

Thinking
about you

Dear Stakeholder,

At Union Assurance, we understand that our business is a complex one, demanding strong resilience, deep resources and constant agility to stay relevant in a fast-changing business environment. Yet for 32 years, we have kept our pledge to serve our stakeholders with sustainable value, expanding the company, evolving our portfolio of products and services, strengthening our team and leading from the front at all times.

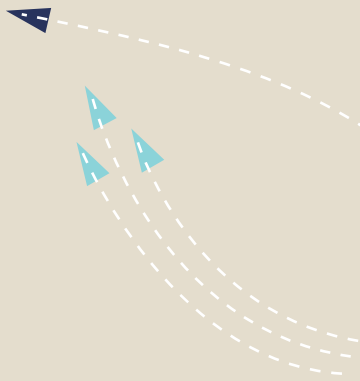
We believe that being a customer-centric company means more than just good customer service. We put you - our customer first, by constantly re-engineering our products and services to meet your changing needs; by anticipating what you might demand in the future; by being friendly, responsive, caring in every interaction and by striving to delight you in everything we do.

Today we know we are on the right track to achieving our aspiration to be the most sought-after provider of insurance solutions in Sri Lanka; because wherever we go, whatever do, we're thinking about you.

Union Assurance PLC

Thinking
about you

Thinking about you by...



**STRENGTHENING
OURSELVES THROUGH
FINANCIAL
AND SOCIAL
INVESTMENT**
See Pg. 48 to 59

**KEEPING OURSELVES
FOCUSED ON
DELIVERING
CUSTOMER-CENTRIC
PRODUCTS
AND SERVICES**
See Pg. 60 to 69



Contents

01 UNION ASSURANCE AT A GLANCE

- 6 About Our Report
- 8 Who We Are
- 10 Milestones and Key Events
- 12 Chairman's Message
- 15 Chief Executive Officer's Review
- 17 Value Generated and Distributed
- 18 Performance Highlights
- 20 Our Strategy
- 23 Organisational Structure
- 24 Our Business Model

02 MANAGEMENT DISCUSSION AND ANALYSIS

- 28 Sustainability
- 30 Stakeholder Relationship
- 34 Materiality
- 37 Operating Environment
- 45 Risk and Opportunities
- 46 Capital Management Summary
- 48 Financial Capital
- 60 Social and Relationship Capital
- 70 Human Capital
- 80 Intellectual Capital
- 86 Natural Capital
- 92 Manufactured Capital



ONLINE

Our report, with additional updated information is available on our website:

www.unionassurance.com

**ENERGISING
OUR OPERATIONS
THROUGH
CREATIVE IDEAS
AND FORWARD
THINKING**

See Pg. 80 to 85



**DEMANDING
THE BEST
OF YOUR COMPANY,
IN EVERY SPHERE
OF BUSINESS WE
OPERATE**

See Pg. 48 to 95



**03
STEWARDSHIP**

- 98 Board of Directors
- 99 Executive Committee
- 100 The Chairman's Statement on Corporate Governance
- 101 Corporate Governance Commentary
- 132 Enterprise Risk Management

**04
AUDITED FINANCIAL
STATEMENTS AND
OTHER INFORMATION**

- 143 Annual Report of the Board of Directors on the Affairs of the Company
- 148 Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
- 149 Actuary's Report
- 150 Statement of Director's Responsibility
- 151 Independent Auditors' Report
- 155 Table of Contents
- 156 Income Statement
- 157 Statement of Profit or Loss and Other Comprehensive Income
- 158 Statement of Financial Position
- 159 Statement of Changes in Equity
- 161 Statement of Cash Flows
- 163 Notes to the Financial Statements
- 243 Supplementary Information
- 244 Decade at a Glance
- 246 Independent Assurance Report on Non-Financial Reporting
- 248 GRI Content Index
- 254 Certificate of Carbon Footprint
- 255 Glossary of Insurance Terms
- 257 Quarterly Analysis
- 258 Life Insurance Fund
- 258 Insurance Revenue Account
- 258 Statement of Financial Position
- 259 Statement of Cash Flows
- 261 Notes to the Statement of Financial Position
- 265 Understanding our Financials
- 266 Distribution Network
- 269 Corporate Information
- 270 Notice of Meeting
- 271 Proxy Form

Thinking *about your success*

At Union Assurance, we believe that your success is ours. That's why we are fully focused on pursuing your goals; remaining resilient and agile, while fulfilling the long-term vision you hold for us as a Company.

Union Assurance *at a Glance*



6 About Our Report

8 Who We Are

10 Milestones and Key Events

12 Chairman's Message

15 Chief Executive Officer's Review

17 Value Generated and Distributed

18 Performance Highlights

20 Our Strategy

23 Organisational Structure

24 Our Business Model

About Our Report

INTRODUCTION

Our seventh Integrated Report is prepared in accordance with the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC) and aims to provide our stakeholders a concise, balanced and accurate assessment of our strategy, performance and opportunities in relation to material financial, economic, social, environmental and governance aspects. This year, we will strive to provide a more detailed discussion on the material matters which could substantially affect our ability to create value in the short, medium and long term.

SCOPE AND BOUNDARY

The Report covers the operations of Union Assurance PLC for the period from 1 January 2019 to 31 December 2019 which is the Company's annual reporting cycle. Material events after this date up to the Board approval date of 28 February 2020 have also been included.

The Report is structured to provide material information relating to our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects and governance. The report extends beyond financial reporting and includes non-financial performance, opportunities, risks and outcomes which have a significant influence on our ability to create value. Information in this report pertaining to the previous year has not been restated, unless otherwise stated.

MATERIALITY

We apply the principle of materiality in determining content for our Integrated Report. This report therefore focuses on issues, opportunities and challenges that have a material impact on our ability to deliver sustainable value to shareholders and key stakeholders. The process for determining material topics are depicted on pages 34 to 36.

INTERNAL AND EXTERNAL ASSURANCE

The following assurances have been obtained for the information presented in this report.

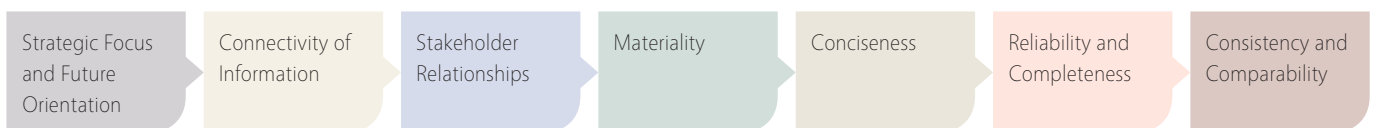
- An Independent Auditor confirming the accuracy of the Annual Financial Statements (pages 151 to 154).
- An Independent Actuary confirming the Life Fund valuation and liability adequacy (page 149).
- An Independent Assurance Engagement for the Non-Financial Information prepared in accordance with GRI Standards: Core Option (pages 248 to 253).

GUIDING PRINCIPLES

	Integrated Report	Annual Financial Statements	Corporate Governance and Risk Management Report	Sustainability Performance
Standards and Principles Applied	<ul style="list-style-type: none"> ■ Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). ■ "A Preparer's Guide to Integrated Corporate Reporting" issued by the Institute of Chartered Accountants of Sri Lanka. 	<ul style="list-style-type: none"> ■ Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka. ■ Listing Requirements of the Colombo Stock Exchange and subsequent revisions to date. ■ Laws and regulations of the Companies Act No. 7 of 2007. ■ Insurance Industry Act No. 43 of 2000 and subsequent amendments to date. 	<ul style="list-style-type: none"> ■ Listing Requirements of the Colombo Stock Exchange and subsequent revisions to date. ■ Code of Best Practice on Corporate Governance (2017) issued by the CA Sri Lanka. ■ Laws and regulations of the Companies Act No. 7 of 2007. ■ 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). 	<ul style="list-style-type: none"> ■ This report has been prepared in accordance with the GRI Standards: Core Option. ■ United Nations Sustainable Development Goal.

REPORTING CONCEPTS

In preparing this Report, we have given due consideration to the following principles as prescribed by the <IR> Framework.



REPORTING IMPROVEMENTS

- Adoption of the Corporate Governance Framework for insurers issued under section 96A of the Regulation of Insurance Industry Act, No. 43 of 2000 by the Insurance Regulatory Commission of Sri Lanka (IRCSL).
- Application of guidance issued on Economic, Social and Governance (ESG) Reporting issued by the Colombo Stock Exchange to listed companies.
- Increased strategic orientation with connectivity across the Report through navigation icons.
- Enhanced the readability of the Report by presenting information in a structured and concise manner.

NAVIGATING OUR REPORT

We have used the following icons across the report to demonstrate connectivity between information;

Our Capitals

Financial Capital 

Social & Relationship Capital 

Human Capital 

Intellectual Capital 

Natural Capital 

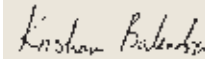
Manufactured Capital 

FORWARD LOOKING STATEMENTS

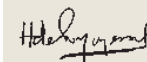
This report may contain forward-looking statements with respect to UA's future performance and prospects. While these statements represent our judgements and future expectations at the time of preparing this report, a number of emerging risks, uncertainties and other important factors could cause actual results to differ materially from our expectations. These include factors that could adversely affect our business and financial performance. The reader is advised to seek expert professional advice in all such respects.

STATEMENT OF THE BOARD OF DIRECTORS

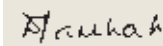
The Board is aware of its responsibility to ensure the integrity of the Annual Integrated Report and is of the opinion that the report addresses material issues that it believes to have a bearing on the Company's capacity to create value over the short-medium-and long-term. The report was unanimously approved by the Board and is signed on its behalf by;



K N J Balendra
Chairman



H A J De Silva Wijeyeratne
Director



Keells Consultants (Pvt) Ltd
Secretaries

28 February 2020

Stakeholders

Shareholders and Investors 

Employees 

Customers 

Business Partners 

Community 

Government 

FEEDBACK

Your feedback is important to us and we welcome your input to enhance the quality of our reporting. Please contact us through;

Asha Perera

Chief Financial Officer
Union Assurance PLC
No 20, St. Michael's Road
Colombo 03.
011 2990302

Visit: www.unionassurance.com

E-mail: investorrelations@unionassurance.com



Who We Are

About Us

Established in 1987, we have over the years grown to be one of Sri Lanka’s largest providers of Life Insurance solutions. Anchored by a team of experienced and dynamic professionals, a strong capital base and reinsurance partnerships with highly rated global reinsurers, we offer a wide range of tailor-made insurance products and services that are of international standards.



Our People

TOTAL EMPLOYEES AND FIELD STAFF BY GENDER

2,378
(2018 - 2,984)

MALE

1,783
(2018 - 2,253)

FEMALE



How We Distributed Our Value

TO GOVERNMENT

Rs.550 Mn

TO EMPLOYEES

Rs.1,023 Mn

TO SHAREHOLDERS

Rs.1,179 Mn

RETAINED IN THE COMPANY

Rs.5,263 Mn

Our Presence

86

Branches



545

BANCASSURANCE CHANNELS





Institute of Chartered Accountants of Sri Lanka Gold Award for the Best Annual Report in the Insurance Sector

Institute of Chartered Accountants of Sri Lanka Gold Award for Corporate Social Responsibility Reporting

National Business Excellence Awards (NBEA) for 2019-Gold Award in the Insurance industry

Best Employer Brand Award and Award for the Talent Management

Our Awards

Our Social Impact

703,180

NO. OF LIVES TOUCHED

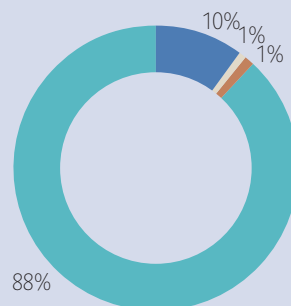
219,036

NO. OF CUSTOMERS SERVED

Rs. 6.4 Mn

INVESTED IN KEY CSR INITIATIVES

Our Products



- Annuity
- Endowments
- Group Life
- Term Assurance
- Unit Linked
- Universal Life

Unit linked products to be discontinued from 2020 onwards.

