>	<b>100</b>	<b>267,417</b>	<b>100</b>

### Credit Risk Related to Premiums Receivable

Premiums receivable consist of premiums receivable from intermediaries that create the risk of financial losses due to non settlement of dues or taking substantial time to settle dues.

#### Risk Response

- ▶ Only designated institutions are employed as intermediary parties
- ▶ Agreements have been signed with the intermediaries committing them to settle dues within a specified time period.

Maximum exposure to credit risk related to premium receivables as at 31 December 2018 is Rs. 332 million (2017 - Rs. 269 million).

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Neither past due nor impaired</b>		
0 - 30 days	331,539	268,511
Pass due but not impaired	Nil	Nil
<b>Total - Maximum exposure to credit risk</b>	<b>331,539</b>	<b>268,511</b>

### Credit Risk Related to Cash At Bank

#### Risk Response

The Company maintains an authorised list of acceptable bank counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators.

The Company manages credit risk by maintaining its deposits with various banking institutions with quality credit ratings. A list of such banking partners is provided below. Majority i.e 58% of funds are deposited in banking institutions backed by government of Sri Lanka.

As at 31 December		2018		2017	
		Amount Rs. '000	%	Amount Rs. '000	%
<b>Bank</b>					
Bank of Ceylon	343,675	50.0	270,979	47.0	
Commercial Bank of Ceylon PLC	9,123	1.0	45,529	7.9	
Deutsche Bank AG	21,235	3.0	6,103	1.1	
DFCC Bank PLC	1,111	-	450	0.1	
HDFC Bank of Sri Lanka	5,285	1.0	5,094	0.9	
Hatton National Bank PLC	17,695	3.0	17,313	3.0	
National Development Bank PLC	16,830	2.0	31,958	5.5	
National Savings Bank	7,577	1.0	5,246	0.9	
Nations Trust Bank PLC	58,939	8.0	40,057	6.9	

As at 31 December	2018		2017	
	Amount Rs. '000	%	Amount Rs. '000	%
<b>Bank</b>				
People's Bank	28,639	4.0	17,117	3.0
Sampath Bank PLC	24,707	4.0	10,340	1.7
Standard Chartered Bank	8,586	1.0	6,985	1.2
Seylan Bank PLC	25,376	4.0	7,967	1.4
Union Bank of Colombo PLC	124,737	18.0	111,890	19.4
<b>Total cash at banks</b>	<b>693,515</b>	<b>100</b>	<b>577,028</b>	<b>100</b>
Cash in hand	3,320	-	3,098	
<b>Total cash in hand</b>	<b>3,320</b>		<b>3,098</b>	
<b>Total cash in hand and at bank</b>	<b>696,835</b>		<b>580,126</b>	

The Company held cash in hand and at bank of Rs. 697 million as at 31 December 2018 (2017 - Rs. 580 million). The cash at bank are held with banks and financial institutional counterparties, which are rated BB+ or better as at 31 December 2018.

As at 31 December	2018		2017	
	Amount Rs. '000	%	Amount Rs. '000	%
<b>Rating</b>				
AAA	16,163	2.3	5,246	0.9
AA+	372,314	53.4	288,096	49.7
AA	9,123	1.3	45,529	7.8
AA-	18,806	2.7	17,763	3.1
A+	41,537	6.0	49,283	8.5
A	58,939	8.5	40,057	6.9
A-	46,611	6.7	14,070	2.4
BBB	-	-	5,094	0.9
BBB-	5,285	0.8	-	-
BB+	124,737	17.9	111,890	19.3
Cash in hand	3,320	0.5	3,098	0.5
<b>Total</b>	<b>696,835</b>	<b>100</b>	<b>580,126</b>	<b>100</b>

#### 7.2 (d) Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company has assessed the market risk under three main categories;



## NOTES TO THE FINANCIAL STATEMENTS

### i Equity Price Risk

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity portfolio investments.

#### Risk Response

- ▶ Equity investment decisions are based on fundamentals rather than on speculation.

- ▶ Decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance.
- ▶ A model to review the market prices of certain asset classes has been developed and is referred to the Investment Committee on a monthly basis.

As at 31 December 2018, the Company has invested 6% in equity as shown in the table below.

As at 31 December	2018		2017	
	Value	% of allocation	Value	% of allocation
Rs.'000				
Banking, Finance and Insurance	1,611,644	4	1,729,058	5
Diversified Holdings	260,307	1	218,137	1
Manufacturing	197,931	1	306,107	1
Construction and Engineering	41,817	-	69,695	-
Motors	7,578	-	10,810	-
Hotels and Travels	9,852	-	10,765	-
<b>Total value of equity</b>	<b>2,129,129</b>	<b>6</b>	<b>2,344,572</b>	<b>7</b>
<b>Total value of investments</b>	<b>37,638,669</b>		<b>34,663,716</b>	

The following shows the estimated impact from a 10% change in the stock market prices on the portfolio with indicative comparatives.

#### Sensitivity of Fund Inflow to Change in Equity Prices

As at 31 December	2018		2017	
	Impact on fund inflow	Impact on equity	Impact on fund inflow	Impact on equity
Rs.'000				
10% increase in equity prices	212,913	212,913	234,457	234,457
10% decrease in equity prices	(212,913)	(212,913)	(234,457)	(234,457)

### ii Currency Risk

Currency risk is the risk that the fair value / present value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Sri Lankan Rupees and its exposure to foreign exchange risk primarily arises when transacting with reinsurers and software vendors who operates outside the country.

#### Risk Response

- ▶ Company does not carry foreign currency dominated assets or liabilities and any such foreign payment is promptly processed.

### iii Interest Rate Risk

Interest rate risk is the risk of fluctuation of the value or cash flows of an instrument due to changes in market interest rates. Floating rate instruments expose the Company to cash flow fluctuations, whereas fixed interest rate instruments expose the Company to changes in fair values.

#### Risk Response

- ▶ The Investment Committee keeps a regular track of macroeconomic scenarios and their likely impact on interest rates.
- ▶ Initial recognition of investments is closely monitored.
- ▶ Proactively evaluate and execute forward purchases to lock in future cash flows at favourable interest rates.

The following provides details of the quantum of investment exposed to fluctuations in fair values. No instrument is exposed to fluctuations in cash flows as the Company does not hold any instruments with variable interest rates.

As at 31 December Instruments Rs.'000	2018			2017		
	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing
Government securities	28,456,819	-	-	26,704,668	-	-
Corporate debts	6,295,304	-	-	4,916,292	-	-
Fixed deposits	757,417	-	-	647,447	-	-
Equity instruments	-	-	2,129,129	-	-	2,344,572
Derivative financial instruments	-	-	-	-	-	50,737
<b>Total</b>	<b>35,509,540</b>	<b>-</b>	<b>2,129,129</b>	<b>32,268,407</b>	<b>-</b>	<b>2,395,309</b>

### 7.3 Operational Risk

Risk is stemming from inadequate or failed internal processes, people and systems, or from external events. The Board of Directors has delegated responsibility for operational risk to risk owners and managers who are responsible for the development and implementation of controls to address operational risks. This responsibility is supported by the development of overall company standards for the management of operational risks in the following areas:

- ▶ Segregation of duties, including the independent authorisation of transactions.
- ▶ Reconciliation and monitoring of transactions.
- ▶ Compliance with regulatory and other legal requirements.
- ▶ Documentation of controls and procedures.
- ▶ Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- ▶ Reporting of operational losses and proposed remedial action
- ▶ Development of contingency plans.
- ▶ Training and professional development.
- ▶ Ethical and business standards.
- ▶ Risk mitigation, including insurance, where this is cost effective.
- ▶ Compliance with Company standards, policies and procedures is supported by a programme of periodic reviews undertaken by internal audit
- ▶ The results of internal audit reviews are discussed with the Executive Committee, with summaries submitted to the BACC and the Board. The results of internal audit reviews are discussed with the Management and representative from Group risk, with summaries submitted to the BACC and the Board.

### 7.4 Capital Management

#### Objectives, Policies and Processes for Capital Management

For the purpose of the Company's capital management, capital includes stated capital, reserves and retained earnings. The primary objectives of the Company's capital management are to maximise shareholder returns, share price appreciation, sustain financial stability and financial strength.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and regulatory requirements. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using the Risk Based Capital method.

In terms of using capital, the Company engages in following value adding processes in order to provide the desired output to its varied stakeholders, while maintaining the right balance of risk base capital required.

- ▶ Providing financial security to citizens (Underwriting process)
- ▶ Management of overall business operations
- ▶ Prudent investments and risk management
- ▶ Delivering benefits and claims assured

The Company has adequate Total Available Capital (TAC) to support the Risk-Based Capital Required (RCR).

## NOTES TO THE FINANCIAL STATEMENTS

### Summary Quantitative Data

As at 31 December	2018 Rs. '000	2017 Rs. '000
Total Available Capital (TAC)	14,382,478	16,538,376
Formula Risk based Capital Required (FRCR)	5,495,855	4,701,641
Surrender Value Capital Charge (SVCC)	164,406	-
Risk based Capital requirement (RCR)	5,495,855	4,701,641
<b>Risk based Capital Adequacy Ratio (CAR)</b>	<b>262%</b>	<b>352%</b>

### 8 FAIR VALUE MEASUREMENT AND RELATED FAIR VALUE DISCLOSURES

Financial instruments and non financial assets disclosed at fair value or that are measured at fair value are given in this note. Aside from this note, additional fair value related disclosures, including the valuation methods, significant estimates and assumptions are also provided in;

Property, plant and equipment under revaluation model	Note 26
Financial instruments (Including those carried at amortised cost)	Note 29

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either;

- ▶ In the principal market for the asset or liability, or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and buildings.

#### Fair value hierarchy

The Company measures the fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurement.

#### Level 1

##### Inputs that are unadjusted quoted market prices in an active market for identical instruments

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

#### Level 2

##### Inputs other than quoted prices included within level that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

This category includes instruments valued using;

- ▶ quoted market prices in active markets for similar instruments,
- ▶ quoted prices for identical or similar instruments in markets that are considered to be less active, or
- ▶ other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

#### Level 3

##### Inputs that are unobservable

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments value.

Valuation techniques include net present value and discounted cash flow models comparisons with similar instruments for which observable market prices exist, option pricing models and other valuation models.

Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and government securities such as treasury bills and bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on recognition of the instrument.

Following note explains the methodology for valuing our financial assets and provides an analysis of these according to the 'fair value hierarchy'.

Instrument Category	Fair value basis	Fair value hierarchy
<b>Government Securities</b>		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
<b>Investment in Shares</b>		
Investment in Listed Shares	Closing Market prices	Level 1
<b>Corporate Debt</b>		
Listed	Published Market Prices	Level 1 / Level 2*
<b>Fixed and Term Deposits</b>		
Deposit over one year	<b>Discounted Cash Flow (DCF) Method</b> Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade / downgrade of the credit rating of the institution.	Level 2

\* Listed corporate debts which have been traded during the period have been classified under Level 1 and others under level 2.

### Use of Judgments and Estimates

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 8.1 Valuation framework

The Company has established a control framework with respect to the measurement of fair values of investments. The investment committee has overall responsibility for the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include;

- ▶ Verification of observable pricing.
- ▶ Re-performance of model valuations.
- ▶ Quarterly calibration and back-testing of models against observed market transactions.
- ▶ Analysis and investigation of significant daily valuation movements.

When third party information, such as broker quotes or pricing services are used to measure fair value, documentary evidence is obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRSs / LKASs.

## NOTES TO THE FINANCIAL STATEMENTS

### 8.2 Financial assets measured at fair value

The following table analyses financial assets measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. Whenever

available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and AFS portfolios. Market price data is generally obtained from dealer markets.

As at 31 December	Rs'000	Note	Fair value hierarchy							
			2018				2017			
			Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at FVTPL</b>										
<b>Financial assets held for trading:</b>										
Equity securities	29.6		2,129,129	-	-	2,129,129	2,344,572	-	-	2,344,572
Derivative financial instruments	29.6		-	-	-	-	-	50,737	-	50,737
<b>Designated at FVTPL</b>										
<b>Investments for the benefit of Life insurance policyholders who bear the investment risk</b>										
Equity securities	29.6		1,167,900	-	-	1,167,900	1,628,378	-	-	1,628,378
Debt securities	29.6		-	90,987	-	90,987	-	86,790	-	86,790
Government securities	29.6		127,675	112,842	-	240,517	158,242	223,361	-	381,603
Fixed deposits	29.6		-	-	-	-	-	32,434	-	32,434
			3,424,704	203,829	-	3,628,533	4,131,192	393,322	-	4,524,514
<b>AFS financial assets:</b>										
Treasury bonds	29.5		8,573,954	-	-	8,573,954	7,900,165	-	-	7,900,165
Treasury bills	29.5		29,679	-	-	29,679	165,832	-	-	165,832
			8,603,633	-	-	8,603,633	8,065,997	-	-	8,065,997
<b>Total of fair values of financial assets carried at fair value</b>			<b>12,028,337</b>	<b>203,829</b>	<b>-</b>	<b>12,232,166</b>	<b>12,197,189</b>	<b>393,322</b>	<b>-</b>	<b>12,590,511</b>

### 8.3 Transfer between levels

There were no transfers in 2018. (2017 Nil)

### 8.4 Financial assets and liabilities not measured at fair value

Financial assets and liabilities of which value approximates carrying value.

It is assumed that the following financial assets and liabilities have a short term maturity and the carrying amounts approximate their fair values.

As at 31 December	2018	2017
	Rs. '000	Rs. '000
<b>Financial Assets</b>		
Reinsurance receivable	371,126	267,417
Premiums receivable	331,539	268,511
Receivables and other assets	608,830	361,181
Loans to life policy holders*	1,218,949	1,001,538
Cash in hand and at bank	696,835	580,126
<b>Financial Liabilities</b>		
Reinsurance payables	669,314	345,146
Other financial liabilities	932,022	639,741
Bank overdraft	244,175	195,306

\*The fair value of policyholder loans are equals to its carrying value as those are given at competitive market rates.

## 8.5 Fixed rate financial instruments

The fair value of fixed rate financial investments carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash

flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on observable market inputs.

Table below analyses the fair value of financial investments into their levels in fair value hierarchy which are carried at amortised cost.

As at 31 December		Fair value hierarchy									
		2018					2017				
Rs'000	Note	Amortised Cost	Level 1	Level 2	Level 3	Total	Amortised Cost	Level 1	Level 2	Level 3	Total
<b>HTM financial assets</b>											
Quoted debentures	29.3	216,551	-	237,909	-	237,909	290,985	75,475	255,014	-	330,489
Treasury bonds	29.3	19,044,788	18,212,403	-	-	18,212,403	18,028,394	18,941,981	-	-	18,941,981
		19,261,339	18,212,403	237,909	-	18,450,312	18,319,379	19,017,456	255,014	-	19,272,470
<b>L &amp; R financial assets</b>											
Bank deposits	29.4	757,417	-	757,417	-	757,417	647,447	-	647,484	-	647,484
Quoted debentures	29.4	6,078,753	2,090,584	3,880,219	-	5,970,803	4,625,307	2,153,269	2,542,218	-	4,695,487
Reverse repurchase agreements	29.4	808,398	-	808,398	-	808,398	610,277	-	610,277	-	610,277
		7,644,568	2,090,584	5,446,034	-	7,536,618	5,883,031	2,153,269	3,799,979	-	5,953,248
<b>Total of fair values of financial investments not measured at fair value</b>		26,905,907	20,302,987	5,683,943	-	25,986,930	24,202,410	21,170,725	4,054,993	-	25,225,718

## 9 FINANCIAL ASSETS AND LIABILITIES

### 9.1 Non Derivative Financial Assets Accounting Policy

#### Initial Recognition and Measurement

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not measured at fair value through profit or loss, it is measured initially at fair value plus

transaction costs that are directly attributable to its acquisition or issue. In the case of financial assets not measured at fair value through profit or loss, it is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Income and expenses are presented on a net basis only when permitted under SLFRSs / LKASs, or for gains and losses arising from a group of similar transactions such as the Company's trading activity.

Depending on the intention and ability to hold the invested assets, the financial assets category and their classification categories are shown in the table below.

#### HELD TO MATURITY (HTM)

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold it to maturity.

#### LOANS AND RECEIVABLES (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

## NOTES TO THE FINANCIAL STATEMENTS

### FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets held for trading and those designated upon initial recognition at FVTPL and investments typically bought with the intention to sell in the near future.

For investments designated at FVTPL, the following criteria must be met;

The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, Or

The assets and liabilities are part of a Company's financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Company's' investment strategy.

### AVAILABLE FOR SALE (AFS)

Financial assets that are designated as AFS and that are not classified in any of the previous categories.

AFS financial investments include equity and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVTPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to the need for liquidity or in response to changes in the market conditions.

### Subsequent Measurement

#### Fair Value Through Profit or Loss (FVTPL)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement.

Financial assets at fair value through profit or loss comprises of financial assets of the unit linked fund, equity instruments and derivative financial instruments of the life fund.

#### Held to Maturity Financial Assets (HTM)

Subsequent to initial recognition held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in net investment income in the income statement.

Held to maturity financial assets comprise of quoted debentures and treasury bonds.

#### Loans and Receivables (L&R)

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in quoted debentures, reverse repurchase agreements, policy loans and other loans, reinsurance receivable, premiums receivable and cash at bank and in hand.

### Available for Sale Financial Assets (AFS)

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available for sale equity instruments, are recognised in the statement of profit or loss and other comprehensive income and presented within equity in the available for sale reserve.

AFS financial assets comprise of treasury bills and bonds.

Company's non derivative financial assets and their classifications are summarised as follows;

Financial Asset	Category			
	HTM	AFS	L & R	FVTPL
Treasury bonds	✓	✓	-	✓ *
Treasury bills	-	✓	-	✓ *
Reverse repurchase agreements	-	-	✓	✓ *
Quoted shares	-	-	-	✓
Corporate debts	✓	-	✓	✓ *
Policy loans	-	-	✓	-
Staff and advisor loans	-	-	✓	-
Term deposits	-	-	✓	✓ *
Cash in hand and at bank	-	-	✓	-
Reinsurance receivables	-	-	✓	-
Premiums receivable	-	-	✓	-
Other receivables	-	-	✓	-

\* Financial assets are designated as FVTPL relating to Unit Linked fund

### Impairment of Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence that financial assets (including equity securities) are impaired may include;

- ▶ Significant financial difficulty of the borrower or user,
- ▶ Default or delinquency by debtor,
- ▶ It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization,
- ▶ Adverse change in the payment status of issuers or debtors in the Company, or
- ▶ In the case of equity a significant or prolonged decline in its fair value below its cost.

### Impairment Losses on Financial Assets Carried at Amortised Cost

The Company considers evidence of impairment for financial assets measured at amortised cost (L&R and HTM financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed or any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in income statement under other cost and reflected in an allowance account against L&R or HTM investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

### Impairment Losses on AFS Financial Assets

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the fair value reserve

in equity to the income statement. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. In the case of equity investments impairment, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

If, in a subsequent period, the fair value of an impaired AFS debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through the income statement and increases in their fair value after impairment is recognised directly in the statement of profit or loss and other comprehensive income.

### Derecognition

The Company derecognises a financial asset when;

The rights to receive cash flows from the asset have expired, or

The rights to receive cash flows from the asset have expired, or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either;

- (a) the Company has transferred substantially all the risks and rewards of the asset, or
- (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- (a) the consideration received (including any new asset obtained less any new liability assumed) and
- (b) In case of AFS financial investments, any cumulative gain or loss that had been recognised in the statement of profit or loss and other comprehensive income is recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

### 9.2 Non Derivative Financial Liabilities

#### Accounting Policy

##### Initial Recognition and Measurement

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise, reinsurance payables, other liabilities and bank overdraft.

##### Derecognition

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

##### 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.

##### Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 9.3 Reclassification of Financial Assets and Liabilities

The Company reclassifies non derivative financial assets out of the held for trading category and into the AFS, L&R, or HTM categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the AFS category and into the L&R category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

### 9.5 Financial Assets and Liabilities by Category

As at 31 December		L&R		FVTPL	
Rs'000	Note	2018	2017	2018	2017
<b>Financial Assets</b>					
Financial investments	29	7,644,568	5,883,031	3,628,533	4,524,514
Loans to life policyholders	30	1,218,949	1,001,538	-	-
Reinsurance receivable	31	371,126	267,417	-	-
Premiums receivable	32	331,539	268,511	-	-
Receivables and other assets	33	608,830	361,181	-	-
Cash in hand and at bank	34	696,835	580,126	-	-
<b>Total financial assets</b>		<b>10,871,847</b>	<b>8,361,804</b>	<b>3,628,533</b>	<b>4,524,514</b>
<b>Financial Liabilities</b>					
Reinsurance payables	42	-	-	-	-
Other financial liabilities	43	-	-	-	-
Bank overdraft	34	-	-	-	-
<b>Total financial liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

For a financial asset with a fixed maturity reclassified out of the 'AFS' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

The Company may reclassify a non derivative trading asset out of the 'held for trading' category and into the 'L&R' category, if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management and is determined on an instrument by instrument basis.

The Company does not reclassify any financial instrument into the FVTPL category after initial recognition. Further, the Company does not reclassify any financial instrument out of the FVTPL category if upon initial recognition it was designated as fair value through profit or loss.

#### 9.4 Derivatives Held for Risk Management Purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

##### Other Non Trading Derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

	AFS		HTM		Other financial liabilities		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	8,603,633	8,065,997	19,261,339	18,319,379	-	-	39,138,073	36,792,921
	-	-	-	-	-	-	1,218,949	1,001,538
	-	-	-	-	-	-	371,126	267,417
	-	-	-	-	-	-	331,539	268,511
	-	-	-	-	-	-	608,830	361,181
	-	-	-	-	-	-	696,835	580,126
	8,603,633	8,065,997	19,261,339	18,319,379	-	-	42,365,352	39,271,694
	-	-	-	-	669,314	345,146	669,314	345,146
	-	-	-	-	932,022	639,741	932,022	639,741
	-	-	-	-	244,175	195,306	244,175	195,306
	-	-	-	-	1,845,511	1,180,193	1,845,511	1,180,193

## NOTES TO THE FINANCIAL STATEMENTS

### 10 GROSS WRITTEN PREMIUM (GWP)

#### Accounting Policy

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Gross written premiums on life and investment contracts with discretionary participating features (DPF) are recognised as revenue when receivable from the policyholder (policies within the 30 day grace period are considered as due). For single premium business, revenue is recognised on the date on which the policy is effective.

Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Conventional	11,157,255	9,948,845
Unit linked	86,660	168,785
<b>Total gross written premium</b>	<b>11,243,915</b>	<b>10,117,630</b>

For the year ended 31 December Rs'000	2018			2017		
	Conventional	Unit linked	Total	Conventional	Unit linked	Total
<b>Individual policies</b>						
First year premium	2,902,900	986	2,903,886	3,033,613	12,842	3,046,455
Renewal premium	7,381,536	85,674	7,467,210	6,262,164	153,893	6,416,057
Single premium	751,472	-	751,472	528,356	2,050	530,406
	11,035,908	86,660	11,122,568	9,824,133	168,785	9,992,918
<b>Corporate policies</b>						
New business premium	24,658	-	24,658	34,583	-	34,583
Renewal premium	96,689	-	96,689	90,129	-	90,129
	121,347	-	121,347	124,712	-	124,712
<b>Total gross written premium</b>	<b>11,157,255</b>	<b>86,660</b>	<b>11,243,915</b>	<b>9,948,845</b>	<b>168,785</b>	<b>10,117,630</b>



## 11 PREMIUM CEDED TO REINSURERS

### Accounting Policy

Reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the premiums are decided on the rates agreed with reinsurers and accounted on an accrual basis.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Conventional	715,626	496,641
Unit linked	815	971
<b>Total premium ceded to reinsurers</b>	<b>716,441</b>	<b>497,612</b>

## 12 NET INVESTMENT INCOME

### Accounting Policy

Investment income comprises interest income on funds invested (including AFS financial assets) and dividend income.

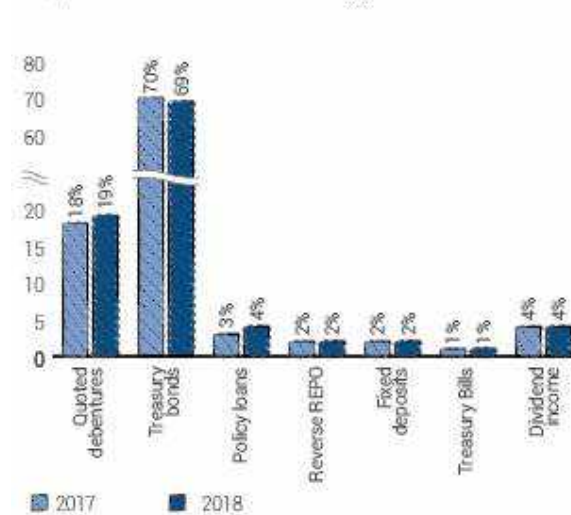
Interest income is recognised in the income statement as it accrues and is calculated by using the Effective Interest Rate method (EIR). The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the EIR, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the EIR includes all transaction costs and fees that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the EIR of the instrument.