Ownership

John Keells Holdings PLC



Union Assurance PLC (90%)

Fairfirst Insurance Limited (22%)



Milestones and Key Events

2006

- Opened a fully-fledged motor centre.
- Became the first insurance Company to launch a fully integrated and automated SMS supported facility for motor claims.
- Launched Union Pay Easy, the Country's first automated payment system.

2008

- Launched web-based motor insurance policy, enabling the customers to print their motor insurance certificates 24x7x365.

2009

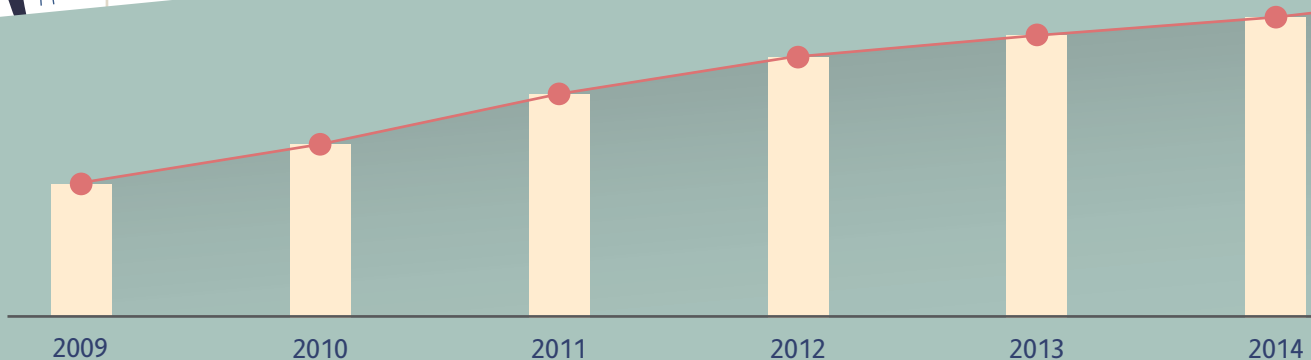
- John Keells Holdings PLC gained 81% stake in UA.
- Implemented a web-based sales force management system for life business.
- UA brand was repositioned on a platform of Trust.
- Expanded Bancassurance distribution channel.

2007

- Entered the 20th year of operations with the life fund crossing Rs. 6 Bn mark.

1988

- Listed on the Colombo Stock Exchange and commenced operations.



2015

- Segregated Life and Non-Life businesses and divested 78% of the Non-Life business to Fairfax Asia Limited.

2019

- Leadership change with the appointment of a new Chief Executive Officer.
- Launch of "Octave" advanced data analytics transformation projects.

2011

- Launched the first trilingual website in the insurance industry.
- Introduced the SAP finance module to integrate the core business activities with financial reporting.
- Launched the e-learning system in line with the international best practice.

2018

- Went live with a state-of-the-art web-based Policy Administrative System at a cost of Rs. 800 Mn.
- Awarded 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.



Chairman's Message

“Whilst being hopeful that the country’s political environment will enjoy more stability in 2020, we are confident that our strategic investments have us well placed to take advantage of the opportunities presented to us in the next decade. As a Company, our future looks exciting.”

Dear Stakeholders,

On behalf of the Board of Directors, it gives me great pleasure to present our Integrated Annual Report and the Financial Statements for the financial year ended 31 December 2019.

FINANCIAL PERFORMANCE

Despite 2019 being one of the most challenging years in the recent past, the Company recorded a satisfactory performance during the year, a true reflection of our resilience amidst turbulence. Gross Written Premiums amounted to Rs. 11.6 Bn, a growth of 4% over last year while Annualised New Business Premiums (ANBP) recorded a significant growth of 20% year on year.

The Company recorded Profit Before Tax of Rs. 1.7 Bn in 2019 compared to the Rs. 2.1 Bn in 2018, which benefited from a notional tax credit of Rs. 536 Mn. Recurrent Profit After Tax increased by 2% against the previous year after adjusting for deferred assets and notional tax credits recognised in the previous year.

Investment income of Rs. 4.4 Bn was impacted by a lower interest rate trajectory. Claims and benefits increased by 20% to Rs. 3.5 Bn compared to the previous year mainly due to an increase in maturity and surrender payouts by 18% and 24% respectively. Maturity payments were made in accordance with the contractual obligations of the Company and surrender payments has increased due to challenging economic conditions. Change in contract liabilities – Life fund increased by 28% to Rs. 5.0 Bn over the last year in line with the growth in the life insurance portfolio and

contractual obligations. Underwriting and net acquisition cost decreased by 10% to Rs. 1.9 Bn with changing composition of new and renewal business and incentive structure. Focused cost management strategies resulted in other operating expenses, administrative and selling expenses decreasing significantly by 14% compared to the previous year.

Total assets of the Company grew by 12% to Rs. 55.2 Bn with the investment portfolio which accounts for 81% of assets growing by 15% during the year. Total liabilities meanwhile grew by 15% with the life fund which accounts for 87% of liabilities, amounting to Rs. 35.5 Bn growing by 16% during the year aligned with business growth.

The Company maintains a healthy Capital Adequacy Ratio (CAR) reflecting its strong solvency position. Insurance liabilities are backed by reinsurers who have credit ratings of ‘A+’ or above from international rating agencies.

DIVIDENDS

The Board declared a first and final dividend of Rs. 20 per share amounting to a total pay-out of Rs. 1,179 Mn for year 2019 (2018: Rs. 20 per share).

STRENGTHENING THE UNION TEAM

On 1st December 2019 we welcomed a new Chief Executive Officer who brings with him a wealth of experience in the financial services industry across different geographies. We are consistently

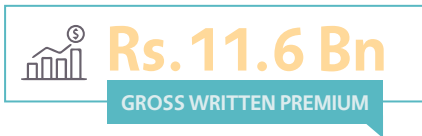
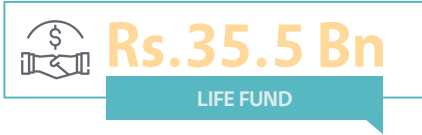
re-organising and re-evaluating our structure and processes to strengthen the organisation and confident that these changes will propel us to even greater heights.

Our loyal and committed employees are the bedrock of our value creation process. We continue to improve our employee value proposition by engaging and encouraging our employees to perform to the best of their ability through a performance-oriented culture founded on ethical and transparent behaviour.

COMPLIANCE

During the year under review, several initiatives were undertaken to strengthen the Company’s Corporate Governance framework and controls. Key initiatives among these were the establishment of a transitional Board Supervisory Committee to overlook the operations of the Company during the leadership transition, updating of the Manual of Financial Authority and the establishment of an Investment Middle Office to ensure compliance of investment front office functions with the growing investment portfolio.

Meanwhile we continue to work closely with the Insurance Regulatory Commission of Sri Lanka to implement regulations that facilitate industry growth while safeguarding policyholder interests. We have made significant progress in the implementation of SLFRS 17 which creates a standardised and more transparent approach to financial reporting. I am pleased to state that we remain fully compliant with the provisions of the



Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

BALANCING SUSTAINABILITY AND COST EFFECTIVENESS

Adding sustainable value to our customers, our people, suppliers, community and shareholders lies at the heart of our business strategy. The management discussion and analysis section of this integrated report discusses how we added value during the year. I am pleased to announce that this year too we have made significant progress on our sustainability agenda. Key initiatives among these initiatives are our energy saving and emission management programmes implemented during the year.

This Report has been prepared in accordance with the GRI Sustainability Reporting Standards and the GRI materiality disclosures approval. The report contains the overall sustainability strategy, framework and performance of the Company and has been independently assured by KPMG Sri Lanka.

DELIVERING VALUE TO COMMUNITY

We are strong proponents of creating healthy communities across the country not only because this links directly with our business

objectives but also because we firmly believe healthy communities drive overall economic development. We continued to work together with the Ministry of Health to create awareness regarding critical health concerns such as dengue, diabetes and thalassemia and successfully conducted a total of 9 dengue awareness campaigns, over 183 thalassemia awareness programmes and 18 diabetes prevention programmes in collaboration with the Public Health Department of the Colombo Municipal Council and the Public Health Inspector.

A POSITIVE OUTLOOK

A relatively low level of insurance penetration as compared to regional markets, rising income levels and an ageing population bode well for the growth prospects of insurance industry in Sri Lanka in the medium to long run. In the shorter run too, we remain optimistic about the industry’s prospects considering recent political developments and the positive impact on political and economic stability.

We will continue to execute a customer centric, eco system-based product strategy whilst improving our service delivery and distribution capabilities. The Agency Channel is expected to be our engine of growth and we will continue to invest in expanding and improving the quality of this channel. Meanwhile with the Bancassurance Channel showing significant growth potential, we will continue to explore strategic partnerships that will further improve our service delivery, product offering and distribution capabilities. Our strategic Bancassurance Partnerships with Nations Trust Bank PLC and Union Bank PLC recorded encouraging performance in 2019 as did our open architecture partnerships with Commercial Bank of Ceylon PLC, Sampath Bank PLC and Seylan Bank PLC.

The insurance industry is being transformed by the digital revolution. In the next few years, digital tools such as big data and advanced analytics will enable a wide range of new business opportunities leading to improved marketing, underwriting and customer retention. Our advanced analytics

transformation project ‘Octave’ made significant strides yielding more than anticipated value in 2019. We are confident that in time, Advanced Analytics will be a major source of advantage for UA, fundamentally enhancing the way we take management decisions.

ACHIEVEMENTS

We continue to set standards in all areas of our operation including HR practices, Sustainability, Financial Reporting, Corporate Governance and are proud that our efforts continue to be recognised locally as well as internationally. During the year 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 11th 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 2018 annual report receiving the Gold award in the insurance category and the Gold award for corporate social responsibility reporting. Meanwhile our excellent business practices were recognised by the National Chamber of Commerce with a gold award in the insurance category and merit awards for excellence in corporate social responsibility and excellence in performance management.

ACKNOWLEDGEMENTS

On behalf of the Board and the entire UA team I wish to sincerely thank Mr. Dirk Pereira for his dedicated service to the Company as the Executive Director and Chief Executive Officer over the past 15 years. I would also like to thank Mrs. Dilani Alagaratnam for her invaluable service to the Company over the last eight years as a Non-Independent Non-Executive Director.

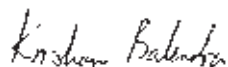
I would also like to place on record our appreciation to the Chairman, Director General and their team at the Insurance Regulatory Commission of Sri Lanka for the consultative approach they continue to adopt in balancing the interests of all stakeholders involved in this

CHAIRMAN'S MESSAGE

dynamic industry. Our appreciation also goes out to the Insurance Ombudsman for providing an efficient, independent grievance handling mechanism.

To my fellow Directors, Chief Executive Officer, Management Team and entire UA team, my deep appreciation goes out for your untiring effort, commitment and drive.

Finally, I wish to warmly welcome Mr. Jude Gomes as Chief Executive Officer of the Company. We are confident that his vast experience and industry knowledge will be invaluable as we embark on the next stage of our growth journey.