Investment related expenses consist of costs relating to investment such as custodial fee, bank guarantee fee and brokerage fee, etc. These expenses are recognised on an accrual basis.

Dividends on equity investments are recognised in the income statement when the right to receive payment is established which is on the date at which the investment is priced 'ex dividend'.

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Investment income from;</b>			
Held to maturity			
financial assets	12.1	2,035,775	1,928,009
Loans and receivables	12.2	1,046,144	802,686
Available for sale			
financial assets	12.3	817,107	776,659
Financial assets at fair value through profit or loss			
	12.4	195,349	190,026
Notional tax income	12.6	608,003	-
Investment related expenses		(64,238)	(61,372)
<b>Total net investment income</b>		<b>4,638,140</b>	<b>3,636,008</b>

Composition of Investment Income (%)



### 12.1 Investment Income from Held to Maturity Financial Assets

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Interest income</b>		
Quoted debentures	36,212	123,686
Treasury bonds	1,999,563	1,804,323
	<b>2,035,775</b>	<b>1,928,009</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 12.2 Investment Income from Loans and Receivables

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Interest income</b>		
Interest income on policy loans	154,559	127,924
Reverse repurchase agreements	48,633	41,118
Fixed deposits	76,854	68,507
Interest income on loans given to staff	32,371	16,440
Quoted debentures	723,547	540,277
Savings account interest	10,180	7,376
Interest income on call deposits	-	1,044
	1,046,144	802,686

### 12.3 Investment Income from Available for Sale Financial Assets

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Interest income</b>		
Treasury bonds	804,998	764,464
Treasury bills	12,109	12,195
	817,107	776,659

### 12.4 Investment Income from Fair Value Through Profit or Loss

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Interest income</b>		
Treasury bills	8,876	15,403
Treasury bonds	3,755	3,553
Quoted debentures	13,089	7,139
Reverse repurchase agreements	13,784	17,262
Fixed deposits	958	8,413
	40,462	51,770
<b>Dividend income</b>		
Held for trading - Conventional	102,592	74,255
Held for trading - Unit linked	52,295	64,001
	154,887	138,256
	195,349	190,026

### 12.5 Notional Tax Income

Notional Tax Credit for Withholding Tax on Treasury Bills and Bonds

The Inland Revenue Act No.10 of 2006 as amended by subsequent legislation provides that a Company which derives interest income from secondary market transactions in government securities on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income, provided such interest income forms part of the statutory income of the Company.

As per the Inland Revenue Act No 24 of 2017, which became effective from 1 April 2018, the notional taxes (withholding tax) on the interest of government securities have been withdrawn. Based on the transition provisions issued, the Company is allowed to carry forward the notional tax credits (the Company was entitled to, up to 31 March 2018) for a period of 3 years from 1 April 2018.

The Company had not recognised notional tax credit in the financial statements up to 31 December 2017 (disclosures were made), due to the uncertainty of availability of taxable profits against which such notional tax credits could be realised. Based on the amendments to the tax base by the IRD Act No 24 of 2017, the Company has become liable for income tax from the year ended 31 December 2018. Accordingly, the Company has recognised notional tax credits up to the amount that was estimated to be realised over the next 3 years based on internal projections.

The unrealized notional tax credit available for set off against the future tax liability of the Company is as follows;

	2018 Rs. '000	2017 Rs. '000
Unutilised Notional tax credits as at 1 January	1,598,960	1,383,636
Notional tax credits during the year	80,176	215,324
Notional tax recognized as income during the year (Note 12.6)	(608,003)	-
Unutilised Notional tax credits as at 31 December	1,071,133	1,598,960

### 12.6 Notional Tax Recognized as Income During the Year

For the year ended 31 December	2018 Rs. '000
Participating fund	71,304
Non participating fund	470,000
Shareholder fund	66,699
	608,003

**13 NET REALISED GAINS****Accounting Policy**

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying value, and are recorded on occurrence of the sale transaction.

On derecognition of an investment classified as AFS, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Realised gains	147,297	117,564
Realised losses	(23,823)	(41,973)
<b>Total net realised gains</b>	<b>123,474</b>	<b>75,591</b>

For the year ended 31 December Rs'000	2018			2017		
	Realised gains	Realised losses	Net realised gains	Realised gains	Realised losses	Net realised gains / (losses)
<b>Available for sale financial assets</b>						
Treasury bonds	14,771	(3,688)	11,083	-	(23)	(23)
	14,771	(3,688)	11,083	-	(23)	(23)
<b>Fair value through profit or loss financial assets</b>						
Realised gain on derivative financial instrument	65,080	-	65,080	-	-	-
Quoted equity securities	67,446	(20,135)	47,311	117,564	(41,950)	75,614
	132,526	(20,135)	112,391	117,564	(41,950)	75,614
	147,297	(23,823)	123,474	117,564	(41,973)	75,591

**14 NET FAIR VALUE GAINS / (LOSSES)****Accounting Policy**

Fair value gains and losses recorded in the income statement on investments include fair value gains / losses on financial assets at FVTPL and unrealised gain on derivative financial instruments.

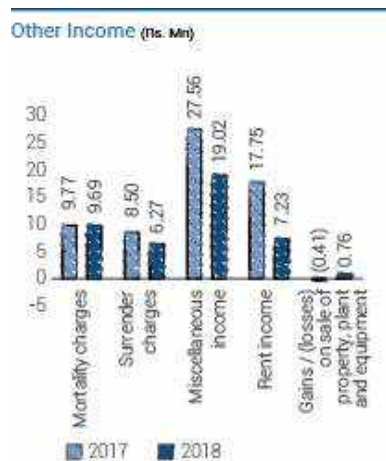
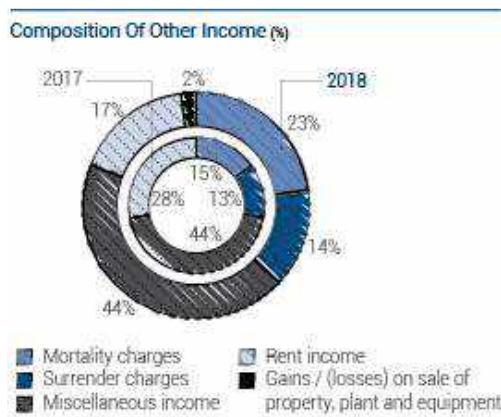
For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Fair value through profit or loss financial assets</b>		
Quoted equity securities	(799,906)	204,767
Treasury bonds	(82)	2,118
Treasury bills	(1,054)	384
Debentures	(2,033)	354
Unrealised gain on derivative financial instruments	-	50,737
<b>Total net fair value gains / (losses)</b>	<b>(803,075)</b>	<b>258,360</b>

**15 OTHER INCOME****Accounting Policy**

Other income comprises disposal gains / losses on property, plant and equipment, mortality charges, surrender charges, rent income and miscellaneous income.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Mortality charges	9,691	9,774
Surrender charges	6,268	8,499
Miscellaneous income	19,015	27,565
Rent income	7,227	17,751
Gains / (losses) on sale of property, plant and equipment	759	(413)
<b>Total other income</b>	<b>42,960</b>	<b>63,176</b>

## NOTES TO THE FINANCIAL STATEMENTS



### 16 NET INSURANCE BENEFITS AND CLAIMS PAID

#### Accounting Policy

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year, including internal

and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

For the year ended 31 December	2018			2017		
	Gross claims paid	Claims recovered from reinsurers	Net claims paid	Gross claims paid	Claims recovered from reinsurers	Net claims paid
Rs'000						
Death, disability and hospitalisation	531,427	(158,484)	372,943	428,391	(154,455)	273,936
Surrenders	863,101	-	863,101	506,382	-	506,382
Annuity payments	169,319	-	169,319	13,366	-	13,366
Policy maturities	1,945,237	-	1,945,237	1,880,049	-	1,880,049
<b>Total net life insurance benefits and claims paid</b>	<b>3,509,084</b>	<b>(158,484)</b>	<b>3,350,600</b>	<b>2,828,188</b>	<b>(154,455)</b>	<b>2,673,733</b>

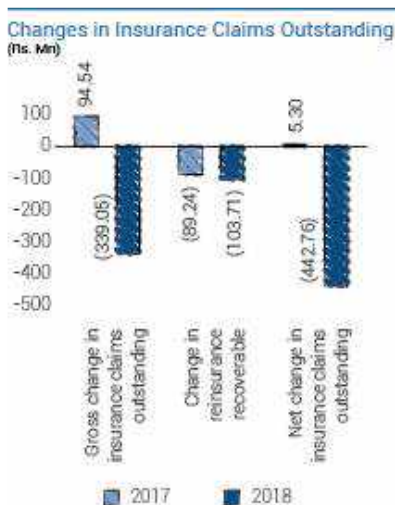
### 17 NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

#### Accounting Policy

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claims outstanding is recognised in the income statement.

For the year ended 31 December	2018			2017		
	Gross change in insurance claims outstanding	Change in reinsurance recoverable	Net change in insurance claims outstanding	Gross change in insurance claims outstanding	Change in reinsurance recoverable	Net change in insurance claims outstanding
Rs'000						
Death, disability and hospitalisation	(54,599)	(103,709)	(158,308)	89,187	(89,235)	(48)
Surrenders	5,943	-	5,943	3,170	-	3,170
Policy maturities	(290,396)	-	(290,396)	2,180	-	2,180
<b>Total net change in insurance claims outstanding</b>	<b>(339,052)</b>	<b>(103,709)</b>	<b>(442,761)</b>	<b>94,537</b>	<b>(89,235)</b>	<b>5,302</b>



### 17.1 Net Insurance Benefits and Claims Expense

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
Net insurance benefits and claims paid	16	3,350,600	2,673,733
Net change in insurance claims outstanding	17	(442,761)	5,302
<b>Total net insurance benefits and claims expense</b>		<b>2,907,839</b>	<b>2,679,035</b>

## 18 CHANGE IN CONTRACT LIABILITIES - LIFE FUND

### Accounting Policy

Changes in the valuation of insurance contract liabilities are recognised in the income statement under change in contract liabilities.

For the year ended 31 December Rs'000	Notes	2018			2017		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premiums written	10 / 11	11,243,915	(716,441)	10,527,474	10,117,630	(497,612)	9,620,018
Insurance benefits and claims incurred	17.1	(3,170,033)	262,194	(2,907,839)	(2,922,725)	243,690	(2,679,035)
Underwriting and net acquisition costs (net of reinsurance)	19	(2,091,468)	36,417	(2,055,051)	(1,902,872)	61,721	(1,841,151)
Other operating, selling and administrative expenses attributable to policyholders		(3,857,364)	-	(3,857,364)	(2,570,396)	-	(2,570,396)
Investment and other income attributable to policyholders		3,265,567	-	3,265,567	3,822,225	-	3,822,225
Income tax reversal		32,404	-	32,404	-	-	-
Surplus from life insurance fund transferred to Life shareholder's fund		(1,100,000)	-	(1,100,000)	(3,642,000)	-	(3,642,000)
<b>Change in contract liabilities - Life Fund</b>		<b>4,323,021</b>	<b>(417,830)</b>	<b>3,905,191</b>	<b>2,901,862</b>	<b>(192,201)</b>	<b>2,709,661</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 19 UNDERWRITING AND NET ACQUISITION COSTS (NET OF REINSURANCE)

#### Accounting Policy

All acquisition costs are recognised as an expense when incurred. Reinsurance commission income on outward reinsurance contracts is recognised when receivable.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Acquisition cost	2,091,468	1,902,872
Reinsurance commission (including profit commission)	(36,417)	(61,721)
<b>Total underwriting and net acquisition costs</b>	<b>2,055,051</b>	<b>1,841,151</b>

### 20 OTHER OPERATING, ADMINISTRATIVE AND SELLING EXPENSES

#### Accounting Policy

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
Employee benefits expenses	20.1	870,588	815,989
Administration and establishment expenses		1,211,130	1,102,577
Selling expenses		1,441,654	585,767
<b>Total other operating, administrative and selling expenses</b>		<b>3,523,372</b>	<b>2,504,333</b>

#### 20.1 Employee Benefits Expenses

Refer Note 41 for the Accounting Policy.

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short - term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Short Term Employee Benefits</b>			
Staff remuneration		672,276	634,547
Defined contribution plan cost - EPF	41.1	57,763	55,238
Defined contribution plan cost - ETF	41.1	14,441	13,810
Staff welfare		40,570	36,363
Training expenses		34,327	32,439
Other costs		16,609	10,807
		<b>835,986</b>	<b>783,204</b>
<b>Long Term Employee Benefits</b>			
Defined benefit plan cost	41.3	22,557	22,762
Share based payment expense	37.3	12,045	10,023
		<b>34,602</b>	<b>32,785</b>
<b>Total employee benefits expenses</b>		<b>870,588</b>	<b>815,989</b>

### 21 PROFIT BEFORE TAX

Profit before tax is stated after charging all expenses including the following;

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
Directors fee and emoluments		51,481	44,559
<b>Auditors remuneration</b>			
Statutory audit and audit related services		13,498	4,355
Non audit related services		2,660	1,332
Legal fees		1,927	1,328
Depreciation	26.1	70,938	71,597
Amortisation	25.1	83,997	33,026
<b>Defined contribution plan</b>			
- EPF	20.1	57,763	55,238
- ETF	20.1	14,441	13,810
Defined benefit plan cost	20.1	22,557	22,762
Research and development costs		-	465
CSR expenses		16,845	12,681
<b>Provision for impairment of</b>			
- Staff loans		-	358
- Agent loans	33.2(c)	2,847	541

## 22 INCOME TAX EXPENSE

### Accounting Policy

Income tax expense comprises current and deferred tax. Current tax and deferred tax relating to items recognized directly in equity or OCI is recognised in equity or OCI and not in the income statement. Current tax assets and liabilities are offset only if certain criteria are met.

### 22.1 Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years

The Company is liable for income tax at 28%, in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto till 31st March 2018.

From 1st April 2018 onwards the gains and profits from the Life Insurance Business are ascertained in terms of Section 67 of the Inland Revenue Act No. 24 of 2017. As per this section, the gains and profits on which tax is payable is the aggregate of;

- ▶ Surplus distributed to shareholders from the Life insurance policyholders fund as certified by the actuary at a rate of 28%;
- ▶ Investment income of the shareholder fund less any expenses incurred in the production of such income at a rate of 28%;
- ▶ Surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in the business of life insurance at a rate of 14% (Up to 3 years from 2018 and thereafter at 28%)

### 22.2 Tax Exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### 22.3 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from

the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

### 22.4 Crop Insurance Levy

The Crop Insurance Levy was introduced under the provisions of Section 14 of the Finance Act No. 12 of 2013, and came into effect from 1 April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit after Tax.

### 22.5 Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except;

- ▶ Where the sales tax incurred on a purchase of asset or service is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ▶ Receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as a part of receivables or payables in the statement of financial position.

### 22.6 Amount Recognised in the Profit or Loss

For the year ended		2018	2017
31 December	Note	Rs. '000	Rs. '000
<b>Current tax expense</b>			
Current tax expense for the year		-	-
		-	-
<b>Deferred tax expense</b>			
Origination of deferred tax assets	27.1	1,013,102	-
Reversal of deferred tax liabilities	27.1	98,348	-
<b>Income tax reversal recognised in the profit or loss</b>		<b>1,111,450</b>	<b>-</b>

Income tax expenses excludes the Company's share of income tax (expenses) / reversal of equity accounted investee of Rs. 34 million (2017 - Rs. 6.9 million), which has been included in share of profit of equity accounted investee, net of tax.

## NOTES TO THE FINANCIAL STATEMENTS

### 22.7 Amount Recognised in Other Comprehensive Income (OCI)

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Revaluation of property, plant and equipment	27.1	7,042	-
Reassessment of defined benefit obligations	27.1	(3,487)	-
<b>Items that may be reclassified subsequently to profit or loss</b>			
Available for sale investment securities	27.1	(35,959)	-
<b>Deferred tax (expense) recognised in OCI</b>	27.1	<b>(32,404)</b>	-

### 22.8 Reconciliation of Effective Tax Rate

A reconciliation between tax expense and the product of accounting profit.

For the year ended 31 December Rs'000		2018 Rs. '000		2017 Rs. '000
<b>Profit from continuing operations</b>		2,132,392		7,384,128
Income tax reversal		-		-
<b>Profit before tax from continuing operations</b>		2,132,392		7,384,128
Tax using the company's domestic tax rate	28%	597,070	28%	2,067,556
Share of profit of equity accounted investee reported net of tax	2%	41,946	1%	52,596
Net aggregate disallowable expenses and tax exempt income	-7%	(146,353)	-29%	(2,120,152)
Utilisation of tax losses	-23%	(492,663)	-	-
<b>Total income tax expense / (reversal)</b>	-	-	-	-

## 23 EARNINGS PER SHARE

### Accounting Policy

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after tax of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit after tax and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

### 23.1 Basic Earnings per Share

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Profit after tax (Rs. '000)	3,243,842	7,384,128
Weighted average number of ordinary shares ('000)	58,929	58,929
<b>Basic Earnings Per Share (Rs.)</b>	<b>55.05</b>	<b>125.31</b>

### 23.2 Diluted Earnings per Share

There was no dilution of ordinary shares outstanding. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 23.1.

## 24 DIVIDENDS PER SHARE

### Accounting Policy

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the financial statements.

The Board of Directors of the Company has approved a first and final dividend of Rs.20 per share (2017-Rs.18 per share) for the financial year ended 31 December 2018 subject to required regulatory approval.

For the year ended 31 December	2018	2017
Dividend (Rs.'000)	1,178,571	1,060,715
Number of ordinary shares (000)	58,929	58,929
<b>Dividend per share (Rs.)</b>	<b>20.00</b>	<b>18.00</b>

### 24.1 Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 7 of 2007 the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, subject to relevant regulatory adherence, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 27 February 2019 have been audited by Messrs. KPMG.

### 24.2 Dividend Paid During the Year

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
First and final dividend for 2017 - Rs.18 per share (2016 - Rs. 10.50 per share)	1,060,715	618,750

## 25 INTANGIBLE ASSETS

### Accounting Policy

#### Recognition and Measurement

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard LKAS 38 - Intangible Assets.

### Contractual Relationships

Contractual relationships are rights which provide access to distribution networks. Contractual relationships are initially recognised at cost and amortised over the contract period.

### Software

Software acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the statement of financial position at cost, less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognized as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

### Subsequent Expenditure

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### Useful Economic Life and Amortisation

Amortisation is calculated to write off the cost of intangible assets over their estimated useful lives and is generally recognised in profit or loss. None of the intangible assets are assumed to have a residual value.

The estimated useful lives of intangible assets and the amortisation methods for the current and comparative periods are as follows;

Software	3 - 10 years using the straight line method from the date the software is available for use
Contractual Relationships	5 - 10 years based on the expected business volumes

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Changes in the expected useful life or the expected pattern of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method as appropriate and are treated as changes in accounting estimates.

## NOTES TO THE FINANCIAL STATEMENTS

### De-Recognition

An Intangible Asset is de - recognised on disposal or when no future economic benefits are expected from it. The gain or

loss arising from de - recognition of such Intangible Assets is included in income statement.

### 25.1 Reconciliation of Carrying Amounts of Intangible Assets - Softwares

As at 31 December	2018				2017
	Software		Contractual relationships	Total	Total
Rs'000	Licensed	Purchased			
<b>Cost</b>					
Balance as at 1 January	39,063	388,616	-	427,679	276,483
Acquisitions during the year - separately acquired	-	472,133	791,238	1,263,371	151,196
<b>Balance as at 31 December</b>	<b>39,063</b>	<b>860,749</b>	<b>791,238</b>	<b>1,691,050</b>	<b>427,679</b>
<b>Accumulated amortisation and impairment losses</b>					
Balance as at 1 January	38,331	176,531	-	214,862	181,836
Amortisation	597	54,034	29,366	83,997	33,026
<b>Balance as at 31 December</b>	<b>38,928</b>	<b>230,565</b>	<b>29,366</b>	<b>298,859</b>	<b>214,862</b>
<b>Carrying value</b>					
<b>As at 31 December 2018</b>	<b>135</b>	<b>630,184</b>	<b>761,872</b>	<b>1,392,191</b>	
As at 31 December 2017	732	212,085	-		212,817

### 25.2 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2018. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

### 25.3 Title Restriction on Intangible Assets

There are no restrictions that existed on the title of the intangible assets of the Company as at the reporting date.

### 25.4 Intangible Assets Pledged as Security

None of the Intangible assets have been pledged as security as at the reporting date.

### 25.5 Acquisition of Intangible Assets During the Year

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 1263 million (2017 - Rs. 151 million). Cash payments amounting to Rs. 867 million (2017 - Rs. 151 million) were made for purchase and implementation of e Bao system and other intangible assets, during the year.

### 25.6 Amount of Contractual Commitments for the Acquisition of Intangible Assets

There are no contractual commitments for the acquisition of Intangible Assets as at the reporting date.

### 25.7 Fully Amortised Intangible Assets in Use

Intangible assets include fully amortised computer software which are in use in the normal business activities to the gross carrying value of Rs. 181 million (2017 - Rs. 161 million).

## 26 PROPERTY, PLANT AND EQUIPMENT

### Accounting Policy

#### Recognition and Measurement

The Company applies the requirements of the Sri Lanka Accounting Standard LKAS 16 - Property, Plant and Equipment, in accounting for its owned assets which are held and used in the provision of services or for administrative purposes and are expected to be used for more than one year.

#### Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

#### Basis of Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Except for land and buildings, the Company applies the cost model for all property, plant and equipment and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the following;

- ▶ The cost of materials and direct labour;
- ▶ Any other costs directly attributable to bringing the assets to a working condition for their intended use
- ▶ When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located, and
- ▶ Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in 'other income' in the income statement.

#### Subsequent Costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

#### Repairs and Maintenance

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

#### Revaluations

Freehold land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses are recognised after the date of the revaluation. Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in the statement of profit or loss and other comprehensive income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

#### Useful Economic Life and Depreciation

Depreciation is recognised in the Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

## NOTES TO THE FINANCIAL STATEMENTS

Asset Class	Basis
Freehold buildings	50 years
Office furniture	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e. when it is in the location and in the condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

### Carrying Amount

The carrying amount of an asset or significant group of assets within the class is assessed annually, if there are impairment indicators with its fair value and where the fair value is less than the carrying amount, the asset is written down to its fair value. The consequent adjustment is recognised in the income statement.

The residual values of assets that are significant are reassessed annually.

Depreciation on revalued classes of assets is based on the remaining useful life of the assets at the time of the revaluation.

### De - Recognition

An item of property, plant and equipment is de - recognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de - recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is de - recognised.

### Capital Work in Progress

Capital work in progress is stated at cost. These are expenses of a capital nature directly incurred in property, plant and equipment, awaiting for capitalisation.

### Leased Assets – Lessee

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement at the inception date.

### Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Income Statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

## 26.1 Reconciliation of Carrying Amounts of Property, Plant and Equipment

As at 31 December Rs. '000	Freehold Land	Freehold Buildings	Plant machinery, Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	2018 Rs. '000	2017 Rs. '000
<b>Cost / Revaluation</b>								
<b>Balance as at 1 January</b>	1,571,000	302,000	149,912	171,988	482,569	80	2,677,549	2,121,377
Additions during the year	-	2,312	23,504	88,207	39,728	-	153,751	40,357
Revaluation	-	-	-	-	-	-	-	539,365
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	(18,865)
Disposals during the year	-	-	(10,579)	(14,538)	-	-	(25,117)	(4,685)
<b>Balance as at 31 December</b>	1,571,000	304,312	162,837	245,657	522,297	80	2,806,183	2,677,549
<b>Accumulated depreciation and impairment losses</b>								
<b>Balance as at 1 January</b>	-	-	133,424	161,450	381,884	75	676,833	628,337
Depreciation for the year	-	8,695	9,746	9,429	43,063	5	70,938	71,597
Transfer of accumulated depreciation on assets revalued	-	-	-	-	-	-	-	(18,865)
Accumulated depreciation on disposals during the year	-	-	(10,447)	(14,131)	-	-	(24,578)	(4,236)
<b>Balance as at 31 December</b>	-	8,695	132,723	156,748	424,947	80	723,193	676,833
<b>Carrying value</b>								
<b>As at 31 December 2018</b>	1,571,000	295,617	30,114	88,909	97,350	-	2,082,990	
As at 31 December 2017	1,571,000	302,000	16,488	10,538	100,685	5		2,000,716

## 26.2 Title Restriction on Property, Plant and Equipment

There are no restrictions that existed on the title of property, plant and equipment of the Company as at the reporting date.

## 26.3 Acquisition of Property, Plant and Equipment During the Year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 154 million (2017 - Rs. 40 million). Cash payments amounting to Rs. 154 million (2017 - Rs. 40 million) were made during the year for purchase of property plant and equipment.

## 26.4 Disposal of Property, Plant and Equipment During the Year

During the financial year, the Company disposed of property, plant and equipment to the aggregate value of Rs. 25 million (2017 - Rs. 5 million). Cash amounting to Rs. 1.3 million (2017 - Rs. 0.04 million) were received during the year for disposal of property plant and equipment. Gain/(loss) on disposal of Property, Plant and Equipment is disclosed in Note 15 to the Financial Statements.

## 26.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2017 - Nil).

## NOTES TO THE FINANCIAL STATEMENTS

### 26.6 Amount of Contractual Commitments for the Acquisition of Property, Plant and Equipment

There are no contractual commitments for the acquisition of property, plant and equipment as at the reporting date.

### 26.7 The Details of Freehold Land and Buildings Which are Stated at Valuation

Company property	Extent Perches (Land)	Square feet (Building)	Method of valuation	Date of valuation	Valuer	Rs.'000		Carrying value after revaluation	Carrying value %
						Land	Building		
Land and building situated at No. 20, St. Michael's Road, Colombo 3	93.4	57,916	Market Comparable method	31 December 2017	Mr. P. B. Kalugalagedera and Associates  Chartered valuation surveyor	1,401,000	199,000	1,600,000	85
Land and building situated at No. 6, Rajapihilla Road, Kurunegala	32.3	27,904	Market Comparable method	31 December 2017		170,000	103,000	273,000	15
						1,571,000	302,000	1,873,000	100

### 26.8 Significant Unobservable Inputs Used in Measuring Fair Value

The table below sets out the significant unobservable inputs used in measuring Land and buildings categorised as Level 3 in the fair value hierarchy as at 31 December 2018.

Location and address of Property	Method of valuation	Significant unobservable inputs	Range of Estimates for unobservable inputs	Method of valuation Estimated fair value would increase or decrease if
Kollupitiya No. 20, St. Michael's Road, Colombo 3	Market comparable method	Land - Price per perch	Rs 15,000,000	Price per perch for land increases, decreases
		Building - Price per square foot	Rs 500 - Rs 4,250	Price per square foot for building increases, decreases
Kurunegala No. 6, Rajapihilla Road, Kurunegala	Market comparable method	Land - Price per perch	Rs 6,000,000	Price per perch for land increases, decreases
		Building - Price per square foot	Rs 2,500 - Rs 4,400	Price per square foot for building increases, decreases

#### Market Comparable Method

Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in

size, nature, location and condition of the specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.

**26.9 Revaluation Surplus**

Rs. '000	2017		
	Land	Buildings	Total
Revalued amount	1,571,000	302,000	1,873,000
Carrying value (prior to revaluation)	(1,049,000)	(284,635)	(1,333,635)
Revaluation surplus for the year ended 31 December	522,000	17,365	539,365

**26.10 If Land and Buildings were stated at Historical Cost, the Amounts would have been as follows;**

As at 31 December	2018 Rs. '000	2017 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(85,617)	(81,603)
Carrying value	165,507	169,521

**26.11 The Effect of Revaluation of Freehold Buildings on the Statement of Income during the year was as follows;**

As at 31 December	2018 Rs. '000	2017 Rs. '000
Depreciation charge per annum after revaluation	8,629	9,433
Depreciation charge per annum prior to revaluation	(4,014)	(4,014)
<b>Decrease in profit in subsequent period</b>	<b>4,615</b>	<b>5,419</b>

**26.12 Impairment of Property, Plant and Equipment**

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use (VIU). The fair value less costs to sell calculation is based on available data from an active market, in an arm's length transaction, of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit

being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The Management has assessed the potential impairment loss of property, plant and equipment as at 31 December 2018. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

**26.13 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	2018 Rs. '000	2017 Rs. '000
Computer equipment	333,302	272,676
Office equipment	125,808	94,148
Furniture and fittings	154,240	143,225
Motor Vehicle	80	-
<b>Total</b>	<b>613,430</b>	<b>510,049</b>

**26.14 Property, Plant and Equipment Pledged as Security**

None of the property, plant or equipment have been pledged as security as at the reporting date.

**26.15 Permanent Fall in Value of Property, Plant and Equipment**

There has been no permanent fall in value of PPE which require an impairment provision in the Financial Statements.

**26.16 Temporarily Idle Property, Plant and Equipment**

There are no temporarily idle property, plant or equipment as at the reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

### 26.17 Compensation from Third Parties for Items of Property, Plant and Equipments

There were no compensation received / receivable from third parties for items of property, plant or equipment that were impaired, lost or given up.

### 27 DEFERRED TAX

#### Accounting Policy

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized 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.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary difference to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversal of existing temporary differences, are considered, based on the business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets liabilities.

#### Deferred Tax Asset

Upto the year ended 31 December 2017, the Company had not recognized a Deferred Tax asset against tax losses due to uncertainty regarding availability of taxable profits

With the introduction of the new Tax base in terms of Section 67 of the Inland Revenue Act No. 24 of 2017 which became effective from 1 April 2018, the Company will have taxable income from the year ending 31 December 2018, based on the Company's historical experience and future plans. As such, the Company will be eligible to claim its brought forward tax losses against its taxable income within a period of 6 years. Accordingly, during the year ended 31 December 2018, the Company recognized a deferred tax asset amounting to Rs.1.079 billion arising from brought forward tax losses as at 31 March 2018 after assessing the availability of future taxable profits for utilization.

#### Deferred Tax Liability

In terms of Section 67 of the Inland Revenue Act No. 24 of 2017, the Company is of the view that there will not be material temporary differences arising, which will result in a Deferred Tax Liability including future taxes that could be incurred on disposal of business assets (free hold land and building).

Deferred tax is an estimate computed based on the assessment of available information as at the reporting date. Hence these estimates are subject to changes based on future developments / changes to any information, which the assumptions are based on, at the time of estimation. Such changes to the estimates will be adjusted during the period in which changes occur.

Deferred tax assets and liabilities are offset only if certain criteria are met.

#### Use of Judgements and Estimates

##### Deferred Tax Assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which such tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

For the year ended	2018	2017
31 December	Rs. '000	Rs. '000
Deferred tax assets	(1,079,046)	(105,390)
Deferred tax liabilities	-	105,390
<b>Net tax liabilities/ (assets)</b>	<b>(1,079,046)</b>	<b>-</b>

## 27.1 Movement in Deferred Tax Balances

For the year ended 31 December	2018					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
<b>Rs.'000</b>						
<b>Current Income Tax</b>						
Provision for the period	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Deferred tax liabilities</b>						
Property, plant and equipment	98,713	(91,671)	(7,042)	-	-	-
Intangible assets	6,677	(6,677)	-	-	-	-
<b>Deferred tax assets</b>						
Employee benefits	(30,231)	26,744	3,487	-	-	-
Staff bonus provisions	(39,200)	39,200	-	-	-	-
Reserve for AFS financial assets	(35,959)	-	35,959	-	-	-
Carry forward tax losses	-	(1,079,046)	-	(1,079,046)	(1,079,046)	-
<b>Net tax liabilities/ (assets)</b>	-	(1,111,450)	32,404	(1,079,046)	(1,079,046)	-

As at 31 December	2017					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net	Deferred tax assets	Deferred tax liabilities
<b>Rs'000</b>						
<b>Current Income Tax</b>						
Provision for the period	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Deferred tax liabilities</b>						
Property, plant and equipment	98,713	-	-	98,713	-	98,713
Intangible assets	6,677	-	-	6,677	-	6,677
<b>Deferred tax assets</b>						
Employee benefits	(30,231)	-	-	(30,231)	(30,231)	-
Staff bonus provisions	(39,200)	-	-	(39,200)	(39,200)	-
Reserve for AFS financial assets	(35,959)	-	-	(35,959)	(35,959)	-
Carry forward tax losses	-	-	-	-	-	-
	-	-	-	-	(105,390)	105,390
<b>Net tax liabilities/ (assets)</b>	-	-	-	-	(105,390)	105,390

## NOTES TO THE FINANCIAL STATEMENTS

### 27.2 Analysis of Recognised Deferred Tax Assets / Liabilities

As at 31 December	2018		2017	
	Temporary Difference	Tax effect	Temporary Difference	Tax effect
Rs'000				
<b>Deferred tax assets</b>				
Employee benefits	-	-	(107,963)	(30,231)
Staff bonus provisions	-	-	(140,000)	(39,200)
Reserve for AFS financial assets	-	-	(128,425)	(35,959)
Carry forward tax losses	(3,853,735)	(1,079,046)	-	-
	(3,853,735)	(1,079,046)	(376,388)	(105,390)
<b>Deferred tax liability</b>				
Property, plant and equipment	-	-	352,543	98,713
Intangible assets	-	-	23,845	6,677
	-	-	376,388	105,390
<b>Net recognised deferred tax assets</b>	(3,853,735)	(1,079,046)	-	-

### 27.3 Tax Loss Analysis

The tax loss carried forward as at the reporting date is Rs. 3,853 million (2017 - Rs. 5,472 million) which is made up as follows;

For the year ended	2018	2017
31 December	Rs. '000	Rs. '000
Balance as at 1 January	5,472,188	3,949,822
Utilised during the year	(1,759,511)	-
	3,712,677	3,949,822
Loss incurred in the business of life insurance	130,605	944,597
Unrecognised tax losses from previous year	10,453	577,769
<b>Balance as at 31 December</b>	<b>3,853,735</b>	<b>5,472,188</b>

## 28 INVESTMENT IN EQUITY ACCOUNTED INVESTEE

### Accounting Policy

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in associate is accounted for using the equity method and are recognised initially at cost, in terms of Sri Lanka Accounting Standards LKAS 28 - Investments in Associates and Joint ventures.

The Company's investment in its associate is accounted for using the equity method and reported as a separate line item in

the Statement of Financial Position. Under the equity method, investments in associate is carried at cost plus post acquisition changes in the Company's share of net assets of the associate. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

The income statement reflects the Company's share of the results of operations of the associate. Any change in the OCI of the investee is presented as part of the Company's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the income statement outside the operating profit and represents profit or loss after tax.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate, at each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of results of equity accounted investees' in the income statement.

Upon loss of significant influence over the associate, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

The accounting policies of the associate Company conform to those used for similar transactions of the Company.

The associate has the same reporting date as the Company and the financial statements are prepared to a common financial year ending 31 December.

As at 31 December	Place of incorporation and operation	Proportion of ownership interest	Number of Shares	Cost Rs. '000	2018		2017	
					Directors valuation / market value Rs. '000	Carrying value Rs. '000	Directors valuation / market value Rs. '000	Carrying value Rs. '000
<b>Unquoted</b>								
Fairfirst Insurance Limited	Sri Lanka	22%	68,902,870	689,029	1,130,379	1,130,379	995,722	995,722

Significant Accounting Policies That are Specific to the Business of Equity Accounted Investee - Fairfirst Insurance Limited.

#### Gross Written Premiums (GWP)

Gross written premiums comprise the total premiums received / receivable for the whole period of cover provided by contracts entered into during the accounting period. GWP is generally written upon inception of the policy. Rebates that form part of the premium rate, such as no claim rebates, are deducted from the gross written premium.

#### Unearned Premium Reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24 basis except for the marine and title policies which are computed on a 60/40 basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

#### Reinsurance Premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover by contracts entered during the period, and are generally recognised on the date on which the policy incepts.

#### Unexpired Risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at the reporting date.

#### Acquisition Cost

Acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

#### Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

Subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

#### Gross Claims Expense

Gross claims expense includes all claims occurring during

## NOTES TO THE FINANCIAL STATEMENTS

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 of the associate consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

### Reinsurance Claims Recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. This includes reinsurance exposure of IBNR.

### Deferred Acquisition Costs (DAC)

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The reinsurers share of DAC is amortised in the same manner as the UPR is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the

underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

DAC are derecognised when the related contracts are either settled or disposed off.

### Reinsurance Commissions - Unearned Commission Reserve (UCR)

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

### Insurance Contract Liabilities

Non - life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR / IBNER) and the provision for unearned premium and the provision for premium deficiency.

### Claims Payable Including IBNR

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is determined by an independent external actuary.

### Provision for Unearned Premiums

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Provision for unearned premium is calculated on a 1/24 basis except for marine / cargo class which is subject to 60/40 basis.

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.

#### Liability Adequacy Test (LAT)

At the end of each reporting period the Company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non life insurance technical provisions. If the assessments show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency shall be recognised in the income statement by setting up a provision for liability adequacy.

Non life insurance liability adequacy is decided by an independent external actuary.

## 28.1 Summarised Financial Information in Respect of Associate

### Share of Results of Associate

#### Income Statement

For the year ended 31 December	Note	Page	2018 Rs. '000	2017 Rs. '000
Net earned premium			6,957,797	8,438,680
Finance and other income			796,631	955,974
Benefits, claims and expenses			(7,230,149)	(8,572,095)
<b>Profit before tax</b>			<b>524,279</b>	<b>822,559</b>
Income tax reversal			156,661	31,276
<b>Profit from continuing operations, net of tax</b>			<b>680,940</b>	<b>853,835</b>
Percentage ownership interest			22%	22%
<b>Company's share of profit from investment in associate, net of tax</b>			<b>149,807</b>	<b>187,844</b>
<b>Other Comprehensive Income</b>				
Other comprehensive income, net of tax			(68,862)	138,783
Company's share of other comprehensive income, net of tax	28.1 (a)	232	(15,150)	30,532
Total comprehensive income			612,078	992,618
<b>Share of results of equity accounted investee recognised in statement of profit or loss and other comprehensive income, net of tax</b>			<b>134,657</b>	<b>218,376</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 28.1 (a) Company's Share of Other Comprehensive Income, net of Tax

For the year ended 31 December	Note	2018 Rs. '000	2017 Rs. '000
Share of gains / (losses) on AFS assets	37.2 (a)	(15,583)	32,823
Share of actuarial gains / (losses) on defined benefit plans	37.2 (b)	433	(2,291)
		(15,150)	30,532

### 28.2 Reconciliation of Summarised Financial Information

Reconciliation of the above summarised financial information to the carrying amount of the interest in associate recognised in the financial statements is as follows.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Value of investment in equity accounted investee as at 1 January	995,722	777,346
<b>Add</b>		
Net profit for the period recognised in income statement	149,807	187,844
Other comprehensive income	(15,150)	30,532
<b>Deduct</b>		
Dividend received	-	-
<b>Company share of (net of tax) equity accounted investee for the year ended 31 December</b>	<b>134,657</b>	<b>218,376</b>
<b>Value of investment in equity accounted investee as at 31 December</b>	<b>1,130,379</b>	<b>995,722</b>
Contingent liabilities of equity accounted investee	Nil	Nil
Capital and other commitments of equity accounted investee	Nil	Nil

28.3 There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

28.4 The Company has neither contingent liabilities nor capital and other commitments towards its associate company.

### 29 FINANCIAL INVESTMENTS (INCLUDING DERIVATIVES)

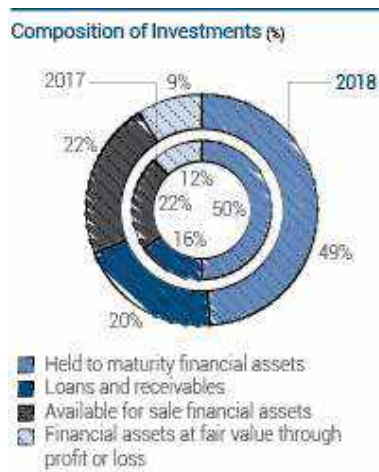
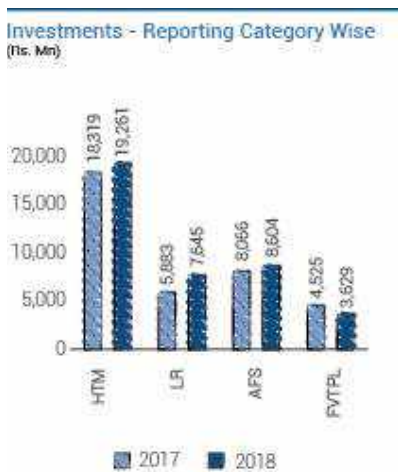
The risk management practices adopted by the Company in relation to the investment portfolio and risk management disclosures are outlined in Note 7 to the financial statements.

#### 29.1 Financial Investments Pledged as Security

None of the financial investments have been pledged as security as at the reporting date.

#### 29.2 The Company's Financial Instruments are Summarised as Follows:

As at 31 December	Note	2018		2017	
		Carrying value	Fair Value	Carrying value	Fair Value
Rs'000					
Held to maturity financial assets (HTM)	29.3	19,261,339	18,450,312	18,319,379	19,272,470
Loans and receivables (L&R)	29.4	7,644,568	7,536,618	5,883,031	5,953,248
Available for sale financial assets (AFS)	29.5	8,603,633	8,603,633	8,065,997	8,065,997
Financial assets at fair value through profit or loss (FVTPL)	29.6	3,628,533	3,628,533	4,524,514	4,524,514
<b>Total financial investments</b>		<b>39,138,073</b>	<b>38,219,096</b>	<b>36,792,921</b>	<b>37,816,229</b>



### 29.2 (a) Investments Supporting Restricted Regulatory Reserve

Based on the direction issued by the IRCSL dated 20 March 2018 on one - off surplus transfer, following investments have been marked to support the Restricted Regulatory Reserve of the Company.

As at 31 December	2018 Rs. '000
<b>Treasury bonds</b>	
Held to maturity financial investments	1,476,199
Available for sale financial investments	1,927,374
	<b>3,403,573</b>

### 29.3 Held to Maturity Financial Assets (HTM)

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Amortised cost</b>			
Quoted debentures	29.3 (a)	216,551	290,985
Treasury bonds		19,044,788	18,028,394
<b>Total HTM financial investments</b>		<b>19,261,339</b>	<b>18,319,379</b>

### 29.3 (a) Quoted Debentures - Diversified Holdings

As at 31 December	2018					
	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest Rs. '000
Issuer						
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,551	237,909	16.75
				216,551	237,909	

As at 31 December	2017					
	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest Rs. '000
Issuer						
Peoples' Leasing & Finance PLC	AA -	26/03/2018	686,300	74,395	75,475	16.75
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,590	255,014	16.75
				290,985	330,489	

### 29.3 (b) Impairment of Held to Maturity Financial Investments

At the reporting date, there were no HTM financial investments that were overdue and impaired.

## NOTES TO THE FINANCIAL STATEMENTS

### 29.4 Loans and Receivables (L&R)

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Amortised cost</b>			
Bank deposits		757,417	647,447
Quoted debentures	29.4 (a)	6,078,753	4,625,307
Reverse repurchase agreements		808,398	610,277
<b>Total L&amp;R financial investments</b>		<b>7,644,568</b>	<b>5,883,031</b>

The effective interest rates on non-current portion of portfolio

15.25%

15.90%

#### 29.4 (a) Quoted Debentures

As at 31 December	2018					
	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Hemas Holdings PLC	AA-	04/29/2019	1,452,900	148,480	148,592	11.00
Merchant Bank of Sri Lanka PLC	A	11/12/2019	500,000	52,734	53,245	9.00
Lanka Orix Leasing Company PLC	A	11/24/2019	1,000,000	98,504	99,676	9.00
Sampath Bank PLC	A	12/15/2019	3,000,000	310,564	314,770	8.25
Seylan Bank PLC	A-	12/23/2019	2,000,000	191,654	193,860	8.60
Siyapatha Finance Limited	BBB+	12/24/2019	250,000	26,197	26,415	8.90
Central Finance Company PLC	A+	06/01/2020	400,000	42,015	42,341	9.52
National Development Bank PLC	A	06/24/2020	4,279,000	396,441	414,926	9.40
Senkadagala Finance PLC	BBB+	11/10/2020	500,000	50,686	51,368	13.75
Commercial Bank of Ceylon PLC	AA-	03/09/2021	250,000	26,002	25,084	10.75
Seylan Bank PLC	BBB+	07/15/2021	950,400	101,402	100,794	13.00
Siyapatha Finance Limited	A-	09/20/2021	102,400	10,498	10,691	13.50
Singer Sri Lanka PLC	A-	09/28/2021	3,500,000	360,773	351,741	12.00
Bank of Ceylon	AA	10/24/2021	242,499	25,104	24,980	13.25
Nations Trust Bank PLC	A-	11/08/2021	3,000,000	305,542	289,415	12.65
People's Leasing Company PLC	AA-	11/16/2021	2,000,000	203,073	203,046	12.60
Bank of Ceylon	AA	12/29/2021	2,000,000	202,900	204,597	13.25
Lanka Orix Leasing Company PLC	A	07/31/2022	500,000	52,887	52,871	13.00
LB Finance PLC	A-	12/11/2022	1,000,000	100,675	98,785	12.75
LB Finance PLC	BBB+	12/11/2022	1,000,000	100,701	90,726	13.25
Sampath Bank PLC	A	12/21/2022	1,600,000	160,578	157,526	12.50
Sampath Bank PLC	A	03/20/2023	2,500,000	258,697	253,694	12.50
DFCC Bank PLC	A+	03/29/2023	2,000,000	218,913	217,149	12.60
Nations Trust Bank PLC	A-	04/20/2023	2,875,000	313,224	309,786	13.00
Hatton National Bank PLC	A+	08/30/2023	12,688	1,071	924	8.00
Hatton National Bank PLC	AA-	08/30/2023	1,192,018	100,582	101,338	8.00
Bank of Ceylon	AA	10/25/2023	452,300	47,488	47,756	13.75
Hatton National Bank PLC	A+	11/01/2023	724,000	73,924	73,973	13.00
National Development Bank PLC	A	12/19/2023	4,500,000	518,679	449,550	13.90
DFCC Bank PLC	A+	03/29/2025	3,000,000	329,263	329,605	13.00
Seylan Bank PLC	BBB+	03/29/2025	2,000,000	206,623	202,138	13.20
Seylan Bank PLC	BBB+	03/29/2028	3,000,000	310,160	304,261	13.50
Sri Lanka Telecom PLC	AAA	04/19/2028	2,000,000	205,075	208,778	12.75
Commercial Bank of Ceylon PLC	AA-	07/23/2028	5,000,000	527,644	516,401	12.50
				6,078,753	5,970,802	

As at 31 December	2017					
	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Peoples' Leasing & Finance PLC	AA-	26/03/2018	595,000	65,282	65,376	16.75
Peoples' Leasing & Finance PLC	AA-	26/03/2018	120,000	14,346	14,248	17.00
Merchant Bank of Sri Lanka PLC	A	28/03/2018	469,300	57,379	55,955	17.50
Hatton National Bank PLC	A+	13/06/2018	2,533,733	274,291	276,741	14.00
Central Finance Company PLC	A+	17/06/2018	1,552,000	162,480	164,376	14.75
Lion Brewery (Ceylon) PLC	A+	17/06/2018	448,000	46,743	47,231	14.00
Peoples' Leasing & Finance PLC	AA-	23/09/2018	309,900	33,456	33,875	9.63
Sampath Bank PLC	A	04/12/2018	1,114,800	119,454	116,556	13.00
Sampath Bank PLC	A	04/12/2018	1,114,800	127,042	129,306	13.40
Central Finance Company PLC	A+	12/12/2018	446,900	47,999	47,834	13.50
Central Finance Company PLC	A+	12/12/2018	710,500	81,700	88,876	13.95
Nations Trust Bank PLC	A-	19/12/2018	2,881,300	306,887	313,466	13.00
Hemas Holdings PLC	AA-	29/04/2019	1,452,900	146,308	150,423	11.00
Merchant Bank of Sri Lanka PLC	A	12/11/2019	500,000	50,889	52,673	9.00
Lanka Orix Leasing Company PLC	A-	24/11/2019	1,000,000	94,827	98,240	9.00
Sampath Bank PLC	A	15/12/2019	3,000,000	297,496	310,799	8.25
Seylan Bank PLC	A-	23/12/2019	2,000,000	183,816	191,415	8.60
Siyapatha Finance Limited	BBB+	24/12/2019	250,000	25,277	26,122	8.90
Central Finance Company PLC	A+	01/06/2020	400,000	40,866	42,594	9.52
National Development Bank PLC	A	24/06/2020	4,279,000	368,046	331,484	9.40
Senkadagala Finance PLC	BBB+	10/11/2020	500,000	50,575	50,979	13.75
Commercial Bank of Ceylon PLC	AA-	09/03/2021	250,000	26,071	25,826	10.75
Seylan Bank PLC	A-	15/07/2021	950,400	101,609	104,534	13.00
Siyapatha Finance Limited	A-	20/09/2021	102,400	10,468	11,179	13.50
Bank of Ceylon	AA	24/10/2021	242,499	25,280	26,718	13.25
Nations Trust Bank PLC	A-	08/11/2021	3,000,000	305,584	315,140	12.65
People's Leasing & Finance Company PLC	AA-	16/11/2021	2,000,000	203,102	203,027	12.60
Bank of Ceylon	AA	29/12/2021	2,000,000	203,642	200,145	13.25
Lanka Orix Leasing Company PLC	A	31/07/2022	500,000	52,726	52,785	13.00
LB Finance PLC	A-	11/12/2022	1,000,000	100,714	100,734	12.75
LB Finance PLC	BBB+	11/12/2022	1,000,000	100,836	100,856	13.25
Sampath Bank PLC	A	21/12/2022	1,600,000	160,587	160,603	12.50
Hatton National Bank PLC	AA-	30/08/2023	1,204,706	98,415	108,658	8.00
Bank of Ceylon	AA	25/10/2023	452,300	47,656	47,067	13.75
Hatton National Bank PLC	A+	01/11/2023	724,000	73,937	73,973	13.00
National Development Bank PLC	A	19/12/2023	4,500,000	519,521	555,673	13.90
				4,625,307	4,695,487	

## 29.4 (b) Impairment of Loans and Receivables Financial Investments

At the reporting date, there were no loans and receivables financial investments that were overdue and impaired.