Krishan Balendra
Chairman

28 February 2020

Chief Executive Officer's Review

“In a rapidly evolving macroeconomic and regulatory environment, our steadfast focus on customer centricity, innovation, digitalisation, prudence and agility will enable us to explore the strong upside potential of the Sri Lankan Life Insurance industry and continue to create sustainable value to our stakeholders.”

RESILIENT PERFORMANCE

The Company recorded a commendable performance in 2019, despite internal and external pressures making the year one of the most challenging in the recent past. Annualized New Business Premiums (ANBP) recorded a 20% steady growth during the year with the Agency Channel accounting for 86% of the total revenue. The Bancassurance Channel recorded a strong growth which has complimented the primary Agency Channel during the year. Renewal premiums grew at an encouraging 11% as a result of several initiatives undertaken by the Company.

UA's investment portfolio which is the fourth largest in the industry grew by 15% during the year. The investment portfolio recorded a 10.53% yield despite a lower interest rate trajectory. The unrealised loss stemming from equity portfolio declined by 63% to Rs. 298 Mn due to both positive performance of the Colombo stock market and our prudent investment strategies. Management of the equity portfolio was outsourced to an external fund management entity during the year with the aim of obtaining expert strategic insights and execution to optimise returns.

Net insurance benefits and claims paid increased by 20% due to increases in maturity and surrender payouts. Although maturity payouts are in line with UA's contractual obligations, surrender payouts increased due to the challenging economic environment. Underwriting and net acquisition costs decreased by 10% to Rs. 1.9 Bn during the year mainly due to changes in composition of new and renewal premiums and the incentive structure. Focused cost management strategies resulted in other operating expenses, administrative and selling expenses decreasing significantly by 14% compared to previous year. Depreciation and amortisation increased by 93% as a result of the strategic investments made in the policy administration and related systems in 2018, leases made on the branch network and contractual payments on account of strategic Bancassurance Partnerships.

Recurrent profit after tax in 2019 was Rs. 1.2 Bn compared to Rs. 1.1 Bn recorded in 2018. The recurrent surplus transfer from the Life Fund amounted to Rs. 1.0 Bn, Rs. 604 Mn was generated from the shareholder investment portfolio and Rs. 104 Mn was accounted as UA's share of profits from the general insurance business from Fairfirst Insurance Limited.

INVESTING IN OUR TEAM

We continue to invest in developing the skills and competencies of our team, to meet current and future business opportunities and challenges. To enable this objective, leadership training continued to be provided to all levels of staff, while innovative programmes to enhance the technical skills of staff were conducted on a regular basis. We have a highly dedicated team, with an admirable attitude and commitment who strive for excellence in order to create value for our stakeholders.

BUILDING DISTRIBUTION CAPABILITIES

With the Agency Channel continuing to be our main driver of growth, significant investments were made to expand and improve the quality of the Agency Channel. Branch infrastructure upgrades were carried out, to enhance customer experience, employee satisfaction and bringing greater alignment with digital agency. We also sought to bring greater alignment between our HR strategy and business objectives by reviewing our manpower and learning and development strategies to ensure that they are aligned with our new market expansion strategy. A revamped Reward and Recognition Scheme was implemented with the aim of growing ANBP. Meanwhile we continue to explore ways in leveraging advanced data analytics to improve our Agency Channel and access under penetrated market segments.

The Bancassurance Channel continued to perform well, recording a strong premium growth in 2019. Our strategic Bancassurance Partnerships with Nations Trust Bank PLC and Union Bank PLC, performed well during the year, and we see significant potential to grow these partnerships in the future. Open architecture model with Commercial Bank of Ceylon PLC, Sampath Bank PLC, and Seylan Bank PLC performed to the expected levels in 2019. We continue to invest in expansion of these channels given the strong upside potential with the higher banking density and penetration in the country.

CUSTOMER CENTRICITY

Our comprehensive product portfolio strives to meet the evolving needs of our diverse customer base throughout their life stages. Ongoing product development ensures that we stay relevant and customer centric. UA product



20%

GROWTH IN ANNUALISED
NEW BUSINESS PREMIUM



10.63%

YIELD OF INVESTMENT
PORTFOLIO

CHIEF EXECUTIVE OFFICER' S REVIEW

development strategy has shifted from an investment focus to a protection focus during the last two years. In keeping with this shift, we introduced six new plans to the market in 2019. The 'Union Smart Health Premier' is a comprehensive medical expense reimbursement rider benefit which also provides indemnity cover for hospitalisation or surgery with worldwide coverage. Three life insurance plans including the 'Union Advantage Premier Plan', the 'Union Smart Investor life insurance plan' and 'Union Ultra Protect Plan' were introduced with flexible premium payments and other features. We also introduced customised products for the Bancassurance channels such as the 'Life and Medical Plan' which is a personalised medical plan to suit one' budget. The 'Critical Illness Plan' is yet another customised plan that combines a life cover with a critical illness cover. We continue to work closely with our ecosystem partners to offer relevant competitive propositions to our customers.

We continue to offer our customers a superior customer service through ongoing improvements to our processes. Health claims benefits processing and policy alterations have been automated to provide a speedy claims settlement experience for the customers. Separate call centre teams were set up during the year to service key customer segments. Investment strategies resilient to market conditions enabling UA to declare above market dividend rate to universal life policyholders. A healthy dividend rate of 10% was declared for 2019.

OUR DIGITAL AGENDA

UA is committed to a "digital first" business model and continued to invest in its digital proposition during the year. Issuance of e-policies and e-premium statements commenced during the year while several processes including recruitment, performance management, lead management and sales competition monitoring were automated as part of our digitization

efforts. The adoption of mCash has significantly increased cashless collections and recorded an increase of 20% during the year. Meanwhile improvements to auto underwriting rules engine carried out during the year have resulted in greater efficiencies with our straight through processing (STP) ratio improving to 51% as at December 2019. The advanced analytics transformation project, launched in 2018 is an integral component of our digital strategy with several initiatives to be rolled out in 2020.

APPRECIATION

On behalf of the Senior Management Team I would like to express my sincere appreciation and gratitude to my predecessor Mr. Dirk Pereira, who resigned in October 2019, after rendering 15 long years of service to Union Assurance PLC.

UA continues to grow from strength to strength due to the unwavering commitment of the Board of Directors and continued patronage of our customers and other stakeholders. My sincere thanks and appreciation to all. I would like to place on record the support and commitment of our senior team at UA and staff members who strive to give their best.

We have ended 2019 on a positive note and with my team look forward to an exciting year ahead. We are confident that with our strong brand, reputation for good governance, professional team and performance driven culture combined with our financial strength and customer centric strategy, we are well poised to deliver sustainable value to all stakeholders in the years to come.



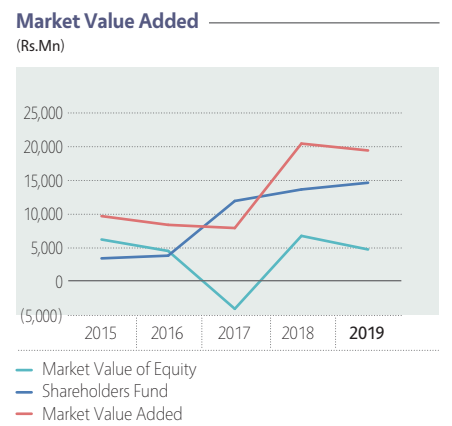
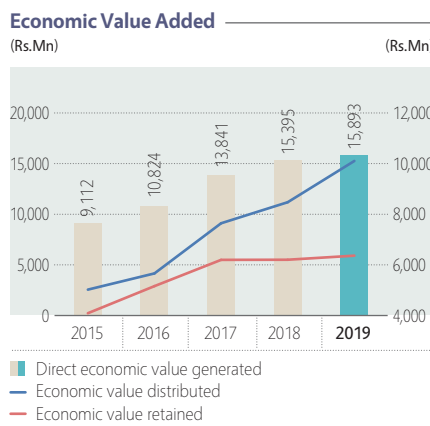
Jude Gomes
Chief Executive Officer

28 February 2020

Value Generated and Distributed

ECONOMIC VALUE-ADDED STATEMENT

Reflects the efficiency of management performance and the manner in which we created and distributed wealth among various stakeholders throughout the value chain.



MARKET VALUE ADDED STATEMENT

Reflects the amount of wealth that a Company is capable of creating for its stakeholders since its inception. It is a representation of value created by the actions and investments of a Company's management.



Performance Highlights

FINANCIAL HIGHLIGHTS

Results for the Year		2019	2018	2017
Revenue	Rs. Mn	11,648	11,244	10,118
Paid in benefits and claims to policyholders	Rs. Mn	3,668	3,351	2,674
Profit from operations ³	Rs. Mn	1,604	1,983	3,814
EBITD ³	Rs. Mn	2,008	2,138	4,107
Profit after tax ³	Rs. Mn	1,158	3,244	4,002
Profit from operations ^{1,3}	Rs. Mn	1,604	1,447	3,814
EBITDA ^{1,3}	Rs. Mn	2,008	1,750	4,107
Profit after tax ^{1,2,3}	Rs. Mn	1,158	1,135	4,002
Cash EPS	Rs.	113.68	88.17	90.16
Earnings per share	Rs.	19.65	55.05	125.31
Recurrent earnings per share ^{1,2,3}	Rs.	19.65	19.27	67.92
Dividends	Rs. Mn	1,179	1,179	1,061
Average annual premium per policy	Rs.	86,760	81,816	52,272
Persistency - Year 1	%	81	84	83
- Year 2	%	73	73	71
- Year 3	%	67	66	67
Investment yield	%	10.53	9.63	12.48
Earning yield ^{1,2,3}	%	5.95	5.56	50.31
Total expenses ratio	%	82	82	74
Recurrent return on equity ^{1,2,3}	%	8	9	64
Return on assets ³	%	2	7	10
Recurrent return on assets ^{1,2,3}	%	2	2	10
Financial Position at Year End				
Total assets	Rs. Mn	55,249	49,117	43,067
Financial investments	Rs. Mn	44,881	39,138	36,793
Life fund	Rs. Mn	35,490	30,600	26,950
Total shareholder funds	Rs. Mn	14,663	13,672	11,965
Net asset per share	Rs.	249	232	203
Net assets per share excluding restricted regulatory reserve	Rs.	191	175	146
Market / Shareholder Information				
Market price per share as at 31 December	Rs.	330.00	347.30	135.00
Highest market value per share	Rs.	375.00	364.00	165.00
Lowest market value per share	Rs.	260.00	134.00	134.00
Market capitalisation	Rs. Mn	19,446	20,466	7,955
Total shareholder return	%	1	173	7
Price earning ratio ^{1,2,3}	times	16.79	18.00	1.99
Dividend cover ^{1,2,3}	times	0.98	0.96	3.77
Dividend per share	Rs.	20	20	18
Dividend payout / effective dividend rate ^{1,2,3}	%	102	104	27
Dividend yield	%	6.06	5.76	13.33
Statutory Requirements / Ratios				
Excess in admissible assets	Rs. Mn	3,731	849	1,967
Capital Adequacy Ratio (CAR)	%	362	262	352