## 29.5 Available for Sale Financial Assets (AFS)

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Fair value</b>		
Treasury bonds	8,573,954	7,900,165
Treasury bills	29,679	165,832
<b>Total Available for Sale Financial investments</b>	<b>8,603,633</b>	<b>8,065,997</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 29.5 (a) Impairment of Available for Sale Financial Investments

At the reporting date, there were no AFS financial investments that were overdue and impaired.

### 29.6 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Fair value</b>			
Quoted equities	29.6 (a)	2,129,129	2,344,572
Derivative financial instruments		-	50,737
		2,129,129	2,395,309
<b>Investments in unit linked funds</b>			
Quoted equities	29.6 (b)	1,167,900	1,628,378
Reverse repurchase agreements		112,842	223,361
Treasury bills		85,523	115,508
Treasury bonds		42,152	42,734
Bank deposits		-	32,434
Quoted debentures		90,987	86,790
		1,499,404	2,129,205
<b>Total Fair Value Through Profit or Loss financial investments</b>		<b>3,628,533</b>	<b>4,524,514</b>

### 29.6 (a) Quoted Equities - Other than Unit Linked Investments

As at 31 December	2018			2017		
	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000
<b>Banks, Finance and Insurance</b>						
Commercial Bank PLC (non - voting)	661,016	46,949	62,797	649,979	45,779	68,248
Commercial Bank PLC	542,520	57,232	62,390	395,992	40,195	53,776
Hatton National Bank PLC	3,134,722	530,607	601,852	2,952,546	485,564	654,084
Sampath Bank PLC	2,413,533	578,223	567,180	1,866,391	436,555	589,220
HNB Assurance PLC	-	-	-	336,266	23,645	24,379
Central Finance Company PLC	433,038	39,899	38,410	429,269	39,522	39,622
DFCC Bank PLC	391,520	65,599	36,411	391,520	65,599	48,079
National Development Bank PLC	1,224,260	196,637	130,751	886,800	160,675	120,960
People's Leasing & Finance PLC	3,821,672	67,308	62,293	3,821,672	67,308	64,968
People's Insurance Limited	-	-	-	394,300	5,915	9,069
Seylan Bank PLC	847,412	62,659	49,560	819,383	60,816	56,653
		1,645,113	1,611,644		1,431,573	1,729,058
<b>Diversified Holding</b>						
Hemas Holdings PLC	536,638	18,644	47,653	536,638	18,644	67,616
Distilleries Company of Sri Lanka PLC	5,304,755	96,249	85,407			
Melstacorp PLC	2,529,764	145,110	127,247	2,529,764	145,110	150,521
		260,003	260,307		163,754	218,137

As at 31 December	2018			2017		
	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000
<b>Rs'000</b>						
<b>Construction and Engineering</b>						
Access Engineering PLC	2,965,739	74,852	41,817	2,965,739	74,852	69,695
		74,852	41,817		74,852	69,695
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	426,400	29,039	31,042	244,400	16,129	29,084
Tokyo Cement Company (Lanka) PLC (voting)	685,432	6,968	17,273	768,932	7,817	50,750
Tokyo Cement Company (Lanka) PLC (non-voting)	1,729,956	36,938	39,789	1,729,956	36,938	102,065
Piramal Glass PLC	5,103,984	36,422	19,395	5,103,984	36,422	29,603
Textured Jersey Lanka PLC	2,782,495	74,831	90,432	2,782,495	74,831	94,605
		184,198	197,931		172,137	306,107
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	7,578	22,062	33,340	10,810
		33,340	7,578		33,340	10,810
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	364,900	25,931	9,852	364,900	25,931	10,765
		25,931	9,852		25,931	10,765
		2,223,437	2,129,129		1,901,587	2,344,572

## 29.6 (b) Equity Securities / Unit Linked Fund - (FVTPL)

As at 31 December	2018			2017		
	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000
<b>Rs'000</b>						
<b>Banking, Finance and Insurance</b>						
Hatton National Bank PLC	1,273,836	230,887	222,303	1,262,271	228,615	255,169
Sampath Bank PLC	327,011	72,184	76,848	569,454	119,296	179,777
Commercial Bank of Ceylon PLC	445,457	51,368	51,228	52,089	5,532	7,074
Commercial Bank of Ceylon PLC -(non voting)	339,733	31,225	32,275	92,953	7,999	9,760
Central Finance Company PLC	162,949	15,065	14,454	161,531	14,923	14,909
DFCC Bank PLC	70,960	12,500	6,599	70,960	12,500	8,714
National Development Bank PLC	164,316	30,272	17,549	158,782	29,521	21,658
Nations Trust Bank PLC	322,718	29,152	28,786	-	-	-
Peoples Leasing and Finance PLC	694,444	11,798	11,319	694,444	11,798	11,806
People's Insurance PLC	-	-	-	3,277,953	62,120	75,393
		484,451	461,361		492,304	584,260

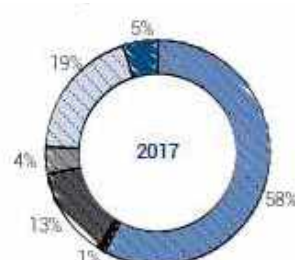
## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2018			2017		
	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000	No of shares	Cost Rs. '000	Carrying/ Fair Value Rs. '000
<b>Beverage, Food and Tobacco</b>						
Nestle Lanka PLC	74,551	126,697	126,737	13,000	21,125	21,138
The Lion Brewery Ceylon PLC	72,588	39,471	41,375	24,327	13,037	13,137
		166,168	168,112		34,162	34,275
<b>Construction and Engineering</b>						
Access Engineering PLC	-	-	-	3,055,072	79,961	71,794
		-	-		79,961	71,794
<b>Diversified Holdings</b>						
Melstacorp PLC	532,160	61,406	65,984	1,565,004	79,094	93,118
Hemas Holdings PLC	1,516,925	150,686	134,703	1,516,925	150,686	191,133
Distilleries Company of Sri Lanka PLC	755,443	13,470	12,163	-	-	-
		225,562	212,850		229,780	284,251
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	125,493	9,003	3,388	125,493	9,003	3,702
		9,003	3,388		9,003	3,702
<b>Manufacturing</b>						
Tokyo Cement Company Lanka PLC -(non voting)	298,451	5,626	6,864	388,112	8,378	22,899
Piramal Glass Ceylon PLC	17,673,950	101,248	67,161	17,673,950	101,248	102,509
Textured Jersey Lanka PLC	5,751,742	222,904	186,932	5,806,742	226,473	197,429
Alumex PLC	-	-	-	1,457,962	29,100	26,972
Hayleys Fabric PLC	-	-	-	7,074,329	116,808	95,503
		329,778	260,957		482,007	445,312
<b>Telecommunication</b>						
Dialog Axiata PLC	6,062,610	64,326	61,232	15,752,754	167,142	204,784
		64,326	61,232		167,142	204,784
		1,279,288	1,167,900		1,494,359	1,628,378

Composition of FVTPL Equity Instrument (%)



■ Banks, Finance and Insurance  
■ Beverage, Food and Tobacco  
■ Diversified Holding  
■ Construction and Engineering  
■ Manufacturing  
■ Telecommunication



**29.6 (c) Impairment of Fair Value Through Profit or Loss Financial Investments**

At the reporting date, there were no fair value through profit or loss financial investments that were overdue and impaired.

**29.7 Movement of Financial Investments**

Rs. '000	Held to maturity	Loans and receivables	Available for sale	Fair value through profit or loss	Total
As at 1 January 2017	15,396,036	5,409,853	5,955,031	4,086,336	30,847,256
Purchases	5,060,281	17,445,081	1,495,854	6,433,068	30,434,284
Maturities	(2,426,619)	(17,075,538)	(190,209)	(4,385,533)	(24,077,899)
Disposals	-	-	-	(1,910,477)	(1,910,477)
Scrip dividend	-	-	-	24,499	24,499
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	258,360	258,360
Fair value gains recorded in OCI	-	-	733,852	-	733,852
Amortisation	246,226	43,559	29,026	14,832	333,643
Net change in accrued Interest	43,455	60,076	42,443	3,429	149,403
<b>As at 31 December 2017</b>	<b>18,319,379</b>	<b>5,883,031</b>	<b>8,065,997</b>	<b>4,524,514</b>	<b>36,792,921</b>
As at 1 January 2018	18,319,379	5,883,031	8,065,997	4,524,514	36,792,921
Purchases	3,134,353	16,149,255	2,540,610	4,362,196	26,186,414
Maturities	(2,295,263)	(14,560,057)	(395,984)	(3,096,563)	(20,347,867)
Disposals	-	-	(1,176,456)	(1,412,084)	(2,588,540)
Scrip dividend	-	-	-	57,151	57,151
Fair value losses recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	(803,075)	(803,075)
Fair value gains recorded in OCI	-	-	(482,107)	-	(482,107)
Amortisation	127,204	50,025	31,969	585	209,783
Net change in accrued Interest	(24,334)	122,314	19,604	(4,191)	113,393
<b>As at 31 December 2018</b>	<b>19,261,339</b>	<b>7,644,568</b>	<b>8,603,633</b>	<b>3,628,533</b>	<b>39,138,073</b>

**30 LOANS TO LIFE POLICYHOLDERS**

Policyholder loans are granted up to 90% of the surrender value of a life insurance policy at a rate equivalent to market rate. Policyholder loans are initially measured at fair value and subsequently measured at the amortised cost. If the policyholder dies before the full repayment of the loan, the loan balance is deducted from the death benefit.

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Balance as at 1 January</b>	<b>751,046</b>	<b>646,645</b>
Loans granted during the year	538,936	394,376
Repayments during the year	(333,344)	(289,975)
	956,638	751,046
Interest receivables on loans to life policyholders	262,311	250,492
<b>Balance as at 31 December</b>	<b>1,218,949</b>	<b>1,001,538</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 30.1 Collateral Details

As at 31 December 2018 surrender value of policyholder loans amounted to Rs.1,998 million (2017 - Rs.1,693 million).

If the total receivable of the loan, including interest due and accrued exceeds the cash surrender value, the policy terminates and becomes void.

The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on policy loans.

### 30.2 Fair Value of Loans to Life Policyholders

The fair value of the policyholder loans are equal to its carrying value as those are given at competitive market rates.

### 30.3 Concentration Risk of Loans to Life Policyholders

There is lower concentration of credit risk with respect to policyholders, as the Company has a large number of dispersed receivables.

### 30.4 Impairment of Loans to Life Policyholders

Policyholder loans are reviewed for impairment at each reporting date. As of 31 December 2018, there were no impaired loss recorded on policyholder loans (2017 - Nil).

### 30.5 Number of Policy Loans

Number of policy loans due as at 31 December 2018 was 15,447 (2017 - 15,983).

## 31 REINSURANCE RECEIVABLE

### Accounting Policy

The Company cedes insurance risk in the normal course of business for all of its Insurance Contracts. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance is recorded gross in the statement of financial position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Reinsurance assets are derecognised when the contractual rights are extinguished or expired.

As at 31 December	2018 Rs. '000	2017 Rs. '000
Reinsurance receivable on outstanding claims	177,180	135,657
Reinsurance receivable on settled claims	193,946	131,760
<b>Total reinsurance receivables</b>	<b>371,126</b>	<b>267,417</b>

### 31.1 Impairment of Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31 December 2018. Based on the assessment, there was no impairment loss on reinsurance receivables.

### 31.2 Fair Value of Reinsurance Receivables

The carrying values disclosed above approximate the fair value at the reporting date.

### 31.3 The Ageing of Reinsurance Receivables on Paid Claims

As at 31 December	2018 Rs. '000	2017 Rs. '000
Less than 60 days	112,405	33,628
More than 60 days	81,541	98,132
	<b>193,946</b>	<b>131,760</b>

### 31.4 Reinsurance Receivable Past Due but Not Impaired (On Paid Claims)

As at 31 December 2018, reinsurance receivable of Rs. 82 million (2017 - Rs. 98 million) were past due but not impaired. These relate to parties where there were no recent history of default.

### 31.5 Collateral Details

The Company does not hold any collateral as security against potential default by reinsurance counter parties.

### 31.6 Reinsurance Receivable on Outstanding Claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

### 31.7 Risk Management

Refer Note 7 to the financial statements for risk management initiatives relating to reinsurance.

**32 PREMIUMS RECEIVABLE****Accounting Policy**

Premiums receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premiums receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premiums receivable are the difference between the carrying amount and the recoverable amount. The impairment losses are recognised in the income statement.

The life insurance premiums for policies within the 30 day grace period are considered as due premium, subject to a provision for premium default. Premium default ratio is computed by analysing the default history. Commission and reinsurance premium relating to that accrued income are also recorded in the same manner.

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Premiums receivable from;</b>		
Policyholders	172,410	132,713
Intermediaries (Including collections in transit)	159,129	135,798
<b>Total premiums receivable</b>	<b>331,539</b>	<b>268,511</b>

**32.1 Fair Value of Premiums Receivable**

The carrying amount disclosed above approximates the fair value at the reporting date.

**32.2 Impairment of Premiums Receivable**

The Management has assessed potential impairment loss of premiums receivable as at 31 December 2018. Based on the assessment, there was no impairment loss on premiums receivable (2017 - Nil).

**32.3 Collateral Details**

The Company does not hold any collateral as security against potential default by policyholders or intermediaries.

**32.4 Risk Management Initiatives Relating to Premiums Receivable**

Refer Note 7 to the financial statements for risk management initiatives relating to premiums receivable.

**33 RECEIVABLES AND OTHER ASSETS****Accounting Policy****Staff / Agent Loans**

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criteria. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

**Inventories**

Inventories are measured at the lower of cost or net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable value is the estimated market price in the ordinary course of business less any estimated expense to sell.

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Financial Assets</b>			
Staff loans*	33.1	284,188	235,951
Agent / advisor loans	33.2	212,984	68,090
Refundable deposits		17,126	8,090
<b>Amounts due from Related parties</b>			
Parent Company - John Keells Holdings PLC		-	-
Other related parties		21,026	11,954
Other receivables		73,506	37,096
		<b>608,830</b>	<b>361,181</b>
<b>Non Financial Assets</b>			
Taxes recoverable	33.5	767,786	218,350
Prepayments		163,047	138,080
Inventories		13,677	21,521
Advance payments		117,372	155,553
Other receivables		4,889	52,554
		<b>1,066,771</b>	<b>586,058</b>
<b>Total receivables and other assets</b>		<b>1,675,601</b>	<b>947,239</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 33.1 Staff Loans

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Balance as at 1 January</b>		236,309	212,235
Loans provided during the year		186,635	200,619
Payments / settlements during the year		(99,227)	(148,070)
Fair value adjustment during the year		(39,171)	(28,475)
		284,546	236,309
Provision for impairment	33.1 (a)	(358)	(358)
<b>Balance as at 31 December</b>		284,188	235,951

### 33.1 (a) Provision for Impairment

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Balance as at 1 January</b>	358	358
Charge for the year	-	-
<b>Balance as at 31 December</b>	358	358

### 33.2 Agent Loans

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Balance as at 1 January</b>		77,400	72,455
Loans provided during the year		217,138	46,494
Payments / settlements during the year		(69,397)	(45,549)
		221,141	73,400
Provision for impairment	32.2(a)	(8,157)	(5,310)
<b>Balance as at 31 December</b>		212,984	68,090

### 33.2 (a) Provision for Impairment

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Balance as at 1 January</b>	5,310	4,769
Charge for the year	2,847	541
<b>Balance as at 31 December</b>	8,157	5,310

### 33.3 Impairment of Staff and Agent Loans

The Management has assessed potential impairment loss of staff and agent loans as at 31 December 2018. Based on the assessment, no additional impairment provision is required to be made in the financial statements as at the reporting date in respect of staff and agent loans, other than the amounts provided in Note 33.1 and 33.2.

### 33.4 Loans Granted to Directors

\*No loans have been granted to Directors of the Company.

### 33.5 Taxes Recoverable

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
ACT recoverable		92,296	92,296
WHT recoverable		116,382	107,391
Notional tax receivable	33.5 (a)	541,304	-
ESC receivable		17,804	18,663
		767,786	218,350

### 33.5.(a) Notional Tax Receivable

As at 31 December	Note	2018 Rs. '000
Notional tax recognised during the year	12.6	608,003
Notional tax utilised during the year		(66,699)
<b>Balance as at 31 December</b>		541,304

### 33.6 Fair Value

The fair value of staff loans are based on discounted cash flows. Discount rate is equal to AWPLR plus appropriate risk margin. The fair values of agent / advisor loans are equal to the carrying amount as they are granted at competitive market rates.

33.7 Refer Note 7 to the financial statements for risk management policies / initiatives relating to other financial assets.

### 34 CASH AND CASH EQUIVALENTS

#### Accounting Policy

Cash and cash equivalents comprise cash in hand and at bank and short term investments net of bank overdrafts that are repayable on demand.

#### 34.1 Cash in Hand and at Bank

As at 31 December	2018 Rs. '000	2017 Rs. '000
Cash at Bank	636,076	536,971
<b>Cash at Bank with related parties</b>		
- Nations Trust Bank PLC	57,439	40,057
Cash in hand	3,320	3,098
<b>Total cash in hand and at bank</b>	<b>696,835</b>	<b>580,126</b>

#### 34.2 Cash and Cash Equivalent in the Statement of Cash Flows

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
Cash in hand and at bank	34.1	696,835	580,126
Bank overdraft used for cash management purposes		(244,175)	(195,306)
Short term investments (included under investments)		-	32,434
<b>Cash and cash equivalent in the statement of cash flows</b>		<b>452,660</b>	<b>417,254</b>

#### 35.2 Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's Board of Directors in accordance with the Articles of Association.

Dividends for the year that are declared after the reporting date are dealt with as an event after the reporting date.

As at 31 December Rs'000	2018		2017	
	No. of shares	Rs. '000	No. of shares	Rs. '000
Ordinary Voting Shares	58,928,572	1,000,000	58,928,572	1,000,000
	58,928,572	1,000,000	58,928,572	1,000,000

#### 34.3 Fair Value of Cash in Hand and at Bank

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

#### 34.4 Risk Management Initiatives Relating to Cash in Hand and at Bank

Please refer Note 7 to the financial statements.

### 35 STATED CAPITAL

#### Accounting Policy

##### Ordinary Shares

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

#### 35.1 Rights of Ordinary Shareholders

The company has only one class of ordinary shares and 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. All issued shares are fully paid.

## NOTES TO THE FINANCIAL STATEMENTS

### 36 RESTRICTED REGULATORY RESERVE

Based on the direction issued by the IRCSL dated 20 March 2018, the Company has transferred Rs. 3,382 million attributable to non - participating and non unit fund of unit linked business from life policyholder fund to life shareholder fund (SHF). The distribution of one - off surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL. The one - off surplus in the SHF is represented by government debt securities as per the direction of the IRCSL [Note 29.2(a)].

As at 31 December	2018 Rs. '000	2017 Rs. '000
Transfer of one - off surplus from non participating fund	3,393,900	3,393,900
Transfer from shareholder fund for the one - off deficit created in the non unit fund of unit linked life insurance contracts	(11,966)	(11,966)
	<u>3,381,934</u>	<u>3,381,934</u>

### 37 RESERVES

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
Capital reserves	37.1	1,707,489	1,705,061
Other reserves	37.2	(43,529)	439,667
<b>Total reserves</b>		<u>1,663,960</u>	<u>2,144,728</u>

#### 37.1 Capital Reserves

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
<b>Revaluation Reserve</b>			
Unrealised gain reserve	37.1 (a)	475,860	475,860
Life policy holders' revaluation reserve, net of tax	37.1 (b)	1,214,877	1,212,449
		<u>1,690,737</u>	<u>1,688,309</u>
Reserve on merger with Cornhill (Private) Limited	37.1 (c)	16,752	16,752
		<u>1,707,489</u>	<u>1,705,061</u>

#### 37.1 (a) Unrealised Gain Reserve

Unrealised gain reserve comprises of the gain from transferring the investment of Cornhill (Private) Limited to life policyholders in 2007, and the gain on transferring the land and building at Kurunegala in 2011. These gains will be realised to shareholders when the properties are disposed.

#### 37.1 (b) Life Policy Holders' Revaluation Reserve

As at 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	1,212,449	678,503
Revaluation surplus during the year	-	539,365
Adjustment for deferred tax	7,043	-
Net gain on revaluation of land and buildings	1,219,492	1,217,868
Depreciation transfer during the year	(4,615)	(5,419)
<b>Balance as at 31 December</b>	<u>1,214,877</u>	<u>1,212,449</u>

The revaluation relates to land and building as indicated in Note 26.7.

#### Nature and Purpose of Reserve

On revaluation of an asset, any increase in the carrying amount is recognised in Revaluation Reserve in Equity through OCI or used to reverse a previous loss on revaluation of the same asset, which was charged to the Income Statement. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Income Statement or charged to Revaluation Reserve in equity through OCI, only to the extent of any credit balance existing in the Revaluation Reserve in respect of that asset. Any balance remaining in the Revaluation Reserve in respect of an asset, is transferred directly to Retained Earnings on retirement or disposal of the asset.

#### 37.1 (c) Reserve on Merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of the Company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policyholders' statement of financial position.

## 37.2 Other Reserves

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
Reserve for AFS financial instruments	37.2 (a)	(85,387)	413,443
<b>Other Capital Reserves</b>			
Reserves on retirement benefit obligation	37.2 (b)	(4,767)	(8,356)
Employee share based option	37.2 (c)	46,625	34,580
		41,858	26,224
		(43,529)	439,667

## 37.2 (b) Reserves on Retirement Benefit Obligation

Refer Note 41 for Accounting Policies.

As at 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	(8,356)	(1,794)
Actuarial gains / (losses) on defined benefit plan	6,643	(4,271)
Share of actuarial gains / (losses) on defined benefit plan of equity accounted investee	433	(2,291)
Related tax	(3,487)	-
<b>Balance as at 31 December</b>	<b>(4,767)</b>	<b>(8,356)</b>

## 37.2 (a) Reserve for Available for Sale (AFS) Financial Instruments

As at 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	413,443	(376,875)
Unrealised gains / (losses) on AFS assets	(471,037)	733,829
Share of gains / (losses) on AFS assets of equity accounted investee	(15,583)	32,823
Transferred to the statement of income	23,749	23,666
Related tax	(35,959)	-
<b>Balance as at 31 December</b>	<b>(85,387)</b>	<b>413,443</b>

**Nature and Purpose of Reserve**

The Available for Sale reserves comprises the cumulative net change in the fair value of Available for Sale financial assets until the assets are derecognised or impaired.

## 37.2 (c) Employee Share Based Option

**Accounting Policy**

Employees receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments (equity settled transactions). The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, from the time when the award is granted up to the vesting date of the options. The overall cost of the award is calculated using the number of share options expected to vest and the fair value of the options at the date of grant.

**Equity Settled Transactions**

The cost of equity settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity settled transactions where vesting is conditional upon a market or non vesting condition, which are treated as vesting irrespective of whether or not the market or non vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

## NOTES TO THE FINANCIAL STATEMENTS

Where the terms of an equity settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non vesting conditions within the control of either the entity or the employee are not met.

However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled award and the new award are treated as

if they were a modification of the original award, as described in the previous paragraph.

### Description of The Employee Share Option Scheme

Under the John Keells Group's Employee Share Option Scheme (ESOP), share options of the Parent are granted to senior executives of the Company and is dependent on a performance criteria and a service criteria. SLFRS 02 - Share based payment has been applied to equity instruments in share based transactions that were granted after 1 January 2012, which was the effective date of the standard. Hence options granted subsequent to this date have been accounted for as per the standard. All options are to be settled by shares and there are no cash settlement alternatives.

The Directors confirm that the Company has not granted any funding to employees to exercise options.

The terms and conditions of the grants are as follows;

Grant date / employees entitled	Method of valuation	Vesting conditions	Contractual life of the Awards	Exercise price
The grant date for each Award is on the 1 of July of that respective financial year. Senior executives of the company with more than 12 months of service as at the respective reporting date.	Please refer table below	Vests over a period of four years. A minimum performance achievement of meeting the Key Result Areas (KRA's) and being in employment at the time the share options vests.	5 years for each Award	For each 'Award' it is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant.