1 Adjusted for notional tax credits of Rs. 0.5 Bn recognised in 2018.

2 Adjusted for deferred tax assets of Rs. 1.6 Bn recognised in 2018.

3 Excluding one off surplus transfer of Rs. 3.4 Bn in 2017.



NON-FINANCIAL HIGHLIGHTS

	Indicator		2019	2018	2017
	FINANCIAL CAPITAL				
201-1	Direct economic value added	Rs. Mn	15,893	15,395	13,841
	MANUFACTURED CAPITAL				
	Total number of branches	No	86	88	97
	Revenue per investment in Manufactured Capital	Rs.	120	73	251
	NATURAL CAPITAL				
302-1	Energy consumption within the organisation	GJ	6,545	6,386	6,474
	Direct energy consumption per Rs. Mn of revenue	GJ	0.56	0.58	0.65
302-3	Energy intensity (in Gigajoules)	- Per area	0.02	0.02	0.02
		- Per full time employees	1.57	1.22	1.35
		- Per branch	76	73	67
303-1	Total water withdrawal	M ³	22,193	22,438	20,258
	Water withdrawal per Rs. Mn of revenue	M ³	2	2	2
303-3	Total volume of water recycled and reused	%	0.59	0.59	0.65
305-1	Direct greenhouse gas (ghg) emissions (scope 1)	tCO ₂ e	96.44	93.17	85.35
305-2	Indirect greenhouse gas (ghg) emissions (scope 2)	tCO ₂ e	1,084.25	885	833
305-3	Other indirect greenhouse gas (ghg) emissions (scope 3)	tCO ₂ e	345.58	448	376
305-4	Greenhouse gas (ghg) emissions per Rs.1 Mn of revenue	tCO ₂ e	0.13	0.13	0.13
305-5	Total emissions	tCO ₂ e	1,526	1,426	1,295
306-2	Waste recycled through 3rd party contractors	Kgs	12,286	22,340	28,010
307-1	Significant environmental fines	Rs. Mn	Nil	Nil	Nil
	HUMAN CAPITAL				
201-3	Coverage of organisations defined benefit plan	Rs. Mn	163	116	123
401-1	Total workforce				
	Permanent cadre	No	567	614	529
	Non-Permanent cadre	No	3,594	4,623	4,279
	Total number of new employees hired	No	354	291	430
	Employee turnover	No	138	134	100
	Attrition of new hires against total new hires	%	16	10	12
403-2	Number of injuries	No	None	None	None
404-1	Training per permanent staff member	No of hours	6	6	19
	Training per non-permanent staff member	No of hours	78	58	74
404-3	Employees receiving performance reviews	%	100	100	100
410-1	Security personnel trained in the organisation's human rights policies or procedures	%	100	100	100
414-1	New suppliers screened using human rights criteria	%	100	100	100
	SOCIAL AND RELATIONSHIP CAPITAL				
203-1	Investment in community and infrastructure projects	Rs. Mn	6	17	13
413-1	Community engagement				
	Dengue awareness programmes	No	36,027	355,649	275,340
	Thalassemia awareness programmes	No	655,548	255,893	24,354
	Diabetes prevention awareness programmes	No	11,605	108,748	93,297
	Health awareness campaigns	Count	210	261	210
	Staff volunteerism	Count	23	253	942
417-2	Customer complaints received	No	326	254	528
	Customer complaints resolved	No	284	203	467
	Disputes referred to Insurance ombudsman	No	Referred 26	Referred 27	Referred 18
417-3	Voluntary standards relating to advertising		Group policy / Internal code of conduct		
419-1	Significant fines for violation of laws / regulations	Rs. Mn	Nil	Nil	Nil
419-1	Significant fines for product / service issues	Rs. Mn	Nil	Nil	Nil
	INTELLECTUAL CAPITAL				
	Brand value	Rs. Bn	1.9	2.5	1.8

Our Strategy



VISION

To be the most sought-after provider of insurance solutions



MISSION

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

VALUES

Excellence

Caring

Innovation

DIFFERENTIATION











We create value for our stakeholders by differentiating ourselves through

- Technological excellence
- Superior customer service
- Brand equity
- Financial stability



Refer pages 80 to 85 (Intellectual Capital) and Pages 60 to 69 (Social Relationship Capital) for more details on how we differentiate ourselves

Our Strategic Objectives

Create value to customers 	Create value to shareholders 	Create value to community 
Strategic Actions		
<ul style="list-style-type: none"> ▪ Enhance customer service levels ▪ Increase number of lives insured ▪ Enhance customer convenience 	<ul style="list-style-type: none"> ▪ Grow revenue ▪ Efficient management of expenses ▪ Increase shareholder returns and wealth ▪ Increase dividends 	<ul style="list-style-type: none"> ▪ Reduce carbon footprint ▪ Efficient and effective use of natural resources ▪ Create awareness on critical health concerns
Relevant Capital/s		
<ul style="list-style-type: none"> ▪ Social and Relationship Capital ▪ Manufactured Capital ▪ Intellectual Capital 	<ul style="list-style-type: none"> ▪ Financial Capital ▪ Manufactured Capital ▪ Human Capital 	<ul style="list-style-type: none"> ▪ Social and Relationship Capital ▪ Natural Capital
Key Performance Indicators (KPI)		
<ul style="list-style-type: none"> ▪ Customer satisfaction score ▪ Net promoter score ▪ Number of lives insured ▪ Number of branches and payment channels 	<ul style="list-style-type: none"> ▪ Return On Capital Employed (ROCE) ▪ Dividend per share ▪ Total shareholder returns ▪ Revenue growth rate ▪ Expenses to revenue ratio 	<ul style="list-style-type: none"> ▪ Carbon footprint ▪ Recycle and reuse of water ▪ Energy consumption ▪ No. of lives touched
Way Forward		
Continue to focus on product development and enhancing customer service levels	Increase shareholder wealth and strengthen financial position through careful financial management	Contribute to a healthier community, focus on more responsible consumption of resources
Contribution to SDG		
 		       

COLLABORATION

We achieve our strategic objectives by closely collaborating with our partners



Refer Pages 60 to 69 (Social and Relationship Capital) and Pages 70 to 79 (Human capital) for details of how we nurture our relationships



Guided by the Company vision, mission & the values and our strategy built on differentiation, collaboration & customer centricity, we focus on achieving our ultimate objective of adding sustainable value to our stakeholders.

Strategy is guided by the Company's vision and mission and revolves around three core value drivers.

Customer Centricity: UA operates in the life insurance industry and provides value propositions to meet the needs at all stages of the customer journey. Customer centricity is the foundation for product development. Our product development focus moved from an investment focus to a protection focus in 2019. UA continues to enhance its product offering by engaging with eco system of partners and leveraging synergies of the John Keells Group.

Differentiation: During the year under review, several initiatives were undertaken to further strengthen our key differentiators. The IT Roadmap and advanced analytics transformation project were among these initiatives. Board Supervisory Committee, Board Investment Committee and Board Audit and Compliance Committee are Board Committees to ensure prudent decisions are being taken to strengthen the financial position.

Collaboration: Collaboration with our business partners such as Agents, banks and brokers as well as our employees is critical for UA to achieve strategic objectives. Recruitment, Agent capabilities, rewards and recognition, career path and retention are being managed to enhance quality of our agency channel. We collaborate closely with banks via strategic partnerships and open architecture arrangements and continue to focus on further strengthening our existing partnerships with banks and investing in new strategic partnerships. Key to sustaining success is commitment of our employees. UA continues to invest in its people to develop them to undertake new opportunities and challenges. The Company conducts various talent development programmes and employee engagement activities and other initiatives to enhance the employee collaboration.

Trust	Ethics and Integrity
Create value to other stakeholders	
<ul style="list-style-type: none"> ■ Enhance employee value proposition ■ Enhance supplier satisfaction ■ Enhance business partners value proposition (Agents, Banks) 	
<ul style="list-style-type: none"> ■ Human Capital ■ Social and Relationship Capital 	
<ul style="list-style-type: none"> ■ GPTW score ■ % of payments made to suppliers on time ■ Agent satisfaction survey score ■ Feedback from Bancassurance partners 	
Nurture a committed and agile workforce, enhance value creation via collaboration with business partners	

CUSTOMER CENTRICITY

We continue to introduce unique life insurance propositions which cater all customer needs.

Refer page 64 for details of the product portfolio

OUR STRATEGY

RESOURCE ALLOCATION

Capital input requirement is determined based on the distribution channel and key initiatives pursued under each distribution channel. Principle activities of the value chain come under the distribution channels, Agency and Bancassurance.

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 channels. Information technology is the support service which the Company has invested heavily in terms of its digital roadmap.

The Company strategies are funded principally through the internally generated funds. This requires consideration of factors such as regulatory measures (Capital adequacy ratio and Determination 1), dividend payout and asset and liability management.

The following illustration depicts how critical each capital is for each value chain activity.

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

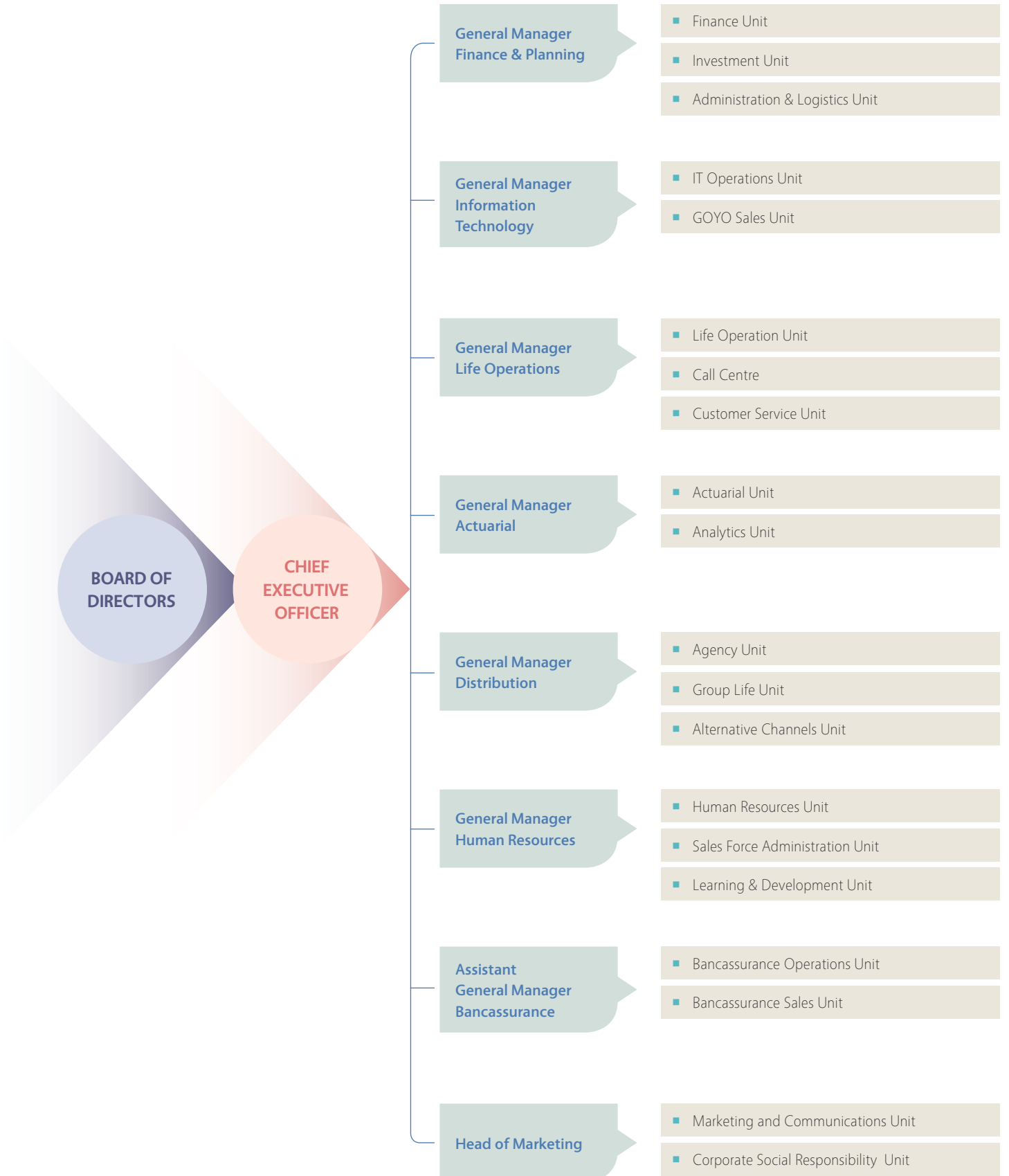
■	Extremely critical
■	Critical
■	Less critical
■	Not required

STRATEGY IMPLEMENTATION

Our business model and organization structure support the achievement of our strategic objectives. Our business model enables us to derive value, add value and deliver value to our stakeholders leveraging our core competencies while the organization structure is the mechanism that drives our business model.



Organisational Structure



Our Business Model

VALUE DERIVED



FINANCIAL CAPITAL

Stated Capital: **Rs. 1 Bn**
 Restricted Regulatory Reserve: **Rs. 3.4 Bn**
 Reserves: **Rs. 2.7 Bn**
 Retained Earnings: **Rs. 7.6 Bn**

(For more details refer pages 48 to 59)



MANUFACTURED CAPITAL

Freehold head office building: **Rs. 268 Mn**
 Freehold Kurunegala building: **Rs. 104 Mn**
 Refurbished branch network: **8 Branches**

(For more details refer pages 92 to 95)



HUMAN CAPITAL

Employees: **764**
 Field Staff: **3,397**

(For more details refer pages 70 to 79)



SOCIAL & RELATIONSHIP CAPITAL

Customers: **219,036**
 Reinsurers: **04**
 Suppliers: **1,468**
 Premium collection partners: **8**
 Bancassurance strategic partnerships: **2**

(For more details refer pages 60 to 69)



INTELLECTUAL CAPITAL

Brand: **Rs. 1.94 Bn**
 Tacit knowledge: **4,161 Employees and field staff**

(For more details refer pages 80 to 85)



NATURAL CAPITAL

Water use: **22,193 M³**
 Energy consumption: **6,545 GJ**

(For more details refer pages 86 to 91)

VALUE CREATION PROCESS

OUR VISION

To be the most sought-after provider of insurance solutions

MISSION

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

CORE BUSINESS ACTIVITIES



For more details refer pages 98 to 131

GOVERNANCE

OUR STRATEGY

Differentiation

Value Creation

Customer Centricity

Collaboration

CAPITAL MANAGEMENT (For more details refer pages 48 to 95)

(For more details refer pages 132 to 139)

RISK MANAGEMENT

OUTPUTS

PRODUCTS

- Union Advantage
- Union Super Investor
- Union Single Premium Advantage
- Pension Advantage
- GOYO
- Union Loan Protector

Rs. 1,023 Mn
as payments to employees

Rs. 12.9 Mn
Investment in training

Rs. 550 Mn
in tax payments

Rs. 2.9 Bn
in payments to suppliers

Rs. 6.4 Mn
of community investments

IMPACTS

 12,286 Kg Solid waste	 34,008 M³ Effluents	 1,526 tCo2e CO2 footprint
--	---	--

VALUE DELIVERED OUTCOMES



SHAREHOLDERS

Attractive dividends and sustained growth in share price.



CUSTOMERS

Innovative insurance offerings and Increased customer convenience



EMPLOYEES

Opportunities for career progression



BUSINESS PARTNERS

Stronger partnerships



COMMUNITY

Contributing to creating a healthier community




REGULATORS

Compliance and support to develop industry


KPIs

Gross Written Premiums: **Rs. 11.6 Bn**
 Operating profit: **Rs. 1.6 Bn**
 Dividend per share: **Rs. 20**
 Market Capitalisation: **Rs. 19.4 Bn**
 Capital Adequacy Ratio: **362%**

 For more details refer pages 48 to 59 (Financial Capital)


KPIs

Customer satisfaction score: **8.5/10**
 lives covered: **703,183**
 New propositions for protection, pension and investment needs: **6**
 Life insurance proposals received digitally: **100%**
 Auto underwriting: **51%**

 For more details refer pages 60 to 69 (Social and Relationship Capital)


KPIs

GPTW score: **70%**
 New promotions: **61**
 Increase in Productivity: **47%**
 MDRT members produced: **65**

 For more details refer pages 70 to 79 (Human Capital)


KPIs

100% on time settlement to vendors

 For more details refer pages 60 to 69 (Social and Relationship Capital)

KPIs

Investment in CSR: **Rs. 6 Mn**
 Lives touched through Dengue, Thalassemia and Diabetes awareness campaigns: **703,180**
 Water saved: **245,000 Litres**
 Number of trees saved: **334**
 Energy saved: **21,667 Kwh**
 Carbon Footprint: **1,526 tCo2e**

 For more details refer pages 60 to 69 (Social and Relationship Capital) & refer pages 86 to 91(Natural Capital)

Thinking *about your growth*

Throughout the year, we dedicated ourselves to driving your growth, valued stakeholder.

Our longstanding commitment towards sustaining and growing our six capitals remains at the forefront of our operations.

Management Discussion *and Analysis*



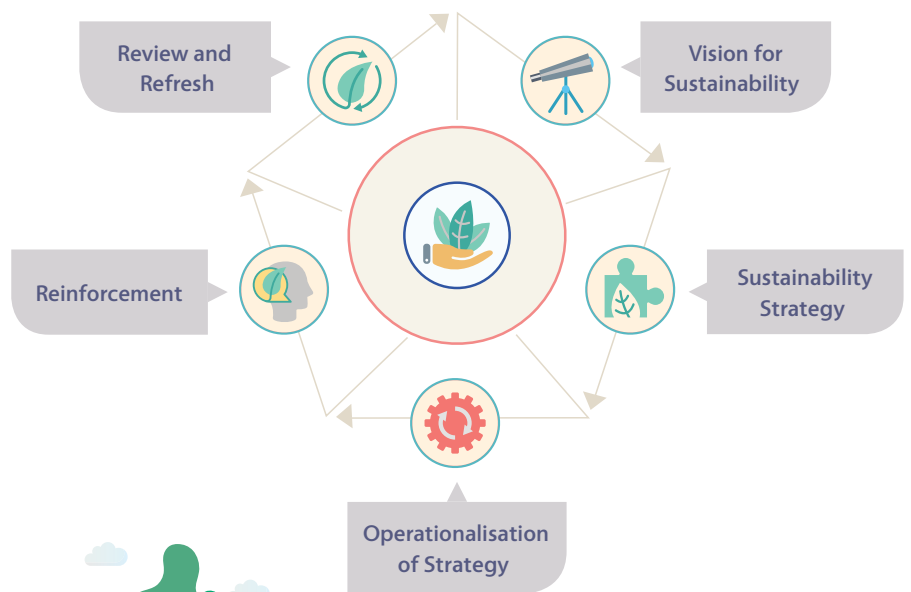
28 Sustainability
30 Stakeholder Relationship
34 Materiality
37 Operating Environment
45 Risk and Opportunities
46 Capital Management Summary

48 Financial Capital
60 Social and Relationship Capital
70 Human Capital
80 Intellectual Capital
86 Natural Capital
92 Manufactured Capital

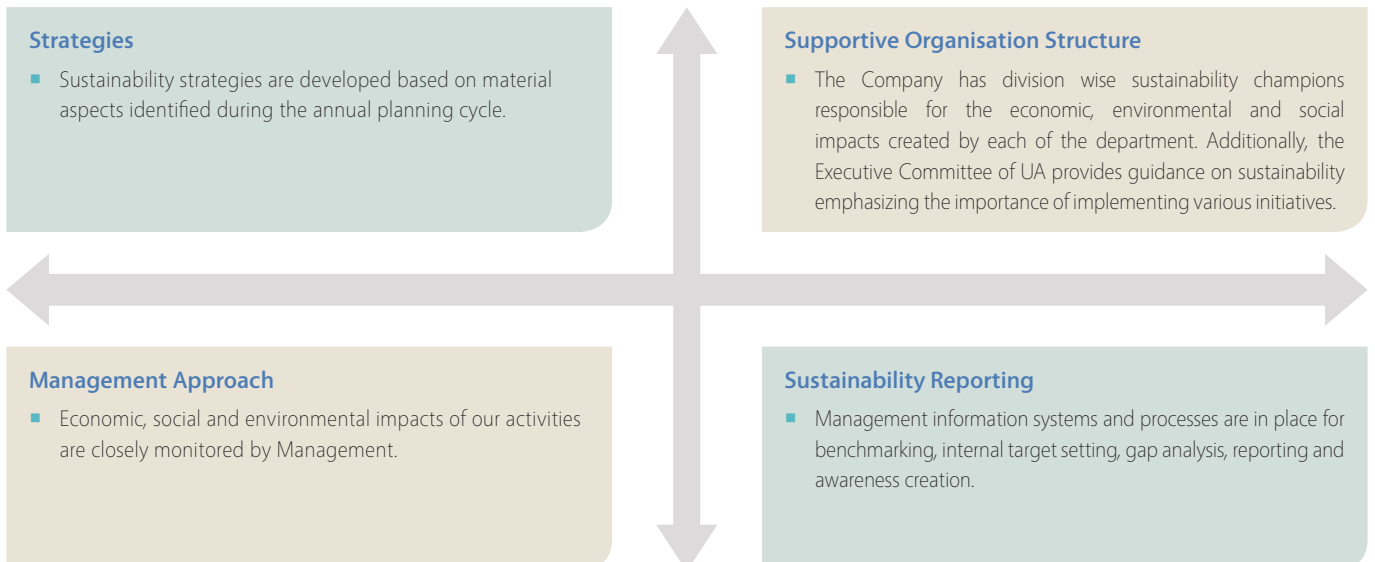
Sustainability

Our sustainability agenda is incorporated into our overall strategy. We believe that building a citizenship culture is an ongoing process that ensures the relevance of our sustainability vision.

At UA, we are committed to fostering a citizenship culture that drives sustainable, long term business growth by creating value both internally and externally. Our sustainability agenda is incorporated into our overall strategy through a sustainability framework and governance system that addresses economic, social and environmental needs of our key stakeholders. UA's sustainability strategy is aligned with the Group's sustainability strategy as formulated by Group sustainability committee and linked to United Nations Sustainable Development Goals (SDGs). We believe that building a citizenship culture is an ongoing process and continuously review our strategies and processes to ensure the relevance of our sustainability vision.



UA'S SUSTAINABILITY MANAGEMENT FRAMEWORK



SUSTAINABILITY AGENDA

We contribute to several of the United Nations Sustainability Development Goals (SDG's) through our value creation process.



Stakeholder Relationship

We take a customized approach to stakeholder engagement based on the capacity and expectations of the respective stakeholders. The degree and mode of engagement are flexible and changes over time as relationships deepen and mature.