### Reconciliation of Outstanding Share Options

The following table illustrates the number of options (No.), weighted average exercise prices (WAEP) and movements of share options during the year:

As at 31 December	2018 No	2018 WAEP (Rs)	2017 No	Rs. '000
Outstanding at 1 January	998,756	202	764,241	220.29
Granted during the year	440,000	154.10	234,515	142.83
Adjustment for 7:8 sub - division	-	-	-	-
Transfers	(29,806)	157.56	-	-
Forfeited during the year	(186,449)	191.65	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Adjustment for warrants 43:1000	-	-	-	-
Outstanding at 31 December	1,222,501	187.51	998,756	202.10
<b>Exercisable at 31 December</b>	<b>501,482</b>	<b>160.91</b>	<b>508,186</b>	<b>172.36</b>

### 37.3 Employee Expenses for Share Based Payment Transactions

The expense recognised for employee services received during the year is as follows;

As at 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	34,580	24,557
Expense arising from equity settled share-based payment transactions	12,045	10,023
<b>Balance as at 31 December</b>	<b>46,625</b>	<b>34,580</b>

The expense recognised for employee services is based on the Parent company's best estimate of the number of options that will ultimately vest. No expense is recognised for Awards that do not ultimately vest.

### 37.4 Fair Value of the Share Options and Assumptions

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

## 38 RETAINED EARNINGS

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January		5,438,052	2,049,189
Profit for the year		3,243,842	7,384,128
Transfer of one-off surplus		-	(3,381,934)
Transfer from revaluation reserve to retained earnings, net of tax	37.1 (b)	4,615	5,419
First and final dividends 2017 / 2016	24.1	(1,060,715)	(618,750)
<b>Balance as at 31 December</b>		<b>7,625,794</b>	<b>5,438,052</b>

## 39 INSURANCE CONTRACT LIABILITIES

### Accounting Policy

#### 39.1 Recognition and Measurement

Life insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance

Industry ACT, No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations. Non participating liabilities are discounted using the risk free yields.

The value of participating policy liabilities is the higher of the value of the guaranteed benefits liability and the total benefits liability, derived at the participating insurance fund level. In calculating the guaranteed benefits liability, only the guaranteed benefits are considered and the cashflows are discounted using the risk free interest rate yield curve. Total benefits liability includes all the guaranteed and non guaranteed benefits, and discounted cash flows using the fund based yield of the participating insurance fund.

### 39.2 Use of Judgements and Estimates

#### 39.2 (a) Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either insurance contracts or investment contracts depending on the level of insurance risk transferred.

Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the company issues and reinsurance contracts that the company holds.

Contracts where the company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risks and no significant insurance risks. Financial risk is the risk of a possible future change in one or more of a specified interest rates, financial instrument prices, commodity prices, foreign exchange rates, index of price or rates, credit ratings or credit index or other variables, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime,

## NOTES TO THE FINANCIAL STATEMENTS

even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features.

### Discretionary Participating Features (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that;

- ▶ are likely to be a significant portion of the total contractual benefits;
- ▶ the amount or timing of which is contractually at the discretion of the issuer;

and contractually based on:

- ▶ The performance of a specified pool of contracts or a specified type of contract,
- ▶ Realised and or unrealised investment returns on a specified pool of assets held by the issuer, and
- ▶ The profit or loss of the company, fund or other entity that issues the contract.

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the income statement unless the embedded derivative itself is an insurance contract or investment contract with DPF. The derivative is also not separated if the host insurance contract and / or investment contract with DPF is measured at fair value through the profit and loss.

IRC SL 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.

### 39.2 (b) Valuation of Life Insurance Contract Liabilities

Long duration contract liabilities included in the life insurance fund, result primarily from traditional participating ,non participating life & universal life insurance products. Short duration contract liabilities are primarily group term, The actuarial reserves have been established based on the following;

- ▶ Non participating liabilities are discounted using risk free yield curve provided by the IRC SL and the participating liabilities are based on the fund yield of the life fund.
- ▶ Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IRC SL.
- ▶ Surrender rates based on actual experience.

The amount of policyholder dividend to be paid is determined annually by the Company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapses, surrender rates and discount rates as further detailed in notes to the financial statements. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to the life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made for future investment income arising from the assets backing Life Insurance contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate. Lapse and surrender rates are based on the company's historical experience of lapses and surrenders.

### 39.3 De-recognition

The liability is de-recognised 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 a liability adequacy test.

### 39.4 Valuation of Life Insurance Fund

The valuation of the conventional life insurance fund as at 31 December 2018 was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited and a sum of Rs. 1,085 million was transferred from the conventional life insurance fund to the shareholders fund for the year 2018. Subsequent to the transfer the conventional life fund stood at Rs. 30,557 million.

Similarly the non unit fund of linked long term business valuation was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited and a sum of Rs. 15 million was transferred from the non unit fund to the shareholders fund for the year 2018. Subsequent to the transfer the non unit fund stood at Rs. 43 million.



### 39.5 Surplus from Life Insurance Fund Transferred to Life Shareholder Fund

As at 31 December	2018 Rs. '000	2017 Rs. '000
Conventional life insurance fund	1,084,874	3,438,283
Non unit fund of linked Life insurance	15,126	203,717
	<b>1,100,000</b>	<b>3,642,000</b>

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 2018 is adequate to cover the liabilities of the funds.

### Insurance Contract Liabilities

As at 31 December	Note	2018 Rs. '000	2017 Rs. '000
Life insurance fund	39.6	29,872,348	25,856,601
One-off surplus arising from changing policy liability valuation relating to participating fund	39.12	435,046	435,046
Tax Payable		(26,428)	-
Claim payables		318,915	657,966
		<b>30,599,881</b>	<b>26,949,613</b>

### 39.6 Composition of the Life Fund

As at 31 December	Note	2018			2017		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Balance as at 1 January - NPV Basis		27,621,407	(1,764,806)	25,856,601	28,747,902	(1,421,649)	27,326,253
Surplus created due to changes in valuation method from NPV to GPV		-	-	-	(3,816,980)	-	(3,816,980)
Balance as at 1 January - GPV / NPV Basis		27,621,407	(1,764,806)	25,856,601	24,930,922	(1,421,649)	23,509,273
Premium income / Reinsurance expenses	10 / 11	11,243,915	(716,441)	10,527,474	10,117,630	(497,612)	9,620,018
Liabilities paid for death, maturities, surrenders, benefits and claims	16	(3,509,084)	158,484	(3,350,600)	(2,828,188)	154,455	(2,673,733)
Benefits and claims experience variation		(732,257)	-	(732,257)	(3,796,420)	-	(3,796,420)
Investment return		3,451,142	-	3,451,142	3,609,010	-	3,609,010
Expenses		(5,912,416)	-	(5,912,416)	(4,411,547)	-	(4,411,547)
Income tax expenses		32,404	-	32,404	-	-	-
<b>Balance as at 31 December</b>		<b>32,195,111</b>	<b>(2,322,763)</b>	<b>29,872,348</b>	<b>27,621,407</b>	<b>(1,764,806)</b>	<b>25,856,601</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 39.7 Movement in Life Insurance Fund

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Conventional life insurance fund</b>		
Balance as at 1 January	26,912,057	27,703,410
Increase in life insurance fund before surplus transfer to shareholders	5,106,818	5,950,069
Transfer to shareholders	(1,084,874)	(3,438,283)
Transfer of one - off surplus from non participating fund	-	(3,393,900)
Effect of Taxation on Surplus / Bonus transferred to - Policyholders	(26,428)	-
Net change in unclaimed benefits	(350,253)	90,761
Balance as at 31 December - Conventional Life insurance	30,557,320	26,912,057
<b>Non Unit Fund of Linked Life Insurance Contracts</b>		
Balance as at 1 January	37,556	186,272
Increase in non unit fund of linked life insurance before surplus transfer to shareholders	8,929	39,259
Transfer from shareholders fund for the one - off deficit created in the non unit fund	-	11,966
Transfer to shareholders	(15,126)	(203,717)
Net change in unclaimed benefits	11,202	3,776
Balance as at 31 December - Non unit fund of linked Life insurance	42,561	37,556
	30,599,881	26,949,613

### 39.8 Key Assumptions used in Determination of Best Estimate Liability

#### Economic Assumptions

Risk free rate Risk free rate curve as of 31st Dec 2018 issued by IRCSL

Fund yield Expected fund yields based on the company's long term strategic asset allocation plan and the expected yield on the long term bonds with a risk premium adjustment for other asset classes.

#### Operating Experience Assumptions

Mortality rate Adjusted A67/70 mortality table rates based on company's experience study as of 31st December 2017

Morbidity rate Percentage of reinsurance rates, where the percentages are determined based on the morbidity studies performed as of 31st December 2017

Expense rate and Expense inflation Fixed & variable, acquisition and maintenance cost assumptions based on the 2017 experience study, with an inflation adjustment made to reconcile with the actual expenses in 2018.

Lapse rates, paid-up rates and surrender rates Rates are based on company's persistency study as of 31st December 2017

### 39.9 Sensitivity Analysis

Sensitivity analysis of life insurance fund liability is provided in Note 7.1(a).

### 39.10 Expected Maturity Profile for Reserves for Insurance Contracts, Net of Reinsurance

	2018 Rs. Mn
< 1 year	2,043
1 to 5 years	9,961
5 to 10 years	21,346
10 to 20 years	47,411
> 20 years	13,857
	94,618

**39.11 Solvency Margin**

In the opinion of the appointed actuary, Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited, the Company maintains a Capital Adequacy ration (CAR) of 262% and Total

Available Capital (TAC) of Rs.14,382 Mn as at 31 December 2018, which exceeded the minimum requirement of 120% and Rs.500 mn respectively as per the Solvency Margin (Risk Based Capital) Rules.

**39.12 One - off Surplus Arising from Changing Policy Liability Valuation - Participating**

Rs. '000	Note	2018	2017
Balance as at 01 January		435,046	-
Surplus created due to changes in valuation method from NPV to GPV		-	5,867,744
Reversal of one off surplus after changes made to NPV and GPV computation	39.12.(a)	-	(2,050,764)
<b>Adjusted surplus created due to changes in valuation method from NPV to GPV</b>		<b>-</b>	<b>3,816,980</b>
Transfer of one - off surplus attributable to non - participating and non unit fund of unit linked business from policyholder fund to shareholder fund	39.12.(b)	-	(3,381,934)
<b>Balance as at 31 December</b>		<b>435,046</b>	<b>435,046</b>

Based on the letter issued by the Insurance Regulatory Commission of Sri Lanka (IRCSSL) (previously known as IBSL) dated 30 December 2016, all insurance companies were instructed to maintain the one - off surplus arising from change in policy liability valuation, separately within the long-term insurance fund / insurance contract liabilities. Accordingly, the one - off surplus was identified separately within the insurance contract liabilities as "Surplus created due to changes in valuation method from NPV to GPV

The amount reported as the one-off surplus of Rs. 5,868 million in the 2016 financial statements was based on the internal actuarial valuation. Subsequently as directed by the IRCSSL, the Company obtained an independent actuarial valuation certification from Willis Towers Watson India Private Limited who confirmed it as Rs. 4,636 million. The one off surplus has been further reduced to Rs. 3,817 million in line with the "Minimum One - off Surplus" calculation basis provided in the IRCSSL guidelines. As the adjustments of Rs. 2,050 million were due to estimate changes, the difference has been adjusted 2017 to reflect the above accordingly [Note 39.9(a)].

The one off surplus comprises of Rs. 432.5 million attributable to participating business and Rs. 2.5 million attributable to unit linked fund and Rs. 3,382 million attributable to non participating and non unit fund of unit linked business.

Based on the directions issued by the IRCSSL dated 20 March 2018 and subsequent approval, the Company has transferred Rs. 3,382 million attributable to non - participating and non unit fund of unit linked business from life policyholder fund through Income Statement to life shareholder fund and held as part of the Restricted Regulatory Reserve under equity in the statement of financial position.

One - off Surplus was determined as the difference between the NPV solvency basis liability and the GPV distribution basis liability as of 31 December 2015. This is calculated for Participating and other than participating funds, separately. Above basis is in line with the 'Minimum One - off Surplus' calculation basis provided in the IRCSSL guideline.

## NOTES TO THE FINANCIAL STATEMENTS

Disclosures required in the Financial Statements as per Identification and Treatment of One - Off Surplus: Direction #16 - 20.03.2016 issued, under Section 96A of the Regulation of Insurance Industry Act No 43 of 2000

Disclosure in Financial Statements	Compliance with the Requirement	Page reference
i Equity and statement of changes in equity to include a new line item called 'Restricted Regulatory Reserve' with value equal to one - off surplus for other than participating business. Adequate disclosure to be made with regards to 'Restricted Regulatory Reserve'.	Complied [Note 36]]	177-179 and 244
ii The transfer of one - off surplus to be treated as a release permitted by the IRCSL during the relevant period and accounted through Income Statement.	Complied [Note 39.9]	251
iii Income Statement to carry a new line item 'change in contract liability due to transfer of one - off surplus'.	Complied	175
iv Disclosure stating 'distribution of one - off surplus to shareholders', held as 'Restricted Regulatory Reserve', is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon approval from the IRCSL.	Complied [Note 36]	244
v The basis of computation of one - off surplus. Any deviation from the direction in respect of determining the 'minimum one - off surplus'.	Complied [Note 39.9]	251
vi One-off surplus relating to participating and other than participating should be disclosed separately	Complied [Note 39.9]	251
vii Financial ratios should be determined in accordance with SLASs. Additional financial ratios, excluding the impact of transfer of one - off surplus may be disclosed separately.	Complied	15
viii Disclosure on composition of investments supporting the Restricted Regulatory Reserve.	Complied [Note 29.2(a)]	233

### 39.12 (a) Reversal of One - Off Surplus After Changes Made to NPV and GPV Computation

Based on the instructions received from the IRCSL, the Company has obtained new valuations of life fund under both NPV and GPV method as at 1 January 2016 from Wills Towers Watson.

The following changes were made to the NPV and GPV computations.

As at 31 December	2016 Rs. '000
Changes made to GPV due to changes made on non - economic assumptions	2,050,764
Changes made to NPV (netted off against contingency reserves)	-
Net impact to one off surplus	2,050,764

As difference arose due to changes in assumption to the GPV valuation (resulting in an estimate change) as at 1 January 2016, the difference was transferred to life fund during the current year. The prior year numbers were not restated / readjusted.

### 39.12 (b) Transfer of one - off surplus attributable to non - participating and non unit fund of unit linked business from policyholder fund to shareholder fund

As at 31 December	2017 Rs. '000
Transfer of one - off surplus from non participating fund	(3,393,900)
Transfer from shareholders fund for the one - off deficit created in the non unit fund	11,966
	(3,381,934)

Transfer from shareholders fund for the one - off deficit created in the non unit fund

### 39.12 (c) Distribution of One-off Surplus

The distribution of One-off surplus to Shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below. These policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by IRCSL from time to time. Further regulator will reconsider the distribution of One-off Surplus when the RBC rules are revised.

Expense allocation policy setting out basis of allocation of expenses between the Share Holder Fund and the Policy Holder Fund as well as between different lines of business within the Policy Holder Fund, particularly participating and non-participating.

Dividend declaration policy for universal life business.

Bonus policy for the participating business, which should include treatment of One-off Surplus for the purpose of bonus declaration.

Asset-liability management policy.

Policy on internal target Capital Adequacy Ratio

Considerations for transfer of funds from Policy Holder Fund to Share Holder Fund

The IRCSL will permit distribution of One-off Surplus subject to yearly distribution caps on a case-by-case basis.

### 39.13 Liability Adequacy Test (LAT) - Life Insurance Contract Liabilities

#### Accounting Policy

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 "Insurance Contracts". 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 Income Statement by setting up a provision for liability adequacy.

#### Valuation

As at the reporting date, liability adequacy test was performed by the appointed actuary Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited and concluded that, the liability value is sufficient to meet future benefits and expenses.

No provision was required to be made for any premium deficiency.

Details of LAT reports is provided in page 167 to this report

### 40 INSURANCE CONTRACT LIABILITIES - UNIT LINKED

#### Accounting Policy

Unit linked contracts are those that do not meet the definition of insurance contract or investment contract with discretionary participating features. For these Unit linked contracts, the liabilities are valued at current unit value, i.e. on the basis of the fair value of the financial investment, backing those contracts at the reporting date together with rights to future management fees.

As at 31 December	2018	2017
Note	Rs. '000	Rs. '000
Liability of Fund investment	1,250,157	1,684,920
Liability of Fund income 40.1	251,114	436,689
<b>Total insurance contract liabilities</b>	<b>1,501,271</b>	<b>2,121,609</b>

### 40.1 Movement in Liability of Fund Income

As at 31 December	2018	2017
	Rs. '000	Rs. '000
Balance as at 1 January	436,689	223,474
Net investment income	76,655	93,240
Net realised gains	37,929	72,742
Net fair value gains / (losses)	(274,332)	80,963
Management fee expense	(25,827)	(33,730)
<b>Balance as at 31 December</b>	<b>251,114</b>	<b>436,689</b>

Fair Value of the Financial Investments Backing Unit Linked Contracts are as Follows.

As at 31 December	2018	2017
	Rs. '000	Rs. '000
Government securities	240,518	381,603
Equity instruments	1,167,900	1,628,378
Corporate debt instruments	90,986	86,790
Fixed deposits	-	32,434
	<b>1,499,404</b>	<b>2,129,205</b>
Other financial investments and assets	5,535	1,762
Other unit linked liabilities	(3,668)	(9,358)
<b>Insurance contract liabilities - Unit Linked</b>	<b>1,501,271</b>	<b>2,121,609</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 41 EMPLOYEE BENEFITS LIABILITIES

#### Accounting Policy

#### 41.1 Defined Contribution Plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the income statement in the periods during which related services are rendered by employees.

#### Employees' Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary, monthly to the Employees Provident Fund managed by the Central Bank of Sri Lanka.

#### Employees' Trust Fund

All employees of the company are members of the Employees' Trust Fund (ETF). The Company contributes each month at the rate of 3% of the salaries of each employee, to the Employees' Trust Fund administrated by the Employees' Trust Fund Board.

#### Defined Contribution Plans

Following contributions have been made to the employee provident fund and employee trust fund during the year.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Employees' Provident Fund (EPF)</b>		
Employer's contribution (12%)	57,763	55,238
Employee's contribution (8%)	43,729	36,825
<b>Employees' Trust Fund (ETF)</b>		
Employer's contribution (3%)	14,441	13,810

#### 41.2 Defined Benefit Plans - Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

As per LKAS 19 - Employee Benefits, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in the statement of profit or loss and other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

#### 41.3 Movement in Present Value of Gratuity

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	122,588	107,963
<b>Included in Profit or Loss:</b>		
Current service cost	11,044	11,966
Interest cost	11,513	10,796
	22,557	22,762
<b>Included in OCI:</b>		
Net actuarial (gain) / loss on obligation	(6,643)	4,271
<b>Other</b>		
Gratuity expenses capitalised during the year	2,719	
Payments during the year	(25,705)	(12,408)
<b>Balance as at 31 December</b>	<b>115,516</b>	<b>122,588</b>

#### 41.4 Principal Actuarial Assumptions Used

The defined benefit obligation liability of the Company is based on an actuarial valuation carried out by Mr. M. Poopalanathan (AIA) of Actuarial & Management Consultants (Pvt) Ltd. an Independent Actuary. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the complexity of the valuation and the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Assumption	2018	2017
Discount rate	11.5%	10.5%
<b>Staff turnover rate - early withdrawal through resignations</b>		
- i) Less than 5 years	17%	14%
- ii) More than 5 years	3%	5%
Salary increase	8%	8%
Retirement age	55 years	55 years

Assumptions regarding future mortality are based on the A1967/70 for Staff / Executive and A1949/52 for Worker, issued by the Institute of Actuaries, London.

#### 41.5 Maturity Analysis of the Payments

The following payments are expected on employee benefit liabilities in future years

As at 31 December	2018 Rs. '000	2017 Rs. '000
Within the next 12 months	19,893	3,362
Between 1 and 2 years	19,384	2,721
Between 2 and 5 years	34,745	15,192
Over 5 years	41,494	101,313
<b>Total expected payments</b>	<b>115,516</b>	<b>122,588</b>

#### 41.6 Sensitivity Analysis

Reasonably possible variation in one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

Increase / (Decrease) in discount rate	Increase / (Decrease) in Salary Increment	Change in employee defined benefit liability Rs'000	Estimated employee defined benefit liability Rs'000
1%	-	(4,444)	111,072
(-1%)	-	4,805	120,321
-	1%	5,139	120,655
-	(-1%)	(4,827)	110,689

#### Methods and assumptions used in preparing the sensitivity analysis

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

As at 31 December	2018 Rs. '000	2017 Rs. '000
Balance as at 1 January	345,146	208,742
Arising during the year	716,441	497,612
Utilised during the year	(392,273)	(361,208)
<b>Balance as at 31 December</b>	<b>669,314</b>	<b>345,146</b>

## 42 REINSURANCE PAYABLES

### Accounting Policy

Reinsurance payables represent balances due to reinsurance companies. Amounts payable are recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs in a manner consistent with the related reinsurance contract.

## 43 OTHER LIABILITIES

### Financial Liabilities

The Company initially recognises financial liabilities on the trade date at which the Company becomes a party to the contractual provisions of the instrument. 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.

## NOTES TO THE FINANCIAL STATEMENTS

### Other Liabilities

Other Liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

As at 31 December	2018 Rs. '000	2017 Rs. '000
<b>Other Financial Liabilities</b>		
Agency commission payable	240,952	189,244
Other staff related provisions	145,523	158,389
Premiums in suspense	545,547	292,108
	932,022	639,741
<b>Other Non Financial Liabilities</b>		
Government levies	71,928	38,145
Other liabilities and accruals	1,268,275	542,974
Premium received In advance	42,659	147,171
	1,382,862	728,290
<b>Total other liabilities</b>	<b>2,314,884</b>	<b>1,368,031</b>

Maturity schedule of other financial liabilities as of 31 December 2018 and 2017 are shown in Note 7.2(b) to the financial statements.

### 44 RELATED PARTY DISCLOSURES

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

The Company carries out transactions in the ordinary course of its business on an arm's length basis with parties who are defined as related parties in Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures.

#### 44.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is John Keells Holdings PLC.

#### 44.2 Recurrent Related Party Transactions

There were no recurrent related party transactions which in aggregate value exceeded 10% of the gross revenue of the Company as per 31 December 2018 audited financial statements, which required additional disclosures in the 2018 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

#### 44.3 Non-Recurrent Related Party Transactions

There were no non-recurrent related party transactions which aggregate value exceeded 10% of the equity or 5% of the total assets which ever is lower of the Company as per 31 December 2018 audited financial statements, which required additional disclosures in the 2018 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

#### 44.4 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 selected key employees who meet the criteria for KMP.

As John Keells Holdings PLC (JKH) is the ultimate parent of the Company and the Board of Directors of JKH has the authority and responsibility of planning, directing and controlling the activities of the Company, the Directors of JKH have also been identified as KMP of the Company.

#### 44.4 (a) Compensation of KMPS

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Short term employment benefits	51,481	44,559
Post employment benefits	7,531	6,037
Share based benefits	-	-
<b>Total</b>	<b>59,012</b>	<b>50,596</b>

The short term employment benefits include only the Non Executive Directors fees and emoluments paid to the Executive Director. Where applicable Directors fees are paid directly to the companies that the Directors represent. There are no short - term, long - term, post - employment, terminal and share - based payments linked to the remuneration of the Non - Executive Directors and no ex - gratia payments were made to Directors during the year.

#### 44.4 (b) Transactions, Arrangements and Agreements Involving KMPs, and their Close Family Members (CFMS)

CFMs of a KMP are those family members who may be expected to influence, or be influenced by that KMP in their dealings with the entity. They may include KMPs' domestic partner and children, children of the KMPs' domestic partner and dependents of the KMP or the KMPs' domestic partner.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Insurance premium	1,246	2,643

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2018.

#### 44.4 (c) Share Based Benefits to KMP and CFM

	2018	2017
Number of ordinary shares held as at 31 December	-	8,562
Dividends Paid for the year ended 31 December (in Rs. 000)	-	90

#### 44.5 Transactions with Related Entities

The Directors of the company as at 31 December 2018 was also Directors of the following companies as set out below and transactions included in Note 44.5 (a), 44.5 (b) and 44.5 (c) have been carried out with such companies.