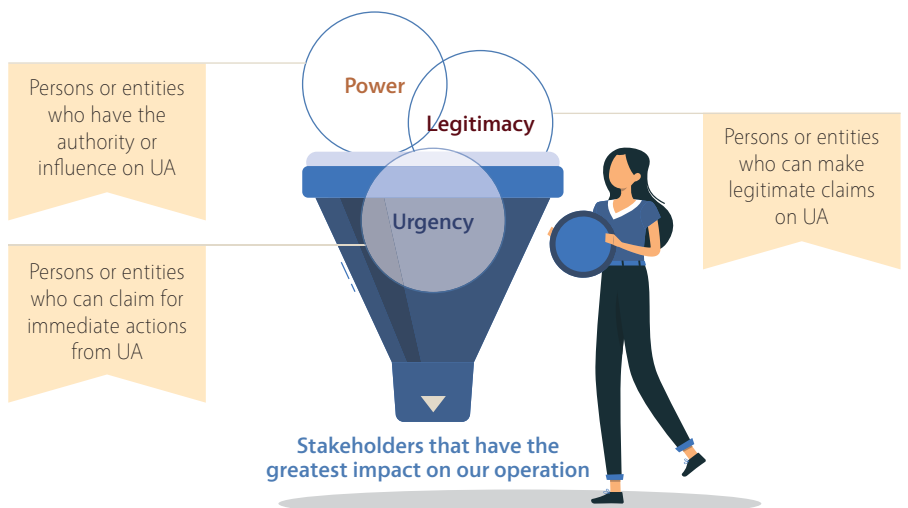
STAKEHOLDER ENGAGEMENT

Effective stakeholder engagement helps us to better communicate our business performance, decisions and activities to our stakeholders. Given the nature of our business and operational footprint, we interact with a wide range of stakeholders with diverse expectations. We therefore have in place a comprehensive process to identify and engage with stakeholders that impact and influence our business decisions in a significant way. We are mindful of the negative risk on our long-term sustainability if the needs and aspirations of our stakeholders are not met and continue to maintain an ongoing dialogue with our different stakeholders.



Stakeholder Identification

Stakeholders are identified by the Company's Executive Committee after a comprehensive analysis of data on various stakeholder groups and is revisited every five years to ensure relevance. Identified stakeholders are then categorized and ranked based on the power, legitimacy and urgency of their impact on UA's operations and business decisions.



STAKEHOLDER ENGAGEMENT PROCESS

Our stakeholder engagement process is a continuous process that involves four key steps. This includes determining key stakeholders, building the resources and capacities, implementation and reviewing and improving the process.



OUR APPROACH TO STAKEHOLDER ENGAGEMENT

We take a customised approach to stakeholder engagement, deciding the level, method and modes of engagement based on the capacity and expectations of the respective stakeholders. The degree and mode of engagement are flexible and changes over time as relationships deepen and mature. Our stakeholder engagement process during the year and outcomes are detailed below.



CUSTOMERS Individual and corporate policyholders					
	Levels of Engagement	Mode of Engagement	Frequency	Key Concerns	Our Response
Process	Consult	Customer satisfaction surveys	Monthly	Outcome Long-term promise of protection and wealth accumulation Service quality and consistency Promoting Island-wide accessibility Performance reliability Higher product margins	Leverage technology
	Consult	Customer research	As required		Enhanced knowledge of internal staff and third-party service providers.
	Consult	One-to-one meeting	Monthly and as required		Regular service standard review
	Involve	Welcome calls	All new policies		Expanding customer service points
	Involve	Complaint management	On-going		Fair pricing of the products
	Passive	Corporate website	On-going		
	Advocate	Social media	On-going		
	Passive	Media advertisements	As required		
Collaborate	Customer get-togethers	Annually			

STAKEHOLDER RELATIONSHIP



SHAREHOLDERS

Parent, retail and institutional investors

Levels of Engagement		Mode of Engagement	Frequency	Key Concerns		Our Response
Process	Inform	Annual Report	Annually	Outcome	Financial performance	Sustainable growth of revenue
	Inform	Interim Financial Statements	Quarterly		Sustainable growth	Regular review and update of Corporate Governance practices
	Consult	Annual and Extraordinary general meetings	AGMs annually and EGMs as required		Healthy liquidity position	Implementation of effective performance management systems
	Inform	Announcements to CSE	As required		Transparent reporting	Enhancing the confidence on the senior leadership for future investment
	Inform	Media releases and press conferences	As required		Transformation and technological road map	Continuous investment on digitisation
	Involve	Investor relations hotline	On-going			
	Passive	Corporate website	On-going			
	Consult	One-to-one meetings	As required			



EMPLOYEES

Permanent, fixed term contract employees and sales advisors

Levels of Engagement		Mode of Engagement	Frequency	Key Concerns		Our Response
Process	Consult	Employee satisfaction survey	Annually	Outcome	Attractive remuneration	Implementation of competitive compensation process
	Involve	Skip level meetings	On-going		Job security	Investment on learning and development
	Empower	Brainstorming sessions with all business units when reviewing medium to long term strategies	Annually		Personal development and career progression	Developing conducive work culture
	Inform	Corporate communication via e-mails, intranet, newsletters etc.	On-going		A sound social environment	Facilitate employee engagement activities through recreation club activities
	Consult	Management meetings	Quarterly			
	Collaborate	Recreation club activities	On-going			



SUPPLIERS AND BUSINESS PARTNERS

Forms a part of Relationship Capital and vital in maintaining Company supply chain

Levels of Engagement		Mode of Engagement	Frequency	Key Concerns		Our Response
Process	Consult	On-site visits and meetings	As required	Outcome	Forming long term and reliable partnerships	Maintaining principle discipline
	Consult	Formal interactions with reinsurers	On-going		Contractual performance	Effective management of risk
					Business sourcing continuity	Building sustainable relationships



COMMUNITY

Communities and community based organizations

	Levels of Engagement	Mode of Engagement	Frequency	Key Concerns	Our Response
Process	Collaborate	Interactions with community representatives and institutes	On-going	Outcome Demand for multi-pronged community development initiatives Transparency and engagement measures	Operate on CSR brand 'Union Manushyathwaya' with the objective of disseminating vital information on non-communicable diseases
	Passive	Corporate website and social media	On-going		
	Collaborate	CSR projects	On-going		
	Passive	Press releases	As required		
	Collaborate	Public events	As required		



ENVIRONMENT

Providers of the resources to the Company and Environmental Authorities

	Levels of Engagement	Mode of Engagement	Frequency	Key Concerns	Our Response
Process	Passive	Employee training on environmental impacts	On-going	Outcome Demand for sustainable business practices Minimizing the impact on the environment	Regular monitoring of carbon footprint
	Passive	Careful resource consumption	On-going		leverage technology to minimise the impact on the environment
	Passive	Environmental performance	On-going		



GOVERNMENT AND REGULATORY INSTITUTIONS

Insurance Regulatory Commission, Inland Revenue Department, Ministry of Finance, Ministry of Health

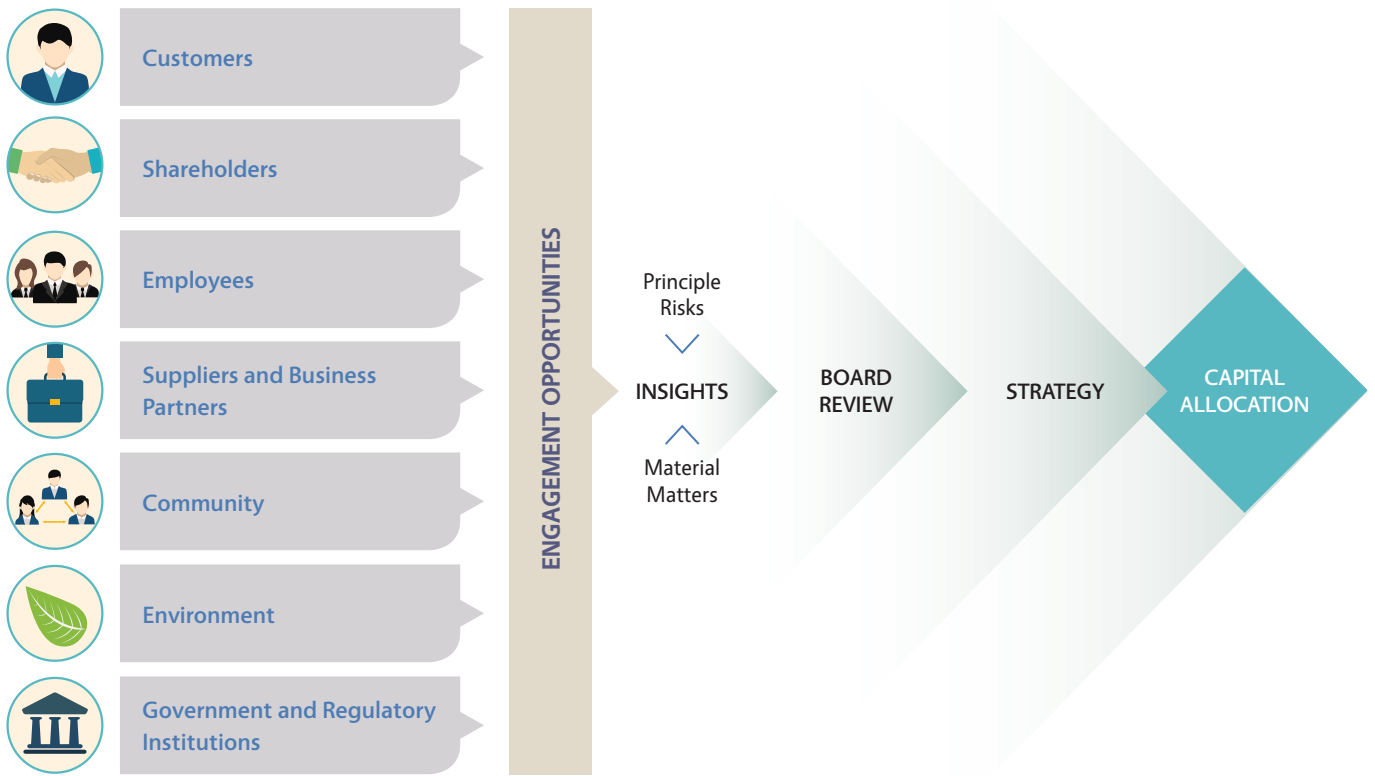
	Levels of Engagement	Mode of Engagement	Frequency	Key Concerns	Our Response
Process	Consult	On-site surveillances	As required	Outcome Compliance with rules and regulations Active participation and contributing to the development of industry and regulatory working groups Contribution to the growth of the industry	Proactive communications with regulatory institutions
	Inform	Filing of returns	Periodic deadlines		Adherence to all the rules and regulations
	Involve	Directives and circulars	As required		
	Passive	Press releases	As required		Active contribution towards developing industry specific standards

Materiality

OUR MATERIAL MATTERS

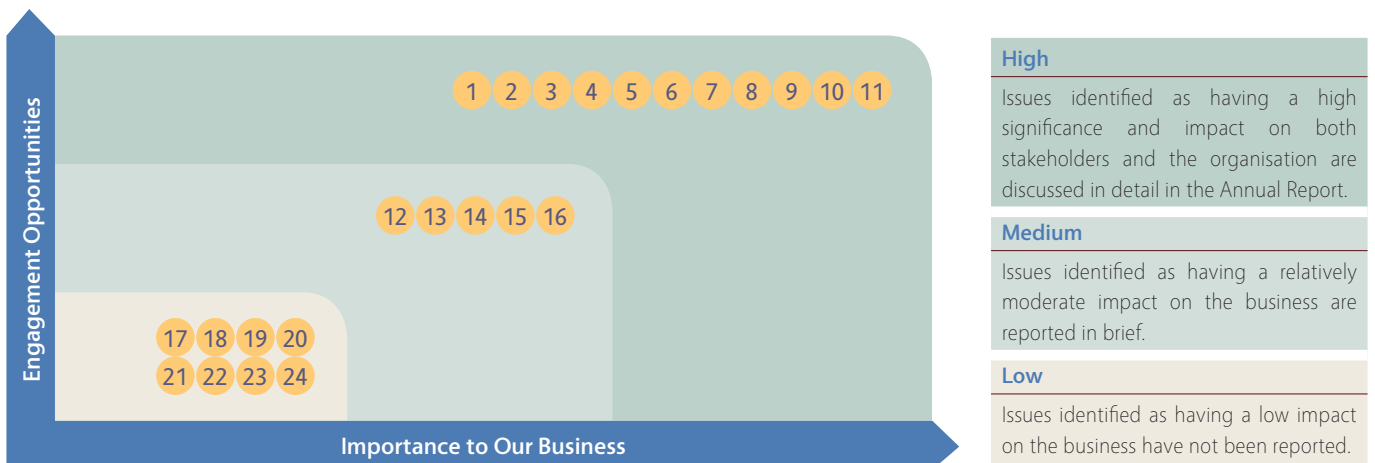
Identifying and evaluating material matters that impact our ability to create value for our stakeholders in the long run is an integral part of UA's strategy and forms a core component of our planning process. Material matters are identified through the stakeholder engagement process and are reviewed and evaluated by management on an ongoing basis. Our materiality determination process is graphically depicted below.