Company	Name of Director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	John Keells Holdings PLC and its subsidiaries own 90% of the Company's issued share capital	The Company has transactions in the normal course of business with John Keells Holdings PLC, its subsidiaries and associate companies
Keells Consultants (Pvt) Ltd	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Keells Consultants (Pvt) Ltd is the Secretary of Union Assurance PLC and Fellow subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Keells Consultants (Pvt) Ltd
	D. C. Alagaratnam	Director		
John Keells Office Automation (Pvt) Ltd	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with John Keells Office Automation (Pvt) Ltd
	D. C. Alagaratnam	Director		
John Keells Computer Services (Pvt) Ltd	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with John Keells Computer Services (Pvt) Ltd
Asian Hotels and Properties PLC	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Asian Hotels and Properties PLC
	S. Rajendra	Director		
Trans Asia Hotels PLC	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Trans Asia Hotels PLC
Whittal Boustead (Pvt) Ltd	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Whittal Boustead (Pvt) Ltd
	S. Rajendra	Director		

## NOTES TO THE FINANCIAL STATEMENTS

Company	Name of Director	Position	Relationship	Details of financial dealings
Tea Smallholder Factories PLC	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Tea Smallholder Factories PLC
Fairfirst Insurance Limited.	A. D. Pereira	Director	Associate company of Union Assurance PLC	The Company owns 22% of the company's issued share capital and has transactions in the normal course of business
InfoMate Private Limited	Susantha Rathnayake (Retired w.e.f 31 December 2018)	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with InfoMate Private Limited
	D. C. Alagaratnam	Director		

#### 44.5 (a) Transactions with the Parent and Ultimate Controlling Party

As at 31 December	2018	2017
<b>Statement of financial position</b>		
<b>Assets</b>		
Intangible assets	2,128	24,970
	2,128	24,970
<b>Liabilities</b>		
Other liabilities	(5,616)	(6,954)
	(5,616)	(6,954)

Transacted amounts for the year ended 31 December	2018	2017
Gross written premium	507	2,187
Net benefits and claims	-	(400)
Other operating and administrative expenses	(66,273)	(48,930)

#### 44.5 (b) Transactions with / Between Subsidiary Companies and Associates of the Parent Company and Other Related Entities

As at 31 December Company Rs. '000	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	2018 Rs. '000	2017 Rs. '000
<b>Statement of financial position</b>				
<b>Assets</b>				
<b>Property, plant and equipment</b>				
John Keells Office Automation (Pvt) Ltd	Subsidiary	Acquisition of property plant, and equipment	18,201	15,032
John Keells Computer Services (Pvt) Ltd	Subsidiary		235	159
			18,436	15,191
<b>Financial investments</b>				
Nations Trust Bank PLC	Associate	Debentures	628,413	627,996
Nations Trust Bank PLC	Associate	Cash at Bank	58,939	40,057
			687,352	668,053
<b>Other liabilities</b>				
Other subsidiaries and associates		Payment for shared services	(1,852)	(3,902)
			(1,852)	(3,902)

As at 31 December Company Rs. '000	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	Transaction amount during the year	
			2018 Rs. '000	2017 Rs. '000
<b>Income Statement</b>				
<b>Gross written premium</b>				
Other subsidiaries and associates			2,761	2,665
			2,761	2,665
<b>Net benefits and claims</b>				
Other subsidiaries and associates			675	(2,100)
			675	(2,100)
<b>Investment income</b>				
Nations Trust Bank PLC	Associate	Debentures	102,178	77,338
			102,178	77,338
<b>Other operating and administrative expenses</b>				
Other subsidiaries and associates			(145,947)	(129,465)
			(145,947)	(129,465)

#### 44.5 (c) Transactions with / Between Associate of the Company - Fairfirst Insurance Ltd

##### Income Statement

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Gross written premium	2,109	2,579
Net benefits and claims	(5,400)	(1,000)
Rent Income	-	12,379
Other operating and administrative expenses	(47,230)	(36,340)

##### Statement of Financial Position

As at 31 December	2018 Rs. '000	2017 Rs. '000
Other receivables	21,026	13,793
Other liabilities	(5,387)	(1,839)

## 45 COMMITMENTS

### 45.1 Capital Commitments

There were no significant capital commitments as at the reporting date other than the following.

As at 31 December	2018 Rs. Mn	2017 Rs. Mn
Capital commitment contracted	429	241

### 45.2 Operating Lease

#### Accounting Policy

Leases that do not transfer to the company, substantially all the risks and benefits incidental to ownership of the leased items, are operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

The Company has leased a number of branches under operating leases. These leases have an average tenure between one to five years. Lease agreements include clauses to enable upward revision of the rental payments on a periodic basis to reflect market conditions. There are no restrictions placed upon the Company by entering into these leases.

## NOTES TO THE FINANCIAL STATEMENTS

### 45.2 (a) Future Minimum Lease Payments.

The Company does not have any non cancellable operating leases as at the reporting date.

### 45.2 (b) Amount Recognised in Profit or Loss

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Lease expenses	101,618	82,088
Contingent rent expenses	Nil	Nil

## 46 EVENTS AFTER THE REPORTING DATE

### Accounting Policy

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

All material events after the reporting date have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

There have been no events subsequent to the reporting date, which would have any material effect on the Company, other than the following;

#### 46.1. Non Adjusting Events After Reporting Date

The Board of Directors of the Company has declared a first and final dividend of Rs. 20 per share subject to relevant regulatory adherence for the financial year ended 31 December 2018.

As required by the Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57 prior to declaring the first and final dividend. A statement of solvency duly completed and signed by the Directors on 27 February 2019 has been audited by Messrs. KPMG.

In accordance with LKAS 10, Events After the Reporting Period the first and final dividend has not been recognised as a liability in the financial statement as at 31 December 2018.

#### 46.1.(a) Non Adjusting Events After Reporting Date

Mr. Krishan Balendra has been appointed to the Board of Directors of the Company with effect from 1 January 2019 as Chairman and Non - Executive Director.

Mr. Stephen Appleyard has been appointed to the Board of Directors of the Company with effect from 1 January 2019 as Independent Non - Executive Director.

## 47 PROVISIONS AND CONTINGENCIES

### Accounting Policy

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre - tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in the profit or loss.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

### Use of Judgments and Estimates

The Company receives legal claims against it in the normal course of business. Management has made judgement as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

The contingent liabilities of the Company as at 31 December 2018, relates to the following;

#### 47.1 Income tax assessment relating to years of assessment 2010/11, 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16

The Department of Inland Revenue has raised assessment on Union Assurance PLC for the year of assessment 2010 / 11, assessing the Life insurance business to pay income tax liabilities of Rs. 13 million and Company lodged an appeal against the said assessment with the Tax Appeals Commission (TAC). TAC issued it's determination in favour of the Inland Revenue Department and a case was filled at the Court of Appeal on 20 December 2018 against the said determination. The case was postponed on 23 January 2019 and fixed for support at Court of Appeal on 29 March 2019.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2011 / 12, 2012 / 13 and 2013 / 14, assessing the Life insurance

business to pay income tax liabilities of Rs. 132 million, Rs. 411 million together with a Rs. 233 million penalty totalling to Rs. 644 million and Rs. 175 million together with a Rs. 88 million penalty totalling to 263 million respectively. The Company has lodged valid appeals against the said assessments with the Tax Appeals Commission.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2014 / 15 and 2015 / 16, assessing the Life insurance business to pay an income tax liability of Rs. 862 million along with a 50% penalty totalling to Rs. 1,294 million for each year of assessment . The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for years of assessment 2010 / 11, 2011/ 12, 2012 / 13, 2013 / 14, 2014 / 15 and 2015 / 16 and therefore, the above assessments have no rationale or basis in law.

**The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business.**

While it is not practicable to forecast or determine the final results of all pending or potential legal proceedings, Directors do not believe that such proceedings (including litigation) will have a material effect on the Company's results and financial position. All pending litigation for claims have been evaluated and adequate provisions have been made in the financial statements.

**The Company is also subject to insurance solvency regulations and has complied with all solvency regulations**

There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

#### **48 COMPARATIVE INFORMATION**

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

#### **49 DIRECTORS' RESPONSIBILITY**

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements. Please refer page 168 for the Statement of Directors' Responsibility.

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

# SUPPLEMENTARY INFORMATION

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## MEMBERSHIPS MAINTAINED BY THE COMPANY

We actively participate in public policy development for the betterment of society as a whole by being active members of;

- ▶ The Ceylon Chamber of Commerce
- ▶ American Chamber of Commerce in Sri Lanka
- ▶ National Chamber of Exporters of Sri Lanka
- ▶ Insurance Association of Sri Lanka
- ▶ Employers' Federation of Ceylon
- ▶ Sri Lanka Association of Software and Service Companies (SLASSCOM)
- ▶ Sri Lanka Institute of Directors
- ▶ LIMRA (Life Insurance and Market Research Association)

# DECADE AT A GLANCE

Insurance Revenue Accounts For the year ended 31 December Rs'000	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Gross written premium	11,243,915	10,117,630	8,270,751	6,964,390	5,945,499	5,515,063	5,106,323	4,471,628	3,465,505	2,778,184
Net written premium	10,527,474	9,620,018	7,846,894	6,600,208	5,617,435	5,234,521	4,856,728	4,268,720	3,367,179	2,678,482
Investment and other income	3,265,566	3,822,225	2,746,306	2,167,304	3,159,957	2,017,544	1,722,070	1,215,043	1,806,873	1,361,853
Net benefits and claims	(6,813,030)	(5,388,696)	(5,833,650)	(4,873,607)	(5,201,025)	(3,976,248)	(3,572,769)	(2,791,635)	(2,839,059)	(2,179,344)
Change in contract liability due to transfer of one off surplus	-	3,381,934	-	-	-	-	-	-	-	-
Underwriting and net acquisition costs (including reinsurance)	(2,055,051)	(1,841,151)	(1,441,617)	(1,289,437)	(1,115,834)	(968,181)	(890,536)	(819,076)	(675,673)	(503,150)
Other operating and administrative expenses	(3,857,363)	(2,570,396)	(2,157,254)	(1,832,743)	(1,710,533)	(1,695,636)	(1,590,493)	(1,444,052)	(1,334,320)	(1,122,841)
Income tax reversal / (expenses)	32,404	-	(60,679)	28,275	-	-	-	-	-	-
<b>Surplus from life insurance fund</b>	<b>1,100,000</b>	<b>7,023,934*</b>	<b>1,100,000</b>	<b>800,000</b>	<b>750,000</b>	<b>612,000</b>	<b>525,000</b>	<b>429,000</b>	<b>325,000</b>	<b>235,000</b>
Investment and other income not attributable to policyholders	1,029,785	236,290	179,432	1,530,851	167,623	207,074	23,161	-	-	-
Expenses not attributable to policyholders	(114,796)	(63,940)	(27,119)	(42,205)	(36,883)	(28,110)	(15,342)	(12,826)	-	-
Share of net result of equity accounted investee	149,807	187,844	60,315	57,990	-	-	-	-	-	-
Income tax reversal	1,079,046	-	-	-	-	-	-	-	-	-
<b>Profit for the year</b>	<b>3,243,842</b>	<b>7,384,128*</b>	<b>1,312,628</b>	<b>2,346,636</b>	<b>880,740</b>	<b>790,964</b>	<b>532,819</b>	<b>416,174</b>	<b>325,000</b>	<b>235,000</b>

\* Includes the restricted one-off surplus transfer of Rs. 3.4 billion in 2017.

Statement of financial position As at 31 December Rs'000	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Assets</b>										
Intangible assets	1,392,191	212,817	94,647	59,616	66,766	117,475	-	-	-	49,500
Property, plant and equipment	2,082,990	2,000,716	1,493,040	1,523,676	1,203,934	1,337,498	1,318,225	1,298,380	1,108,723	1,070,060
Deferred tax assets	1,079,046	-	-	-	-	-	-	-	-	-
Investment in equity accounted investee	1,130,379	995,722	777,346	736,216	-	-	-	-	-	-
Financial investments, including derivatives	39,138,073	36,792,921	30,847,256	26,540,934	24,038,978	24,297,498	20,802,309	16,579,094	14,337,860	11,911,086
Loans to life policyholders	1,218,949	1,001,538	867,177	741,852	660,744	515,735	385,688	246,674	232,618	224,325
Reinsurance receivable	371,126	267,417	178,181	149,772	67,536	502,571	400,627	545,774	619,228	900,800
Premiums receivable	331,539	268,511	246,800	203,722	159,117	1,844,831	1,459,440	1,236,299	1,237,594	845,756
Receivables and other assets	1,675,601	947,239	809,784	732,017	816,718	1,087,585	1,055,006	1,795,727	1,552,089	1,329,848
Deferred acquisition cost	-	-	-	-	-	149,145	146,097	147,495	139,176	130,445
Cash in hand and at bank	696,835	580,126	379,232	326,012	196,429	466,402	315,634	373,413	390,138	313,855
Assets held for sale	-	-	-	-	8,393,314	-	-	-	-	-
<b>Total Assets</b>	<b>49,116,729</b>	<b>43,067,007</b>	<b>35,693,463</b>	<b>31,013,817</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>

Statement of financial position As at 31 December	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Rs'000										
<b>Equity</b>										
Stated capital	1,000,000	1,000,000	1,000,000	1,000,000	1,138,433	1,138,433	1,133,305	388,433	388,433	388,433
Restricted regulatory reserve	3,381,934	3,381,934	-	-	-	-	-	-	-	-
Other reserves	1,663,960	2,144,728	817,003	1,232,893	1,228,722	829,094	720,830	955,194	1,340,970	584,359
Retained earnings	7,625,794	5,438,052	2,049,189	1,232,035	3,843,704	3,149,766	2,454,923	1,903,587	1,439,109	1,332,359
<b>Total Equity</b>	<b>13,671,688</b>	<b>11,964,714</b>	<b>3,866,192</b>	<b>3,464,928</b>	<b>6,210,859</b>	<b>5,117,293</b>	<b>4,309,058</b>	<b>3,247,214</b>	<b>3,168,512</b>	<b>2,305,151</b>
<b>Liabilities</b>										
Insurance contract liabilities - Life	30,599,881	26,949,613	27,889,682	23,731,238	20,435,876	17,518,016	15,356,340	13,440,459	11,769,308	9,783,676
- Unit Linked	1,501,271	2,121,609	2,377,707	2,541,221	2,618,007	1,807,137	1,143,546	555,541	165,835	-
- Non Life	-	-	-	-	-	3,440,249	3,200,838	3,050,976	2,813,250	2,689,394
Employee benefit liabilities	115,516	122,588	107,963	100,199	90,437	186,078	163,572	89,467	83,032	77,823
Deferred revenue	-	-	-	-	-	109,402	96,904	154,702	132,422	95,955
Reinsurance payables	669,314	345,146	208,742	213,855	150,784	764,977	415,394	441,567	405,764	327,196
Other liabilities	2,314,884	1,368,031	1,092,871	843,424	770,190	1,336,864	1,172,899	1,212,557	1,050,194	1,474,237
Bank overdraft	244,175	195,306	150,306	118,952	66,017	38,724	24,475	30,373	29,109	22,243
Liabilities held for sale	-	-	-	-	5,261,366	-	-	-	-	-
<b>Total Liabilities</b>	<b>35,445,041</b>	<b>31,102,293</b>	<b>31,827,271</b>	<b>27,548,889</b>	<b>29,392,677</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>Total equity and liabilities</b>	<b>49,116,729</b>	<b>43,067,007</b>	<b>35,693,463</b>	<b>31,013,817</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>
<b>Investor Information</b>										
Return on Net Assets (%)*	25.31	93.29	35.81	48.51	15.55	16.78	14.10	12.97	11.88	12.39
Earnings Per Share (Rs.)*	55.05	125.31	22.27	31.20	14.04	13.11	12.28	9.27	6.83	5.35
Dividend Per Share (Rs.)	21.50	18.00	10.50	8.50	6.50	6.00	5.00	5.00	3.13	2.50
Net Assets Per Share (Rs.)	232.00	203.04	65.61	58.80	72.46	59.70	50.27	43.30	84.49	61.47
Market Price Per Share (Rs.)	347.30	135.00	143.00	165.00	164.00	104.00	83.00	108.10	122.10	90.75
Market Capitalisation (Rs. Mn.)	20,465.89	7,955.00	8,426.79	9,723.21	14,057.10	8,914.26	7,114.29	8,107.50	4,578.75	3,403.13
Price Earnings Ratio (Times)	6.31	1.08	6.42	5.29	11.68	7.94	6.76	11.66	8.94	8.49
<b>Other Information</b>										
Number of employees	614	529	474	450	445	1,157	1,088	1,009	989	949
No. of Shares ('000)	58,929	58,929	58,929	58,929	85,714	85,714	85,714	75,000	37,500	37,500

\* 2009 to 2014 figures include profits of the non life insurance business.

# INDEPENDENT ASSURANCE REPORT TO UNION ASSURANCE



**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 6872  
+94 - 11 244 6058  
+94 - 11 254 1249  
**Internet** : [www.kpmg.com/lk](http://www.kpmg.com/lk)

We have been engaged by the directors of Union Assurance PLC ("the Company") to provide reasonable assurance and limited assurance in respect of the Sustainability Indicators as identified below for the year ended 31 December 2018. The Sustainability Indicators are included in the Union Assurance PLC's Integrated Annual Report for the year ended 31 December 2018 (the "Report").

The Reasonable Assurance Sustainability Indicators covered by our reasonable assurance engagement are:

Assured Sustainability Indicators	Integrated Annual Report Page
Performance highlights - Financial highlights	15

The Limited Assurance Sustainability Indicators covered by our limited assurance engagement are:

Limited Assurance Sustainability Indicators	Integrated Annual Report Page
Sustainability performance indicators	
- Performance highlights - Non-financial highlights	16
Information provided on following stakeholder groups.	
• Shareholders - Financial capital	53-65
• Customers - Social and Relationship Capital, Intellectual Capital and Manufactured capital	67-79, 93-97 and 107-111
• Environment - Natural capital	99-105
• Employees - Human capital	81-91
• Suppliers - Social and Relationship capital	67-79
• Community - Social and Relationship capital	67-79

## Our conclusions:

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

## Reasonable Assurance Sustainability Indicators

In our opinion, the Reasonable Assurance Sustainability Indicators, as defined above, for the year ended 31 December 2018 are, in all material respects, prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Limited Assurance Sustainability Indicators

Based on limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Limited Assurance

Sustainability Indicators, as defined above, for the year ended 31 December 2018, have not in all material respects, been prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

## Management's responsibility

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Indicators and the Limited Assurance Sustainability Indicators that are free from material misstatement whether due to fraud or error.

Management is responsible for preventing and detecting fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities.

Management is also responsible for ensuring that staff involved with the preparation and presentation of the description and Report are properly trained, information systems are properly updated and that any changes in reporting encompass all significant business units.

## Our responsibility

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Indicators and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Indicators included in the Report, as defined above.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain reasonable assurance about whether the Reasonable Assurance Sustainability Indicators are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Indicators are free from material misstatement.

#### Reasonable assurance over Reasonable Assurance Sustainability Indicators

The procedures selected in our reasonable assurance engagement depend on our judgment, including the assessment of the risks of material misstatement of the Reasonable Assurance Sustainability Indicators whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Reasonable Assurance Sustainability Indicators in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Company's internal control over the preparation and presentation of the Report.

Our engagement also included assessing the appropriateness of the Reasonable Assurance Sustainability Indicators, the suitability of the criteria, being the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines, used by the Company in preparing and presenting the Reasonable Assurance Sustainability Indicators within the Report, obtaining an understanding of the compilation of the financial and non-financial

information to the sources from which it was obtained, evaluating the reasonableness of estimates made by the Company, and re-computation of the calculations of the Reasonable Assurance Sustainability Indicators.

#### Limited assurance on the Assured Sustainability Indicators

Our limited assurance engagement on the Limited Assurance Sustainability Indicators consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Indicators, and applying analytical and other procedures, as appropriate. These procedures included:

- interviews with senior management and relevant staff at corporate and selected site level concerning sustainability strategy and policies for material issues, and the implementation of these across the business;
- enquiries of management to gain an understanding of the Company's processes for determining material issues for the Company's key stakeholder groups;
- enquiries of relevant staff at corporate and selected site level responsible for the preparation of the Limited Assurance Sustainability Indicators;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Indicators, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Indicators to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- reading the Limited Assurance Sustainability Indicators presented in the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of the Company;
- reading the remainder of the Report to determine whether there are any

material misstatements of fact or material inconsistencies based on our understanding obtained as part of our assurance engagement.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Indicators.

#### Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Reasonable and Limited Assurance Sustainability Indicators are prepared and presented in accordance with the Consolidated Set of Global Reporting Initiative Sustainability Reporting Standards Guidelines and for no other purpose or in any other context.

#### Restriction of use of our report

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



CHARTERED ACCOUNTANTS  
Colombo  
27 February 2019

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan ACA

P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel ACA

C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA

Principals - S.R.L. Perera FCA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

# GRI CONTENT INDEX



This Report has been prepared "in accordance" with the Core of the GRI Standards and has undergone the GRI Materiality Disclosures service in February 2019.

GRI Services reviewed that the GRI content index is clearly presented and the references for Disclosures 102-40 to 102-49 align with appropriate sections in the body of the report.

GRI Standard	Disclosure	Page Number	Reason for Omission
<b>GRI 101: FOUNDATION 2016</b>			
<b>GRI 102: GENERAL DISCLOSURES 2016</b>			
<b>Organizational profile</b>			
102-1	Name of the organization	289	
102-2	Activities, brands, products, and services	69 to 72	
102-3	Location of headquarters	289	
102-4	Location of operations	109	
102-5	Ownership and legal form	289	
102-6	Markets served	11	
102-7	Scale of the organization	15 and 16	
102-8	Information on employees and other workers	83 and 84	
102-9	Supply chain	74	
102-10	Significant changes to the organization and its supply chain	No significant changes in the supply chain	
102-11	Precautionary Principle or approach	151 and 152	
102-12	External initiatives	2	
102-13	Membership of associations	263	
<b>Strategy</b>			
102-14	Statement from senior decision-maker	11 and 12	
<b>Ethics and integrity</b>			
102-16	Values, principles, standards, and norms of behaviour	17	
<b>Governance</b>			
102-18	Governance structure	119 and 120	
<b>Stakeholder engagement</b>			
102-40	List of stakeholder groups	31 and 32	
102-41	Collective bargaining agreements	No collective bargaining agreements	
102-42	Identifying and selecting stakeholders	29	

GRI Standard	Disclosure	Page Number	Reason for Omission
102-43	Approach to stakeholder engagement	30	
102-44	Key topics and concerns raised	35	
<b>Reporting practice</b>			
102-45	Entities included in the consolidated financial statements	2	
102-46	Defining report content and topic Boundaries	2	
102-47	List of material topics	33 and 34	
102-48	Restatements of information	34	
102-49	Changes in reporting	34	
102-50	Reporting period	2	
102-51	Date of most recent report	31 December 2017	
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report	Nadee Perera (nadeep@ualink.lk)	
102-54	Claims of reporting in accordance with the GRI Standards	2	
102-55	GRI content index	268-275	
102-56	External assurance	264 and 265	
<b>TOPIC-SPECIFIC STANDARDS- MATERIAL TOPICS</b>			
<b>GRI 200: Economic Standard Series</b>			
<b>GRI 201: Economic Performance 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	54	
	Create long term value to shareholders while protecting the interest of our policyholders.		
103-2	The management approach and its components	54	
103-3	Evaluation of the management approach	53	
201-1	Direct economic value generated and distributed	23	
201-2	Financial implications and other risks and opportunities due to climate change	No impact due to climate change	
201-3	Defined benefit plan obligations and other retirement plans	16 and 88	
201-4	Financial assistance received from government	None	
<b>GRI 203: Indirect Economic Impacts 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	68	
	Be accountable and implement strategies that would transmit change through the social and economic parameters of the business operations		
103-2	The management approach and its components	68	
103-3	Evaluation of the management approach	67	
203-1	Infrastructure investments and services supported	16 and 77	
203-2	Significant indirect economic impacts	23 and 77	

## GRI CONTENT INDEX

GRI Standard	Disclosure	Page Number	Reason for Omission
<b>GRI 300: Environment Standard Series</b>			
<b>GRI 302: Energy 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	100	
	Implement various energy conservation initiatives at head office and branch level to minimise the impact create on the environment and use of non-renewable energy		
103-2	The management approach and its components	100	
103-3	Evaluation of the management approach	100	
302-1	Energy consumption within the organization	101	
302-2	Energy consumption outside of the organization	101	
302-3	Energy intensity	101	
302-4	Reduction of energy consumption	101	
302-5	Reduction in energy requirements of products and services	101	
<b>GRI 303: Water 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	102	
	Implement various water conservation initiatives at head office and branch level to ensure effective utilization of water		
103-2	The management approach and its components	102	
103-3	Evaluation of the management approach	102	
303-1	Water withdrawal by source	102	
303-2	Water sources significantly affected by withdrawal of water	102	
303-3	Water recycled and reused	16 and 102	
<b>GRI 305: Emissions 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	103	
	Measure and reduce what has been discharged to atmosphere and adherence to all globally accepted measurement parameters with regard to emission management		
103-2	The management approach and its components	103	
103-3	Evaluation of the management approach	103	
305-1	Direct (Scope 1) GHG emissions	103 and 276	
305-2	Energy indirect (Scope 2) GHG emissions	103 and 276	
305-3	Other indirect (Scope 3) GHG emissions	103 and 276	
305-4	GHG emissions intensity	103	
305-5	Reduction of GHG emissions	103	
305-6	Emissions of ozone-depleting substances (ODS)	Not Tracked	