STAKEHOLDER GROUPS



MATERIALITY MATRIX

Material matters identified through our stakeholder engagement process are mapped according to their relative importance to our stakeholders and to our business. Performance of material issues are reported using performance disclosures prescribed by the GRI Sustainability Reporting Standards and where possible have also been linked to the United Nation's Sustainable Development Goals (SDGs). Reflecting best practices in corporate reporting, the following guidelines were followed in defining reporting boundaries for the FY 2019 Annual Report.



A detailed description of the material aspects indicated in the previous page materiality matrix is provided in the table below.

	Material topic	Why it is material to us	Change in materiality	Relevant GRI disclosures	Relevant SDG	
HIGH IMPACT	1	Economic Performance	Striking a balance between financial performance and business outcomes will further enhance the Company's long-term sustainability and future growth	No Change	201	
	2	Market Presence	The requirement to contribute for economic development of the areas of operation given the geographical spread of the Company	No Change	202	
	3	Indirect Economic Impacts	The need to consider impact of the Company decisions on the society which occur as a consequence of direct economic performance	No Change	203	
	4	Procurement Practices	The need to consider the Company's contribution to local suppliers due to large scale operations and evaluate on the negative impacts on the supply chain	No Change	204	
	5	Employment	Attracting and retaining a competent workforce ensures the quality of our human capital	No Change	401	
	6	Labour/ Management Relations	The need to maintain positive labour / management relations	No Change	402	
	7	Training and Education	The need to upgrade employee skills, performance and continuous career progression	No Change	404	
	8	Public Policy	The need to asses the risk associated with corruption, bribery, and undue influence, among others	No Change	415	
	9	Customer Health and Safety	The need to address health and safety across the life cycle and adherence to customer health and safety regulations and voluntary codes	No Change	416	
	10	Marketing and Labelling	The need to consider fair and responsible marketing communications, as well as access to information about the products which can help customers to make informed choices	No Change	417	
	11	Customer Privacy	The need to consider the events concerning breaches of customer privacy and losses of customer data	No Change	418	
MEDIUM IMPACT	12	Occupational Health and Safety	The need to consider healthy and safe work conditions which involve both prevention of physical and mental harm and promotion of employees' health	No Change	403	
	13	Local Communities	The need to consider the differentiated nature of communities as the country being multi religious and multi-racial	No Change	413	
	14	Socio-Economic Compliance	The need to consider the Company's overall compliance record	No Change	419	
	15	Diversity and Equal Opportunity	The need to promote diversity and equal opportunity at work	No Change	405	
	16	Non-Discrimination	The need to avoid discrimination against any person at work on any grounds	No Change	406	

STAKEHOLDER RELATIONSHIP

	Material topic	Why it is material to us	Change in materiality	Relevant GRI disclosures	Relevant SDG	
LOW IMPACT	17	Anti-corruption	The need to identify the Company's impact related to corruption and methods of mitigation	No Change	205	
	18	Energy	The need to evaluate the UA's impact related to energy and how we manage them	No Change	302	
	19	Water	The need to understand and communicate water related impacts created by UA	No Change	303	
	20	Emissions	The need to evaluate the emission into air created by the Company	No Change	305	
	21	Effluent and Waste	The need to consider impact created by the water discharges, treatment and disposal of waste and spills of chemicals, oils, fuels, and other substances.	No Change	306	
	22	Environmental Compliance	The requirement to consider the organisation's compliance with environmental laws and / or regulations	No Change	307	
	23	Security Practices	The requirement to consider conduct of security personal towards third parties and potential risk of excessive behaviour	No Change	410	
	24	Supplier Social Assessment	The need to consider impacts created by the Company through the supply chain	No Change	414	

Operating Environment

The slow growth, low interest rates and increased inflation challenged life insurance in 2019 but the long term outlook of the sector remains favourable as consumer spending is expected to improve.

GLOBAL ECONOMY

The global economy is in a synchronised slowdown, with growth estimated at 3% as per the IMF World Economic Outlook (WEO). This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors, such as low productivity growth and ageing demographics in advanced economies.

The US yield curve inverted in August for the first time since the global financial crisis signalling another recession in the US. The US Fed lowered its key interest rates by 25 basis points (bps) in September to stimulate the economy and get closer to the target inflation rate of 2%.

SRI LANKAN ECONOMY

The economy recorded a subdued growth of 2.6% during the first nine months of 2019 with Agriculture, Industry and Services sectors recording slower growth of 2.1%, 2.6% and 2.8% respectively. Dry weather conditions that prevailed at the beginning of the year impacted performance during the first quarter with the Easter Sunday bombings in April having a significant impact from the second quarter onwards. Performance of the economy was also negatively impacted by erratic weather conditions and political instability which prevailed through much of the year as well as the slowdown in the global economy.

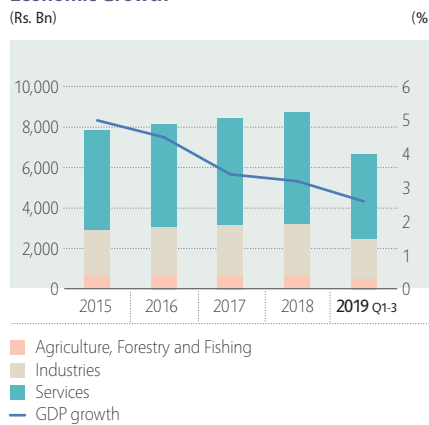
Some signs of recovery however were evident from the third quarter onwards with the industries and services sectors recording an improved growth of 3.3% Year on Year (YoY) and 2.8% YoY. The agriculture sector however continued to slow down with a marginal growth of only 0.4% during the third quarter.

Impact on our business

The slowdown in the economy had an impact on the insurance sector as consumer spending slowed. This in turn negatively impacted corporate earnings, which also negatively impacted returns from listed equities.



Economic Growth



Inflation

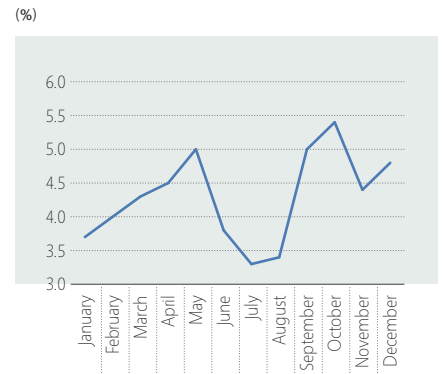
Inflation measured by the Colombo Consumer Price Index (CCPI) increased by 4.8% in December 2019 on a YoY basis. Inflation remained below 5% but on an increasing trend through much of the year due to volatile food prices stemming from erratic weather conditions and supply disruptions amidst the adverse security situation from April.

Impact on our business

Increased food inflation increase cost of living and limit consumer spending on non-essentials.



CCPI YoY



Source: Department of Census and Statistics

Interest Rates

Subpar economic growth, decelerating private sector credit growth, subdued monetary aggregates, high nominal and real interest rates and global monetary policy easing prompted the CBSL to adopt an increasingly accommodative monetary policy stance in 2019. Policy interest rates were reduced in May 2019 and August 2019 while interest rate caps were imposed on deposit and lending products of financial institutions in April and September respectively. As a result of these measures, The Average Weighted Lending Rate (AWLR) and Average Weighted Fixed Deposit Rate (AWFDR) declined by 75 and 80 bps respectively.

Yields on Government securities declined notably in 2019. The 365 days treasury bill yield at the primary auction declined by 250 bps while the yield curve on average declined by approximately 175 bps. The yield curve was flat towards the end of 2019 while the shorter tenors (less than two years) fell steeply by almost 245 bps. Government securities held by foreigners declined to 1.9% at the end of 2019 as a result of the CBSL restricting foreign holding of Government securities to a maximum of 5% with effect from January 2019.

OPERATING ENVIRONMENT

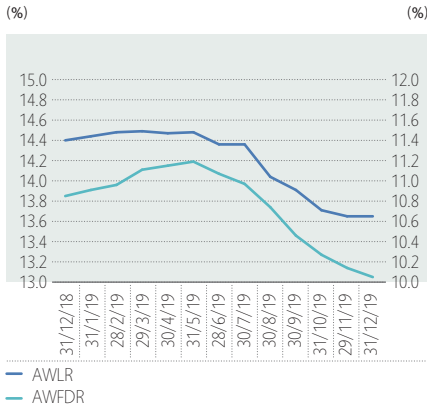
Impact on our business



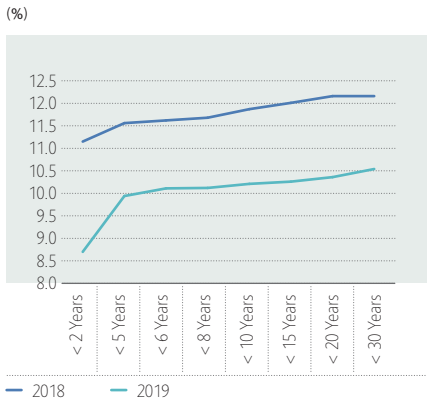
The decline in Government securities yield increased UA's reinvestment risk of future business and investment cash flows. Declining yields however improved prices of existing AFS securities which made a positive contribution to UA. Given the conservative investment style, UA had capacity to invest in other asset classes that offered better returns during the year.

reflecting the impact of heightened uncertainties in the global markets, which resulted in some unwinding of foreign investments in the Government securities market. Nevertheless, the subsequent improvement of liquidity conditions in domestic foreign exchange market helped stabilize the exchange rate. Consequently, the rupee recorded an appreciation of 0.6% over the year 2019.