GRI Standard	Disclosure	Page Number	Reason for Omission
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Not Tracked	
<b>GRI 306: Effluents and Waste 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	103	
	Re-use and Recycle of materials including paper, e-waste, food and waste water to minimise the impact created on the environment		
103-2	The management approach and its components	103	
103-3	Evaluation of the management approach	103	
306-1	Water discharge by quality and destination	Not tracked as the discharge of water is low	
306-2	Waste by type and disposal method	103	
306-3	Significant spills	No Significant spills	
306-4	Transport of hazardous waste	Business does not involve transport of hazardous waste	
306-5	Water bodies affected by water discharges and/or runoff	No major water bodies affected by water discharges and/or runoff	
<b>GRI 307: Environmental compliance 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	104	
	Compliance with all the environmental regulations applicable to branch expansion and business operations		
103-2	The management approach and its components	104	
103-3	Evaluation of the management approach	104	
307-1	Non-compliance with environmental laws and regulations	Zero non-compliance reported during the year	
<b>GRI 400: Social Standard Series</b>			
<b>GRI 401: Employment 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	82	
	Continuously invest in developing skills and competencies of the team, to meet current as well as future business opportunities and challenges. Committed to be a "Great Place to Work" and to be an equal opportunity employer.		
103-2	The management approach and its components	82	
103-3	Evaluation of the management approach	81	
401-1	New employee hires and employee turnover	83 and 84	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefit vary based on the terms on the employment contract not based on the location of operation	

## GRI CONTENT INDEX

GRI Standard	Disclosure	Page Number	Reason for Omission
401-3	Parental leave	Not tracked but have not noticed any significant drop out	
<b>GRI 402: Labour/Management relations 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	90	
	Maintaining healthy relationship by implementing number of employee engagement initiatives		
103-2	The management approach and its components	90	
103-3	Evaluation of the management approach	90	
402-1	Minimum notice periods regarding operational changes	83 and 90	
<b>GRI 403: Occupational Health and Safety 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	90	
	Adopting unique culture that drives to provide a healthy workplace for staff		
103-2	The management approach and its components	90	
103-3	Evaluation of the management approach	90	
403-1	Workers representation in formal joint management_ worker health and safety committees	16 and 90	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	16	
403-3	Workers with high incidence or high risk of diseases related to their occupation	No such workers	
403-4	Health and safety topics covered in formal agreements with trade unions	No such workers	
<b>GRI 404: Training and Education 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	86	
	Developing an learning environment and ensure people development, talent retention and sustainable competitive advantage		
103-2	The management approach and its components	86	
103-3	Evaluation of the management approach	86	
404-1	Average hours of training per year per employee	81	
404-2	Programs for upgrading employee skills and transition assistance programs	86 and 87	
404-3	Percentage of employees receiving regular performance and career development reviews	16 and 88	
<b>GRI 405: Diversity and equal opportunity 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	82	
	Taking extensive measures to ensure the attitudes of openness and inclusivity are embedded in the every part of the organisation		
103-2	The management approach and its components	82	
103-3	Evaluation of the management approach	82	

GRI Standard	Disclosure	Page Number	Reason for Omission
405-1	Diversity of governance bodies and employees	82 and 83	
405-2	Ratio of basic salary and remuneration of women to men	82	
<b>GRI 406: Non-Discrimination 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	82	
	Avoid discrimination when recruiting, promoting and granting recognitions.		
103-2	The management approach and its components	82	
103-3	Evaluation of the management approach	82	
406-1	Incidents of discrimination and corrective actions taken	No incidents reported	
<b>GRI 407: Freedom of association and collective bargaining 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	90	
	Integrate human right policies into everyday governance and business practices		
103-2	The management approach and its components	90	
103-3	Evaluation of the management approach	90	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	No such operations have been recognised	
<b>GRI 410: Security practices 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	74	
	Providing training to security personnel ensure work place safety and positively contributes to security of employees, customers, community.		
103-2	The management approach and its components	74	
103-3	Evaluation of the management approach	74	
410-1	Security personnel trained in human rights policies or procedures	100% training provided	
<b>GRI 413: Local communities 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	76	
	Identifying and addressing key material issues applicable to community through CSR committee		
103-2	The management approach and its components	76	
103-3	Evaluation of the management approach	78	
413-1	Operations with local community engagement, impact assessments, and development programs	16, 77 and 78	
413-2	Operations with significant actual and potential negative impacts on local communities		

## GRI CONTENT INDEX

GRI Standard	Disclosure	Page Number	Reason for Omission
<b>GRI 414: Supplier social assessment 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	74	
	Implementation of proper supplier selection criteria when recruiting and maintaining suppliers relationships		
103-2	The management approach and its components	74	
103-3	Evaluation of the management approach	74	
414-1	New suppliers that were screened using social criteria	16	
414-2	Negative social impacts in the supply chain and actions taken	No negative social impact reported	
<b>GRI 415: Public policy 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	78	
	Providing positive contribution towards various policy initiatives implemented by government		
103-2	The management approach and its components	78	
103-3	Evaluation of the management approach	78	
415-1	Political contributions	No political contributions made	
<b>GRI 416: Customer health and safety 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	69	
	Developing and providing insurance products that ensure health and safety of the customers		
103-2	The management approach and its components	69	
103-3	Evaluation of the management approach	69 to 71	
416-1	Assessment of the health and safety impacts of product and service categories	69	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	No incidents reported	
<b>GRI 417: Marketing and Labelling 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	69	
	Providing insurance solutions, fair and responsible marketing communications as well as access to information about the composition of products.		
103-2	The management approach and its components	69	
103-3	Evaluation of the management approach	69 to 71	
417-1	Requirements for product and service information and labelling	69 to 71	
417-2	Incidents of non-compliance concerning product and service information and labelling	Zero incidents	
417-3	Incidents of non-compliance concerning marketing communications	Zero incidents	

GRI Standard	Disclosure	Page Number	Reason for Omission
<b>GRI 418: Customer privacy 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	71	
	Taking reasonable measures to ensure the security of personal data collected		
103-2	The management approach and its components	71	
103-3	Evaluation of the management approach	73	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Zero Incidents	
<b>GRI 419: Socioeconomic Compliance 2016</b>			
<b>GRI 103: Management Approach 2016</b>			
103-1	Explanation of the material topic and its Boundary	73	
	Compliance with socioeconomic regulations applicable to the organisations		
103-2	The management approach and its components	73	
103-3	Evaluation of the management approach	73	
419-1	Non-compliance with laws and regulations in the social and economic area	16	

# CERTIFICATE OF CARBON FOOTPRINT



## Carbon Consulting Company (Private) Limited

Registered Address: 104/11 Grandpass Road, Colombo 14, Sri Lanka

Correspondence Address: 415 Galle Road, Colombo 04, Sri Lanka

Tel: (+94) 117 208 208 | Fax: (+94) 112 334 748

Email: info@carbonconsultco.com

Web: www.carbonconsultingcompany.com

18<sup>th</sup> February 2019

### Certificate of Assessment – Greenhouse Gas Emissions Inventory

This is to certify that The Carbon Consulting Company (CCC) has conducted an Organisational Greenhouse Gas (GHG) Assessment for the operations of Union Assurance PLC using data provided by the client for stipulated emissions sources and activities as described in the table below. Following the assessment, CCC can confirm that the Carbon Footprint of Union Assurance PLC's operations for the calendar year 2018 is **1,426.30 tonnes of Carbon Dioxide Equivalents (tCO<sub>2</sub>e)**.

Reporting Scope	Emissions Source	Emissions Activity	Emissions Total (tCO <sub>2</sub> e)
Scope 1 – Direct Emissions	Stationary Combustion	Generator Fuel	7.30
	Mobile Combustion	Long-term Leased Vehicles (Operational)	85.87
<b>SCOPE 1 TOTAL EMISSIONS</b>			<b>93.17</b>
Scope 2 – Indirect Emissions	Purchased Electricity	Electricity Consumption	885.48
<b>SCOPE 2 TOTAL EMISSIONS</b>			<b>885.48</b>
Scope 3 – Indirect Emissions	Purchased Electricity	Electricity Transmission and Distribution Losses	101.30
	Waste Transportation	Third-Party Outbound Waste Transportation	0.09
	Waste Disposal	Waste Disposal	0.35
	Employee Commuting	Employees Commuting to and from Work	345.90
<b>SCOPE 3 TOTAL EMISSIONS</b>			<b>447.64</b>
<b>TOTAL SCOPE 1, 2 &amp; 3 CARBON FOOTPRINT OF UNION ASSURANCE PLC</b>			<b>1,426.30</b>

The calculations were carried out in accordance with the **Greenhouse Gas Protocol – Corporate Accounting and Reporting Standard (GHG Protocol)** developed in partnership with the **World Business Council for Sustainable Development** and the **World Resources Institute**. This standard provides guidelines regarding organisational and operational assessment boundaries, quantification and standard reporting practices.

Our calculations have applied the methodologies stipulated in the GHG Protocol to a limited scope as requested by Union Assurance PLC, and the client is solely responsible for the authenticity, relevancy and accuracy of the data provided for this GHG Assessment (*data has not been independently verified*).

Yours faithfully,

Authorised Signature

# GLOSSARY OF INSURANCE TERMS

**Accumulation** - The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

**Acquisition expenses** - All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts e.g. commissions.

**Actuary** - Qualified expert who analyses problems from the area of insurance, investments and pensions using methods of probability theory and financial mathematics and develops solutions with due regard to legal and economic parameters.

**Administrative expenses** - Costs of an administrative nature including those arising from premium collection portfolio administration, handling of bonuses and rebates and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

**Admissible assets** - Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

**Annuity** - A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant.

A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

**Bancassurance** - An arrangement whereby insurer sells insurance and investment products to bank customers.

**Beneficiary** - A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

**Benefits and claims experience variation** - The difference between the expected and the actual benefit payout

**Cedent** - Client of a reinsurance company (also see primary insurers).

**Claims** - The amount payable under a contract of insurance arising from the occurrence of an insured event.

**Claims incurred** - A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

**Claims outstanding** - The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the reporting date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

**Commissions** - A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

**Capital Adequacy Ratio (CAR)** - Measures adequacy of the Total Available Capital (TAC) as against the Risk Capital Required (RCR) under the Risk Based Capital Regime.

**Discretionary participating features (DPF)** - A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits;

- ▶ That are likely to be a significant portion of the total contractual benefits;
- ▶ Whose amount or timing is contractually at the discretion of the issuer;
- ▶ That are contractually based on;
- ▶ The performance of a specified pool of contracts or a specified type of contract;
- ▶ The realised and or unrealised investment returns on a specified pool of assets held by the issuer; and
- ▶ The profit or loss of the company, fund or other entity that issues the contract.

**Endowment** - Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.

**Financial risk** - The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

**Global Reporting initiative (GRI)** - A leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations to become more sustainable and contribute to sustainable development. It allied with the UN Global Compact.

**Healthcare** - An insurance contract which provides medical coverage to a policyholder.

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

**Insurance risk** - Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

**Insurance provision – Life** - The fund or funds maintained by an insurer in respect of its life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

**Investment contract** - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance.

**Investment management services** - The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.

**Lapsed Policy** - A policy terminated at the end of the grace period because of non payment of premiums.

**Liability adequacy test (LAT)** - An annual assessment of the sufficiency of insurance and / or investment contract with DPF liabilities, to cover future insurance obligations.

**Life surplus** - The excess of the assets over the liabilities as determined by the actuary and after the distribution of dividends to policyholders

**Life insurance business** - Insurance (including reinsurance) business falling within the classes of insurance specified as long term insurance business under the Regulation of Insurance Industry Act No. 43 of 2000.

**Longevity** - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

## GLOSSARY OF INSURANCE TERMS

**Loss ratio** - Percentage ratio of claims expenses to earned premiums.

**Mortality** - The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

**Net asset value** - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

**Net expenses for claims and benefits** - These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

**Non-participating business** - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

**Non-proportional reinsurance** - Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

**Outstanding claims provision** - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.

**Participating business** - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

**Policyholders' bonuses** - In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

**Policy loans** - A loan from the insurer to a policyholder on the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

**Premiums** - The instalments paid by the customers.

**Primary insurers** - Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

**Proportional reinsurance** - Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

**Provision for outstanding claims** - Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.

**Reinsurance** - An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

**Reinsurance commission** - Commission received or receivable in respect of premiums paid or payable to a reinsurer.

**Reinsurance insurance risk** - that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

**Reinsurance inwards** - The acceptance of risks under a contract of reinsurance.

**Reinsurance outwards** - The placing of risks under a contract of reinsurance.

**Reinsurance profit commission** - Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

**Retention** - The part of the risk assumed which the insurer / reinsurer does not reinsure / retrocede, i.e. retained net for own account.

**Retrocession** - The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

**Risk Based Capital** - A "Risk Based" approach to assess the solvency and is based on the real "cash flows" of the business.

**Scenario analysis** - Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually takes the form of average if-then analyses.

**Stress test** - A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations, tail dependencies. The result of risk drivers interacting in exceptional situations.

**Surrender value** - The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in life insurance).

**Technical provisions** - Uncertain liabilities directly connected with non-life insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

**Underwriter** - Member of an insurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of an insurance contract. They are responsible for ensuring the quality and reliability of risk-transfer solutions. Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

**Unit-linked life Insurance** - A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

**Variable annuities** - A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

**Written premium** - Life insurance business - Premiums to which the insurer is contractually entitled and received in the accounting period.

# QUARTERLY ANALYSIS 2018

Rs'000	2018				2017				Total
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter	
	January-March	April-June	July-September	October-December	January-March	April-June	July-September	October-December	
Gross written premium	2,551,165	2,618,684	2,733,837	3,340,229	2,286,033	2,312,753	2,625,792	2,893,052	10,117,630
Premium ceded to reinsurers	(131,278)	(137,917)	(185,624)	(261,622)	(117,961)	(121,648)	(128,535)	(129,466)	(497,612)
<b>Net written premium</b>	<b>2,419,887</b>	<b>2,480,767</b>	<b>2,548,213</b>	<b>3,078,607</b>	<b>2,168,072</b>	<b>2,191,105</b>	<b>2,497,257</b>	<b>2,763,584</b>	<b>9,620,018</b>
<b>Other revenue</b>	-	-	-	-	-	-	-	-	-
Net investment income	983,233	1,079,438	973,679	1,601,790	888,163	893,176	912,847	941,822	3,636,008
Net realised gains / (losses)	76,377	23,951	(8,388)	31,534	2,887	32,965	45,311	(5,572)	75,591
Net fair value gains / (losses)	(128,257)	(246,231)	(465,050)	36,463	(50,593)	510,802	(210,123)	8,274	258,360
Other income	15,518	10,405	104,081	(87,044)	13,901	14,784	16,075	18,416	63,176
<b>Total other revenue</b>	<b>946,871</b>	<b>867,563</b>	<b>604,322</b>	<b>1,582,743</b>	<b>854,358</b>	<b>1,451,727</b>	<b>764,110</b>	<b>962,940</b>	<b>4,033,135</b>
<b>Total net revenue</b>	<b>3,366,758</b>	<b>3,348,330</b>	<b>3,152,535</b>	<b>4,661,350</b>	<b>3,022,430</b>	<b>3,642,832</b>	<b>3,261,367</b>	<b>3,726,524</b>	<b>13,653,153</b>
<b>Benefits, claims and expenses</b>	-	-	-	-	-	-	-	-	-
Net insurance benefits and claims paid	(785,752)	(792,177)	(1,042,754)	(729,917)	(512,190)	(420,926)	(745,002)	(995,615)	(2,673,733)
Net change in insurance claims outstanding	88,825	158,089	92,704	103,143	60,923	(13,528)	21,742	(74,439)	(5,302)
Change in contract liabilities - Life Fund	(1,324,479)	(1,056,212)	(493,405)	(1,031,095)	(1,584,760)	(2,223,989)	(1,403,462)	2,502,550	(2,709,661)
Change in contract liability due to transfer of one off surplus	-	-	-	-	-	-	-	3,381,934	3,381,934
Underwriting and net acquisition costs (net of reinsurance)	(487,710)	(542,338)	(525,682)	(499,321)	(410,939)	(395,520)	(479,344)	(555,348)	(1,841,151)
Other operating, administrative and selling expenses	(550,588)	(809,029)	(974,360)	(1,189,395)	(493,651)	(515,415)	(580,647)	(914,620)	(2,504,333)
Depreciation and amortisation	(26,892)	(27,832)	(27,627)	(72,584)	(27,543)	(26,566)	(25,950)	(24,564)	(104,623)
<b>Total benefits, claims and expenses</b>	<b>(3,086,596)</b>	<b>(3,069,499)</b>	<b>(2,971,124)</b>	<b>(3,419,169)</b>	<b>(2,968,160)</b>	<b>(3,595,944)</b>	<b>(3,212,663)</b>	<b>3,319,898</b>	<b>(6,456,869)</b>
<b>Profit from operations</b>	<b>280,162</b>	<b>278,831</b>	<b>181,411</b>	<b>1,242,181</b>	<b>54,270</b>	<b>46,888</b>	<b>48,704</b>	<b>7,046,422</b>	<b>7,196,284</b>
Share of results of equity accounted investee, net of tax	23,694	21,355	32,961	71,797	54,003	20,006	42,727	71,108	187,844
<b>Profit before tax</b>	<b>303,856</b>	<b>300,186</b>	<b>214,372</b>	<b>1,313,978</b>	<b>108,273</b>	<b>66,894</b>	<b>91,431</b>	<b>7,117,530</b>	<b>7,384,128</b>
Income tax (expense) / reversal	-	-	1,423,344	(311,894)	-	-	-	-	-
<b>Profit for the year</b>	<b>303,856</b>	<b>300,186</b>	<b>1,637,716</b>	<b>1,002,084</b>	<b>108,273</b>	<b>66,894</b>	<b>91,431</b>	<b>7,117,530</b>	<b>7,384,128</b>

# LIFE INSURANCE FUND

## INSURANCE REVENUE ACCOUNT

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Gross written premium	11,243,915	10,117,630
Premium ceded to reinsurers	(716,441)	(497,612)
<b>Net written premium</b>	<b>10,527,474</b>	<b>9,620,018</b>
Net insurance benefits and claims paid	(3,350,600)	(2,673,733)
Net change in insurance claims outstanding	442,761	(5,302)
Underwriting and net acquisition costs (net of reinsurance)	(2,055,051)	(1,841,151)
Other operating, selling and administrative expenses	(3,857,364)	(2,570,396)
<b>Underwriting surplus</b>	<b>1,707,220</b>	<b>2,529,436</b>
Investment and other income	3,265,567	3,822,225
Change in contract liabilities - Life fund	(3,905,191)	(2,709,661)
Change in contract liability due to transfer of one off surplus	-	3,381,934
Income tax reversal	32,404	-
<b>Surplus from life insurance fund</b>	<b>1,100,000</b>	<b>7,023,934</b>
Investment and other income not attributable to policyholders	1,029,785	236,290
Expenses not attributable to policyholders	(114,796)	(63,940)
Share of results of equity accounted investee, net of tax	149,807	187,844
Income tax reversal	1,079,046	-
<b>Profit from shareholders' fund</b>	<b>2,143,842</b>	<b>360,194</b>
<b>Profit for the year attributable to equity holders of the company</b>	<b>3,243,842</b>	<b>7,384,128</b>

## STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2018 Rs. '000	2017 Rs. '000
<b>Assets</b>				
Intangible assets			630,319	212,817
Property, plant and equipment	26	221	2,082,990	2,000,716
Financial investments, including derivatives	1	283	31,024,453	34,596,558
Loans to life policyholders	30	239	1,218,949	1,001,538
Reinsurance receivable	31	240	371,126	267,417
Premiums receivable	32	241	331,539	268,511
Receivables and other assets	2	284	1,270,836	616,905
Cash in hand and at bank	3	284	682,430	580,120
<b>Total assets</b>			<b>37,612,642</b>	<b>39,544,582</b>
<b>Reserves and liabilities</b>				
<b>Reserves</b>				
Other reserves	4	284	1,174,051	1,585,223
<b>Total reserves</b>			<b>1,174,051</b>	<b>1,585,223</b>
<b>Liabilities</b>				
Insurance contract liabilities	39	247	30,599,881	26,949,613
Insurance contract liabilities - Unit Linked	40	253	1,501,271	2,121,609
Employee benefit liabilities	41	254	115,516	122,588
Reinsurance payables	42	255	669,315	345,146
Other liabilities	5	284	3,308,433	8,225,097
Bank overdraft	34	243	244,175	195,306
<b>Total liabilities</b>			<b>36,438,591</b>	<b>37,959,359</b>
<b>Total reserves and liabilities</b>			<b>37,612,642</b>	<b>39,544,582</b>

## STATEMENT OF CASH FLOWS

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>Cash flows from operations</b>		
Insurance premiums received	11,180,888	10,095,919
Reinsurance premiums paid	(392,273)	(361,208)
Insurance benefits and claims paid	(3,509,084)	(2,828,188)
Reinsurance claims received	158,484	154,455
Payments to intermediaries to acquire insurance contracts	(2,498,772)	(1,793,544)
Cash paid to and on behalf of employees	(1,031,559)	(918,381)
Interest received	3,133,794	2,822,525
Dividends received	95,803	121,026
Other operating cash flows	(2,103,419)	(2,176,618)
Cash paid to life shareholder fund	(7,023,934)	(1,100,000)
<b>Cash generated from operating activities - (Note A)</b>	<b>(1,990,072)</b>	<b>4,015,986</b>
Retiring gratuity paid	(25,705)	(12,408)
<b>Net cash from operating activities</b>	<b>(2,015,777)</b>	<b>4,003,578</b>
<b>Cash flows from investing activities</b>		
Acquisition of investments	(17,482,187)	(29,154,576)
Maturity proceeds of investments	18,079,744	23,534,686
Proceeds from sale of investments	2,008,520	1,986,068
Acquisition of property, plant and equipment	(153,751)	(40,357)
Acquisition of intangible assets	(416,840)	(151,196)
Proceeds on sale of property, plant and equipment	1,298	36
<b>Net cash used in investing activities</b>	<b>2,036,784</b>	<b>(3,825,339)</b>
<b>Net cash inflow before financing activities</b>	<b>21,007</b>	<b>178,239</b>
Obligation to repurchase securities	1,998,230	-
Settlement of obligation to repurchase securities	(1,998,230)	-
<b>Net cash from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>21,007</b>	<b>178,239</b>
Cash and cash equivalents at the beginning of the year	417,248	239,009
<b>Cash and cash equivalent at the end of the year</b>	<b>438,255</b>	<b>417,248</b>

# LIFE INSURANCE FUND

## STATEMENT OF CASH FLOWS

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
<b>A. Reconciliation of surplus from life insurance fund before tax with cash from operating activities</b>		
Surplus from life insurance fund before tax	1,067,596	7,023,934
<b>Non - cash items included in profit before tax</b>		
Depreciation and amortisation	154,935	104,623
Provision for employee benefits	22,557	22,762
Provision for doubtful staff debtors	2,847	541
Net realised (gains)	(111,745)	(75,591)
Net fair value (gains) / losses	803,075	(258,360)
(Gains) / losses on sale of property, plant and equipment	(759)	413
Amortisation of financial investment	(154,795)	(281,164)
Scrip dividend income	(57,151)	(24,499)
Interest expense on obligation to repurchase securities	3,179	-
<b>Profit before working capital changes</b>	<b>1,729,739</b>	<b>6,512,659</b>
<b>Net change in operational assets</b>		
Net change in reinsurance assets / liabilities	220,459	47,168
Net change in premiums receivable	(63,028)	(21,711)
<b>Net change in receivables and other assets</b>	<b>(7,431,944)</b>	<b>(389,759)</b>
<b>Net change in operational liabilities</b>		
Net change in life insurance contract liabilities	3,029,930	(1,196,167)
Net change in other liabilities	524,772	(936,204)
<b>Cash generated from operating activities</b>	<b>(1,990,072)</b>	<b>4,015,986</b>
<b>B. Cash and cash equivalents at the end of the year</b>		
Cash in hand and at bank	682,430	580,120
Bank overdraft	(244,175)	(195,306)
Short term deposits	-	32,434
<b>Cash and cash equivalents</b>	<b>438,255</b>	<b>417,248</b>
Net cash in hand and at bank for the previous year	417,248	239,009
<b>Increase in cash and cash equivalents</b>	<b>21,007</b>	<b>178,239</b>

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 1 FINANCIAL INVESTMENTS

Refer Note 9 for the accounting policy

As at 31 December		2018		2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Rs'000	Note				
Held to maturity financial assets (HTM)	1.1	15,517,649	14,924,258	17,727,184	18,667,584
Loans and receivables (L&R)	1.2	7,572,228	7,464,277	5,806,251	5,876,468
Available for sale financial assets (AFS)	1.3	4,306,043	4,306,043	6,538,609	6,538,609
Financial assets at fair value through profit or loss (FVTPL)	1.4	3,628,533	3,628,533	4,524,514	4,524,514
<b>Total financial investments</b>		<b>31,024,453</b>	<b>30,323,111</b>	<b>34,596,558</b>	<b>35,607,175</b>

#### 1.1 Held to Maturity Financial Assets (HTM)

As at 31 December		2018	2017
Note	Rs. '000	Rs. '000	Rs. '000
<b>Amortised cost</b>			
Quoted debentures	29.3 (a)	216,551	290,985
Treasury bonds		15,301,098	17,436,199
<b>Total HTM financial investments</b>		<b>15,517,649</b>	<b>17,727,184</b>

Fair values of held to maturity financial assets are based on market prices / quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

At the reporting date, there were no held to maturity assets that were overdue and impaired.

#### 1.2 Loans and Receivables (L&R)

As at 31 December		2018	2017
Note	Rs. '000	Rs. '000	Rs. '000
<b>Amortised cost</b>			
Bank deposits		757,417	630,563
Quoted debentures	29.4 (a)	6,078,753	4,625,307
Reverse repurchase agreements		736,058	550,381
<b>Total L&amp;R financial investments</b>		<b>7,572,228</b>	<b>5,806,251</b>

#### 1.3 Available for Sale Financial Assets (AFS)

As at 31 December		2018	2017
Note	Rs. '000	Rs. '000	Rs. '000
<b>Fair value</b>			
Treasury bonds		4,276,364	6,485,756
Treasury bills		29,679	52,853
<b>Total AFS financial investments</b>		<b>4,306,043</b>	<b>6,538,609</b>

#### 1.4 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December		2018	2017
Note	Rs. '000	Rs. '000	Rs. '000
<b>Fair value</b>			
Quoted equities	29.6 (a)	2,129,129	2,344,572
Derivative financial instruments		-	50,737
		2,129,129	2,395,309
<b>Investments in unit linked funds</b>			
Quoted equities	29.6 (b)	1,167,900	1,628,378
Reverse repurchase agreements		112,842	223,361
Treasury bills		85,523	115,508
Treasury bonds		42,152	42,734
Bank deposits		-	32,434
Debentures		90,987	86,790
		1,499,404	2,129,205
<b>Total FVTPL financial investments</b>		<b>3,628,533</b>	<b>4,524,514</b>

# LIFE INSURANCE FUND

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 2 RECEIVABLES AND OTHER ASSETS

Refer Note 9 for the accounting policy.

As at 31 December		2018	2017
	Note	Rs. '000	Rs. '000
<b>Financial assets</b>			
Agent / advisor loans	33.2	212,984	68,090
Refundable deposits		17,126	8,090
Amount due from Fairfirst			
Insurance Limited		21,026	11,954
Other receivables		73,506	37,096
		324,642	125,230
<b>Non financial assets</b>			
Taxes recoverable	2.1	750,319	203,292
Prepayments		60,937	58,755
Inventories		13,677	21,521
Advance payments		117,372	155,553
Other receivables		3,889	52,554
		946,194	491,675
<b>Total receivable and other assets</b>		<b>1,270,836</b>	<b>616,905</b>

#### 2.1 Taxes Recoverable

As at 31 December		2018	2017
		Rs. '000	Rs. '000
ACT recoverable		92,296	92,296
WHT receivable		102,241	93,265
Notional tax receivable		541,304	-
ESC receivable		14,478	17,731
		750,319	203,292

### 3 Cash in Hand and at Bank

As at 31 December		2018	2017
		Rs. '000	Rs. '000
Cash at bank		679,042	576,950
Cash at bank - Unit Linked		68	72
Cash in hand		3,320	3,098
<b>Total</b>		<b>682,430</b>	<b>580,120</b>

### 4 Other Reserves

As at 31 December		2018	2017
	Note	Rs. '000	Rs. '000
Capital reserves	4.1	1,231,629	1,229,201
Reserve for AFS financial instruments		(50,384)	366,370
Reserve on retirement benefit obligation		(7,194)	(10,348)
<b>Total other reserves</b>		<b>1,174,051</b>	<b>1,585,223</b>

### 4.1 Capital Reserves

As at 31 December		2018	2017
	Note	Rs. '000	Rs. '000
Revaluation reserve	4.1 (a)	1,214,877	1,212,449
Reserve on Cornhill merger	4.1 (b)	16,752	16,752
		1,231,629	1,229,201

#### 4.1 (a) Revaluation Reserve

As at 31 December		2018	2017
		Rs. '000	Rs. '000
Balance as at 1 January		1,212,449	678,503
Revaluation surplus during the year		-	539,365
Adjustment for deferred tax		7,043	-
Transfer to retained earnings		(4,615)	(5,419)
<b>Balance as at 31 December</b>		<b>1,214,877</b>	<b>1,212,449</b>

#### 4.1 (b) Reserve on Merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of the Company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policyholders.

### 5 OTHER LIABILITIES

As at 31 December		2018	2017
		Rs. '000	Rs. '000
<b>Financial liabilities</b>			
Agency commission payable		240,952	189,244
Other staff related provisions		145,523	158,389
Premiums in suspense		545,547	292,108
		932,022	639,741
<b>Non financial liabilities</b>			
Government levies		53,852	10,103
Premium received in advance		42,659	147,171
Other liabilities		2,279,900	7,428,082
		2,376,411	7,585,356
<b>Total other liabilities</b>		<b>3,308,433</b>	<b>8,225,097</b>

# UNDERSTANDING OUR FINANCIALS

## STATEMENT OF INCOME

### Gross Written Premium (GWP)

The main source of income consisting premiums paid by customers for the risk/s which they transfer to the company or the money charged for a certain amount of insurance coverage is called the Gross Written Premium (GWP). It's comparable with the 'turnover' of a trading or manufacturing organisation.

### Premium Ceded to Reinsurers

The portion of risk that a primary insurer passes to a reinsurer. This allows the company to reduce its risk exposure and the accepting company receives a premium for taking on the risk.

### Net Written Premium

Refers to the portion of premium which is applicable for the financial year and earned by the insurer by providing insurance against various risks during the year.

### Net Investment Income

Refers to interest income and dividend income received, from investments maintained by the company after deducting the costs of the related investments such as bank charges, custodian fees, brokerage fee, etc.

### Net Realised Gains

Net realised gains / losses resulting from selling of financial investments at a price higher or lower than the book value.

### Net Fair Value Gains

Net fair value gains / losses incurred by the company due to change in the market value of investments which are sensitive to market value change (e.g. Quoted equity).

### Net Benefits and Claims Paid

Refers to total amount of claims and claims related expenses incurred during the year, where appropriate, adjusted by claims outstanding provisions at the beginning and end of the accounting period (e.g. surrenders, policy maturities, annuities and interim payments). This also includes the balance transferred to the life fund.

### Underwriting and Net Acquisition Costs

Net acquisition expenses consists of the following;

### Commission / Franchise Fees

Policies are sold by intermediaries, the fee paid to an agent or broker as a percentage of the policy premium is considered as commission. The percentage varies depending on coverage and the duration of the policy.

### Reinsurance Commission

The commission paid by the reinsurer to the ceding company (primary insurer) on reinsurance agreements as compensation to place the business with the reinsurer and to cover the ceding company's acquisition expenses.

### Other Operating and Administrative and Selling Expenses

Refers to staff, administration, sales and marketing costs incurred by the company.

### Share of Results of Equity Accounted Investee, Net of Tax

Refers to the share of profit from Fairfirst Insurance Limited attributable to the company.

### Statement of Financial Position

Industry specific items are selected and explained below

### Investment in Equity Accounted Investee

Refers to carrying value of 22% stake in Fairfirst Insurance Limited.

### Financial Investments

Invested money received from policyholders to pay benefits and increase profitability of the company with the expectation of capital appreciation, dividends (profit), interest earnings, or some combination of these returns. Income earned from policyholders money is accumulated to Life fund.

### Loans to Life Policyholders

Life policyholders can obtain loans from the company up to a certain percentage of the surrender value of the policy. Loan granted under these criteria are presented here.

### Reinsurance Receivables

Includes amounts due from the company's reinsurers on current claims and estimates of amounts that will be due on future claims.

### Premium Receivables

Consist of premium related balances due from policyholders.

### Insurance Contract Liabilities – Life

Due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policyholders obligations. This is known as the 'Insurance contract liabilities'. The size of the fund that needs to be maintained is determined by the actuarial valuation annually. This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as Life Surplus and is transferred as shareholders' funds in the financial statements.

### Insurance Contract Liabilities - Unit Linked

Same meaning as above, however it related to the unit linked operation.

### Reinsurance Payables

Represent payables to reinsurers for risk portion undertaken by them.

# DISTRIBUTION NETWORK

Location	Address	Contact Number/s
Akuressa	No. 38 & No 6A, D.c. Wanigasekara Mawatha, Akuressa	Tel: 041 228 3393/ 041 228 4072 Fax: 041 228 4393
Aluthgama	No. 51 1/1, Galle Road, Kalua Modara Aluthgama	Tel: 034 229 1690/ 034 229 1689
Ambalangoda	No. 20, New Road, Ambalangoda	Tel: 091 225 8862/ 091 225 5882
Ambalantota	No. 153 & 153 1/1, Tangalle Road, Thawaluvila, Ambalantota	Tel: 047 222 3370/ 047 222 5028/ 047 222 5027/ 047 222 5626
Ampara	No. 60 & 60/1, 'Indrawansha Building', D.S.Senanayaka Street, Ampara	Tel: 063 222 4668/ 063 222 2401
Anuradhapura	No. 272, Main Street, Anuradhapura.	Tel: 025 222 7677/ 025 233 7777/ 025 223 7778 Fax: 025 223 5547
Awissawela	No. 15 1/2, Kudagama Road, Awissawella	Tel: 036 223 3575
Badulla	No. 226/4/1/09-14, Lower Street, Badulla	Tel: 055 222 9536 Fax: 055 222 4373
Bakamuna	No. 542, Bakamuna.	Tel: 066 225 6100
Bandarawela	No. 340/1, Badulla Road, Bandarawela	Tel: 057 222 3239/ 052 222 1760 Fax: 057 222 3475
Battaramulla	No. 123, Kaduwela Road	Tel: 0112775495
Batticaloa	No. 217, Trincomalee Road, Batticaloa.	Tel: 065 222 4574 Fax: 065 222 8167
Beliatta	No.67 1/1, Tangalle Road, Beliatta.	Tel: 047 312 5277
Chilaw	No. 87, Puttalam Road, Chilaw	Tel: 032 222 2104
Chunnakam	No.160, Sir Pon Ramanathan Road, Chunnakam	Tel: 021 224 2097
City Office	No. 161 A, Dharmapala Mawatha, Colombo 07	Tel: 011 257 7129 Fax: 011 258 9191
Dambulla	No. 755, Anuradhapura Road, Dambulla.	Tel: 066 228 4628 Fax: 066 228 4647
Embilipitiya	No. 162, New Town Road, Embilipitiya	Tel: 047 223 0463/ 047 226 2010 Fax: 047 226 1946
Galle	Temporary Location (91, Colombo Rd, Kaluwella, Galle)	Tel: 091 224 3948
Gampaha	No. 55, Yakkala Road, Gampaha	Tel: 033 2226441/ 033 223 5130
Gampola	No. 10B, Nidahas Mw, Keerapana, Gampola	Tel: 081 235 2256/ 081 207 7175 Fax: 081 235 0127
Hingurakgoda	No. 02, Airport Road Hingurakgoda	Tel: 027 224 6581 Fax: 027 224 5299
Homagama	No. 119/2/1 & 119/3/1, Katuwana Road, Homagama	Tel: 011 289 2802/ 011 289 2803
Horana	No. 198, Rathnapura Road, Horana.	Tel: 034 226 5217/ 034 226 4182
Ja-Ela	No. 71A2/1, Negombo Road, Ja-Ela	Tel: 011 224 3633/ 011 224 1512
Jaffna	No. 139, Stanley Road, Jaffna.	Tel: 021 222 3753
Kadawatha	No. 1158 2/1, Kandy Road, Kadawatha	Tel: 011 292 7252 Fax: 011 292 7253
Kalawana	No. 46/1/1, Mathugama Road, Kalawana	Tel: 045 225 5772
Kalmunai	No. 212, Batticaloa Road, Kalmunai	Tel: 067 222 2633
Kalutara	No. 338/1/2, Main Street, Kalutara	Tel: 034 222 2104/ 034 222 2114
Kandy	No. 28, Hill Street, Kandy	Tel: 081 223 2731/ 081 222 7443/ 081 222 5025 Fax: 081 223 3291
Katugastota	No. 185/4, Galagedara Road, Katugastota	Tel: 081 250 0286/ 081 250 0588 Fax: 081 223 3291
Kegalle	No. 134, Kalugalla Mawatha, Kegalle.	Tel: 035 223 1028/ 035 223 0497 Fax: 035 223 2165
Kilinochchi	No. 83 & 85, Kandy Road, Kilinochchi	Tel: 021 228 0118/ 021 228 0117 Fax: 021 228 0119
Kirulapona	No. 57-2/1, High Level Road, Kirulapona, Colombo 06	Tel: 011 251 3362 Fax: 011 251 3363
Kuliyapitiya	No. 93, Madampe Road, Kuliyapitiya	Tel: 037 228 1904
Kurunegala	No. 6, Rajapihilla Road, Kurunegala	Tel: 037 222 2282/ 037 222 4252/ 037 222 3230/ 037 222 3650 Fax: 037 223 0435

Location	Address	Contact Number/s
Maharagama	No. 272/B/2/1, Awissawella Road, Maharamaga.	Tel: 011 208 9082/ 011 208 9081 Fax: 011 284 2315
Mahiyanganaya	No. 44D, Miyugunagama, Mahiyanganaya	Tel: 055 225 8255/ 055 225 8777
Maho/ Mahawa	No. 272, Moragollagama Road, Mahawa	Tel: 037 227 5264
Mannar	No. 43, Ward No:2, Pallimuni Street, Mannar	Tel: 023 222 3257/ 023 225 1882/ 023 323 8255
Matale	No. 553/F1/1, Trincomalee Street, Matale	Tel: 066 223 1536 Fax: 066 222 2929
Matara	No. 13, Station Road, Matara	Tel: 041 222 3024/ 041 222 6633/ 041 223 2740 Fax: 041 222 6644
Matara Zone 2	No. 58 1/2, Esplanade Road, Matara	Tel: 041 223 2740/ 041 222 6033 Fax: 041 222 6644
Mathugama	No. 94/2, Agalawatta Road, Mathugama	Tel: 034 224 8017/ 034 224 1441 Fax: 034 224 1441
Medirigiriya	No. 417, Main Street, Medirigiriya	Tel: 027 205 0148
Monaragala	No. 112, Wellawaya Road, Monaragala	Tel: 055 227 6290/ 055 227 7379
Moratuwa	No. 494, De Soysa Road, Rawathawatta, Moratuwa	Tel: 011 264 5526/ 011 264 1800/ 011 264 1177/ 011 264 1666 Fax: 011 264 1811/ 011 264 1855
Mulliativu	P.w.d. Road, Vannankulam, Mulliativu	Tel: 021 229 0893
Mulliativu	First Floor, P.w.d. Road, Mullathive Town, Mulliativu	Tel: 021 229 0893
Negombo	No. 147, St. Joseph's Street, Negombo	Tel: 031 222 4264/ 031 223 5043
Nikaweratiya	No. 65, Puttlam Road, Nikaweratiya	Tel: 037 226 0567 Fax: 037 226 0334
Nugegoda	No. 376, High Level Rd, Gangodawila, Nugegoda	Tel: 011 281 5512/ 011 281 5513 Fax: 011 430 2613
Nuwaraeliya	No. 36, Park Road, Nuwaraeliya	Tel: 052 222 3341
Padaviya	No. 2, New Town, Padaviya	Tel: 025 225 3018 Fax: 025 225 3277
Panadura	No. 571, Galle Road, Panadura	Tel: 038 224 4790/ 038 224 4830 Fax: 038 224 4630
Pettah	No. 3, Sea Street, Colombo 11.	Tel: 011 243 2329/ 011 243 2704
Piliyandala	No. 226, Horana Road, Piliyandala	Tel: 011 261 9550/ 011 260 9105 Fax: 011 260 9106
Point Pedro	No. 357, Main Street, Point Pedro	Tel: 021 226 0344/ 021 226 1970
Polonnaruwa	No. 05, Batticaloa Road, Polonnaruwa	Tel: 027 222 6611 Fax: 027 222 6612
Puttalam	No. 97/1, 2Nd Floor, Cargills Food Cotiy Building, Puttalam	Tel: 032 226 5980 Fax: 032 226 7475
Ratnapura	No. 567 1/1 9 (New No: 23/2/1), Senavirathna Building, Colombo Road, Rathnapura	Tel: 045 222 6740
Ruwanwella	No. 185/1/2, Avissawella Road, Ruwanwella	Tel: 036 226 6631
Tangalle	No. 61, Beach Road, Tangalle	Tel: 047 224 1841 Fax: 047 224 1727
Thalawathugoda	No. 705, Boralla Road, Thalawathugoda	Tel: 011 207 4453
Thambuththegama	No. 148, Thammannagama, Thambuththegama	Tel: 025 227 6211/ 025 227 6060
Tissamaharama	No. 118, Hambantota Road, Tissamaharama	Tel: 047 223 7711/ 047 223 8027
Trincomalee	No. 170, Abeyapura, Kandy Road, Trincomalee	Tel: 026 222 7530 Fax: 026 222 7536
Valachchenai	Main Street, Valachchanai	Tel: 065 225 8555 Fax: 065 225 8557
Vavuniya	No. 188, 190, 192, & 190/1, Kandy Road, Vavuniya	Tel: 024 222 6003 Fax: 024 222 3138
Warakapola	No. 198 B1/1, 'Willara Complex', Main Street, Warakapola	Tel: 035 226 7441
Wariyapola	No. 203/A, Kurunegala Road, Wariyapola	Tel: 037 226 8208/ 037 226 7026 Fax: 037 759 6606
Wattala	No. 250/2/2, Negombo Road, Wattala	Tel: 011 303 7591 Fax: 011 293 2030
Wellawaya	No. 210, Moneragala Road, Wellawaya	Tel: 055 227 4219 Fax: 055 227 4218
Wennappuwa	No. 6, Colombo Road, Wennappuwa	Tel: 031 225 5844 Fax: 031 225 3892



# CORPORATE INFORMATION

## Name of Company

Union Assurance PLC

## Legal Form

A public limited liability company incorporated in Sri Lanka on 8 January 1987 and registered under the Companies Act No. 07 of 2007 and quoted on the Colombo Stock Exchange since 1988

## Company Registration Number

PQ 12

## Tax Payer Identification Number (TIN)

134001372

## VAT Registration Number

134001372 7000

## Directors

S. C. Ratnayake - Chairman  
(Resigned w.e.f. 31.12.2018)  
K. N. J. Balendra - Chairman  
(Appointed w.e.f 01.01.2019)  
D. C. Alagaratnam  
G. F. C. De Saram  
(Resigned w.e.f. 31.12.2018)  
S. Rajendra  
H. A. J. De Silva Wijeyeratne  
A. D. Pereira  
D. H. Fernando (Appointed w.e.f 03.08.2018)  
S. Appleyard (Appointed w.e.f 01.01.2019)  
A. S. De Zoysa (Resigned w.e.f. 03.08.2018)

## Board Human Resource and Compensation Committee

The Board Human Resource and Compensation Committee (BHRCC) of John Keells Holdings PLC (the Parent) represents the BHRCC of the Company

## Nominations Committee

The Nominations Committee (NC) of John Keells Holdings PLC (the Parent) represents the NC of the Company

## Related Party Transaction Review Committee

The Related Party Transaction Review Committee (RPTC) of John Keells Holdings PLC (the Parent) represents the RPTC of the Company

## Board Audit and Compliance Committee

H. A. J. De Silva Wijeyeratne - Chairman  
S. Rajendra  
D. H. Fernando

## Investment Committee

J. G. A. Cooray - Chairman  
Dirk Pereira  
Asha Perera  
Nimesha Liyanage  
Angelo Keil

## Secretaries and Registrars

Keells Consultants (Private) Limited  
117, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2

## Auditors

Messrs. KPMG (Chartered Accountants)  
PO Box 186,  
32A, Sir Mohamed Macan Markar Mawatha,  
Colombo 3

## Appointed Actuaries

Willis Towers Watson India Private Limited  
Unitech Business Park, 2nd Floor  
Tower-B, South City, Sector 41  
Gurgaon-122002  
India

## Lawyers

The Legal Department  
John Keells Holdings PLC  
117, Sir Chittampalam A Gardiner Mawatha,  
Colombo 2  
Bankers

## Bank of Ceylon

Commercial Bank of Ceylon PLC  
Deutsche Bank AG  
DFCC Bank PLC  
Hatton National Bank PLC  
Housing Development Finance Corporation  
Bank of Sri Lanka  
National Development Bank PLC  
National Savings Bank  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
Union Bank of Colombo PLC  
Cargills Bank

## Reinsurance Panel

RGA  
Hannover Re  
Munich Re  
Partner Re

## Registered Office of the Company

Union Assurance Centre  
20, St Michaels' Road,  
Colombo 3

## Investor Relations

All investor queries should be directed to;  
Investor relations hotline 011-2990314  
e-mail: investorrelations@ualink.lk

# NOTICE OF MEETING

Notice is hereby given that the 32nd Annual General Meeting of Union Assurance PLC, will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 on Friday, 29th March 2019 at 9.00 a.m. for the following purposes;

1. To read the Notice convening the meeting.
2. To receive and consider the Annual Report and Financial Statements of the Company for the year ended 31st December 2018 with the report of Auditors thereon.
3. To re-elect as Director, Mrs. D C Alagaratnam who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mrs. D C Alagaratnam is contained in the Board of Directors section of the Annual Report.
4. To re-elect as Director, Mr. A D Pereira who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. A D Pereira is contained in the Board of Directors section of the Annual Report.
5. To re-elect as Director Mr. K N J Balendra who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Mr. K N J Balendra is contained in the Board of Directors section of the Annual Report.
6. To re-elect as Director Mr. S A Appleyard who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Mr. S A Appleyard is contained in the Board of Directors section of the Annual Report.
7. To re-elect as Director Mr. D H Fernando who retires in terms of Article 90 of the Articles of Association of the Company. A brief profile of Mr. D H Fernando is contained in the Board of Directors section of the Annual Report.
8. To re-appoint Auditors Messrs. KMPG, Chartered Accountants and to authorize the Directors to determine their remuneration.
9. To Consider any other business of which due notice has been given in terms of the relevant Laws and Regulations.

By Order of the Board  
Union Assurance PLC



Keells Consultants (Private) Limited  
Secretaries

27 February 2019

## Notes:

- a. A member unable to attend is entitled to appoint a Proxy to attend and vote in his/her place.
- b. A proxy need not be a member of the Company.
- c. A member wishing to vote by Proxy at the meeting may use the Proxy form enclosed.
- d. In order to be valid, the completed proxy form must be lodged at the registered office of the Company not less than 48 hours before the meeting.
- e. If a poll is demanded, a vote can be taken on a show of hand or by a poll. Each share is entitled to one vote. Votes can be cast in person, by proxy or corporate representatives. In the event an individual member and his/her proxy holder are both present at the meeting, only the members vote is counted. If the proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner to vote will be used.

# PROXY FORM

I/We.....of.....  
.....being a member/s of Union Assurance PLC hereby appoint  
.....of..... or failing him/her

- |   |                |
|---|----------------|
| Mr. Krishan Niraj Jayasekara Balendra         | or failing him |
| Mr. Suresh Rajendra                           | or failing him |
| Ms. Dilani Champika Alagaratnam               | or failing her |
| Mr. Harin Amendra Joseph De Silva Wijeyeratne | or failing him |
| Mr. Dumith Hemantha Fernando                  | or failing him |
| Mr. Stephen Anthony Appleyard                 | or failing him |
| Mr. Anthony Dirk Pereira                      |                |

as my/our proxy to represent me/us and vote on my/our behalf at the 32nd Annual General Meeting of the Company to be held on Friday, 29th March 2019 at 9.00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage;

	For	Against
▶ To re-elect as Director, Mrs. D C Alagaratnam who retires in terms of Article 84 of the Article of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
▶ To re-elect as Director, Mr. A D Pereira 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 Director, Mr. K N J Balendra who retires in terms of Article 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
▶ To re-elect as Director, Mr. S A Appleyard who retires in terms of Article 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
▶ To re-elect as Director, Mr. D H Fernando who retires in terms of Article 90 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
▶ To re-appoint Auditors Messrs. KPMG, Chartered Accountants and to authorise the directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this .....day of ..... Two Thousand and Nineteen.

Signature /s of Shareholders/s

**Note:**

Instructions as to completion of the proxy form are noted on the reverse.

**INSTRUCTIONS AS TO COMPLETION OF PROXY**

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 20, St. Michael's Road, Colombo 3, not later than 48 hours before the time appointed for the holding of the meeting.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a company or corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or corporate in accordance with its Articles of Association or Constitution.
5. If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

Name	:	.....
Address	:	.....
		.....
		.....
Jointly with	:	.....
Share Folio No.	:	.....

Designed & produced by



Printed by Printage (Pvt) Ltd



Union Assurance PLC  
20, St Michaels' Road,  
Colombo 3  
+94 11 2990990  
[www.unionassurance.com](http://www.unionassurance.com)