Average Lending and Deposit Rates



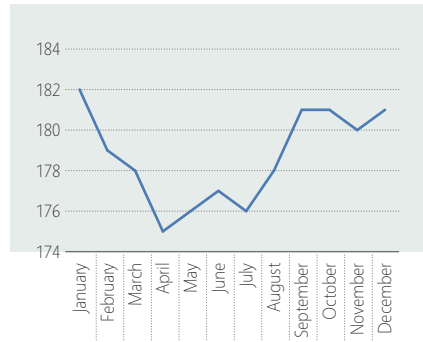
Yield Curve



External Sector and Exchange Rate

The exchange rate strengthened during the first four months of 2019 supported by a significant contraction in the trade deficit and an increase of financial inflows resulting in an appreciation of 4.6% prior to the Easter Sunday attacks. However, the exchange rate experienced pressure in the second half of April following the Easter Sunday attacks and again in the second half of August,

LKR to USD



Equity Market

Despite volatile movement in price indices throughout the year, the All Share Price Index (ASPI) ended 2019 on a positive note with a gain of 1.27% compared to the beginning of the year. The S&PSL20 index however declined by 6.32% YoY. Foreign investors were net sellers of LKR 11,738.7 Mn in 2019. Subdued economic conditions and political uncertainty on the domestic front as well as the escalation of geopolitical tensions which forced funds out of emerging and frontier markets had a negative bearing on listed equities. The market Price Earning (PE) at the end of 2019 stood at 10.83x.

Impact on our business



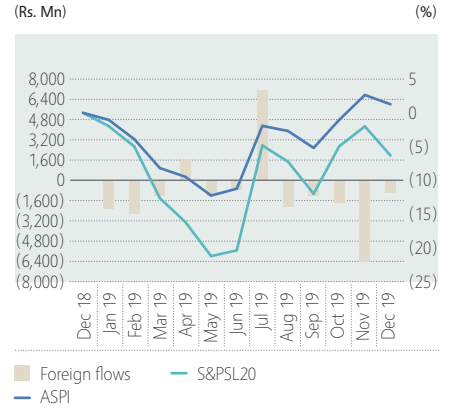
Returns to UA from equity investments was negative as the Company booked an unrealised loss of LKR 298 Mn for 2019. The decline in most of the counters gave UA an opportunity to buy undervalued stocks. UA took this opportunity to rebalance certain stocks to position the equity portfolio to earn positive returns in the long term.



USD 2,820 Bn

GLOBAL LIFE INSURANCE INDUSTRY MARKET 2018

Equity Market Performance



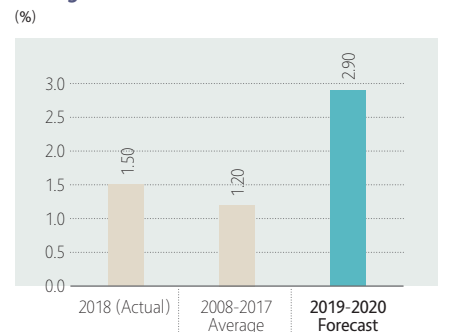
COMPETITIVE LANDSCAPE

Global Insurance Industry

The global insurance industry remained resilient, continuing to generate growth around the world and maintaining overall profitability despite turbulence in the global economy. Global life premiums in 2018 amounted to USD 2,820 Bn, a growth of 0.2% over 2017.

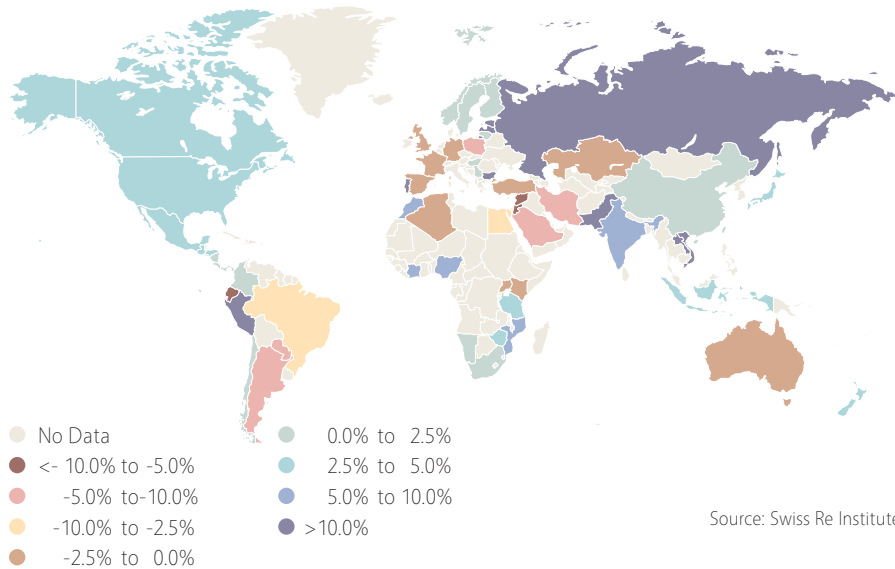
Global life premiums are expected to continue to grow in 2019/20, at a rate well above the annual average of the last 10 years. This will be mostly driven by emerging markets, particularly India and China. In the advanced markets, life premiums will grow at a slower pace, but also faster than the historical average. In its latest sigma, "Sustaining resilience amid slowing growth: global economic and insurance market outlook 2020/21," Swiss Re Institute (SRI) forecasts global premiums to increase by 3% annually in real terms in 2020 and 2021. US and Euro area are forecasted to grow at 1.6% and 0.9%, respectively, below consensus. The main engine of the global economy will be emerging Asia, with near 6% growth in both India and China. In China, non-life premiums are forecast to grow by 9% in 2020, and life premiums by 11%.

Real Premium Growth in 2019 vs Average 2008 to 2017 and Outlook



Source: Swiss Re Institute

Forecasted Premium Growth by Region

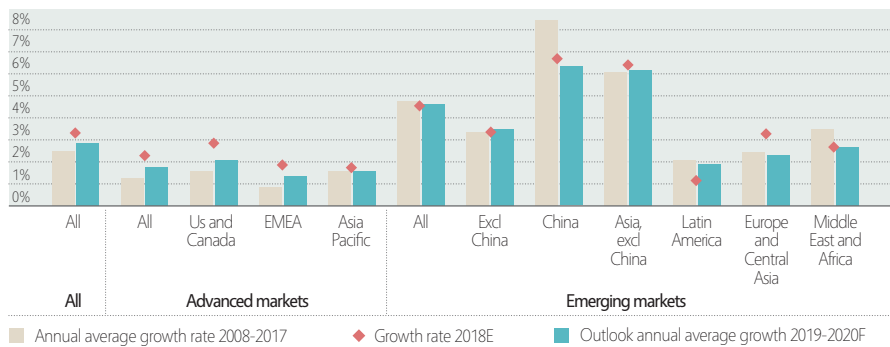


growth compared to 2018. Insurance density in Sri Lanka is low compared to regional markets, however regulatory developments particularly in the micro insurance segment is expected to increase insurance penetration and density in the medium term. Performance of Sri Lankan Insurance Industry against regional market is indicated on the graph in the next page.

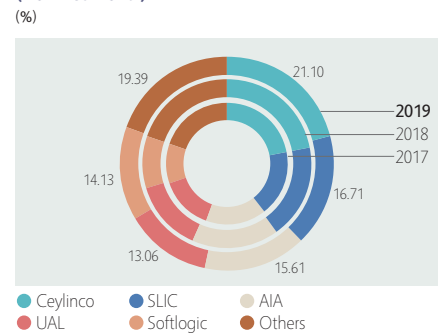
Market Structure

The top five players, Ceylinco Life, SLIC, AIA Life, Softlogic Life and Union Assurance accounted for 81% of GWP in 2019 and 86% of assets in 2018. Of the 26 players currently operating in the market, 12 engaged in Long Term (Life) Insurance business, 11 companies engaged in General Insurance business and 03 companies engaged in both Long Term and General Insurance businesses. As at end 2019, Sixty-three (63) insurance brokering companies registered with the Commission mainly concentrated in General Insurance business.

Real Premium Growth in 2019 vs Average 2008 to 2017 and Outlook (by Market)



Life GWP Market Share Movement (2017 to 2019)

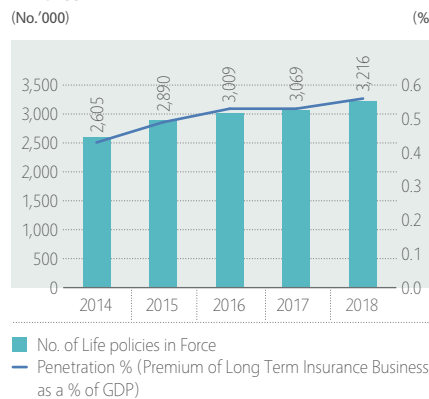


Life Insurance Industry in Sri Lanka

Life Insurance Penetration in Sri Lanka

Insurance penetration which is reflected by the insurance premium as a percentage of GDP amounted to 1.26% in 2018. Despite recording a marginal increase in growth as compared to 2018, insurance penetration in Sri Lanka is still low compared to other countries in the Asian Region. Penetration of the long-term insurance business in 2018 stood at 0.56% (2017: 0.53%) and the penetration of the general insurance business was 0.70% (2017: 0.70%), recording a slight increase in long term insurance business compared to the penetration ratio recorded in 2017.

Insurance Penetration and Policies in Force



Insurance Density

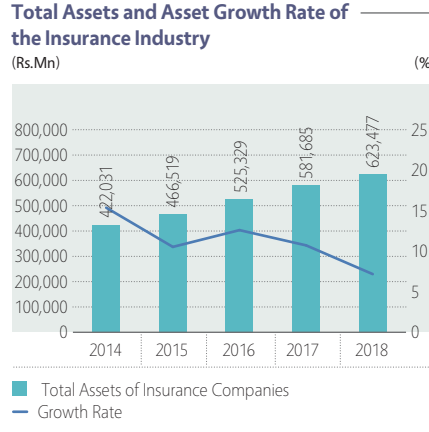
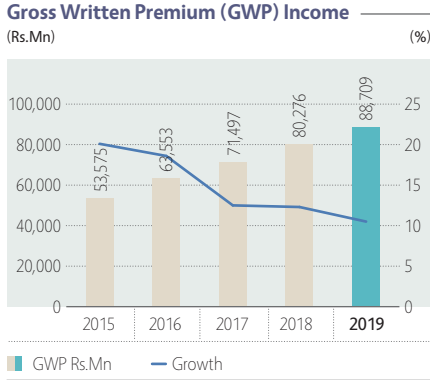
Insurance density reflects the life insurance premium income per person of the population. In 2019 Insurance density stood at Rs. 4,069, a 10%

Performance during the year

Despite the challenging operating environment, year 2019 ended with a positive note for the Sri Lankan life Insurance industry with 11% growth in GWP to Rs. 88,771 Mn. The significant growth is attributable to increased awareness regarding life insurance, introduction of new life insurance products to customer requirement such as retirement and investments, enhanced customer service, etc.

Total assets in the industry increased by 7.2% in 2018 to Rs. 624 Bn. Assets of Long-term Insurance business increased by almost 10% to Rs. 430 Bn, due to an increase in business volumes represented by investments in Government debt securities and deposits.

OPERATING ENVIRONMENT

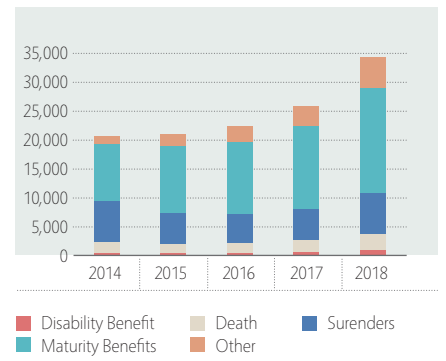


Claims and Benefits Paid

A total of Rs. 34,337 Mn was paid in total claims and benefits for the year 2018, which is an increase of 30.21% over 2017. Maturity benefits account for the largest percentage of the total claims incurred, accounting for 53.24% of total claims in 2018.

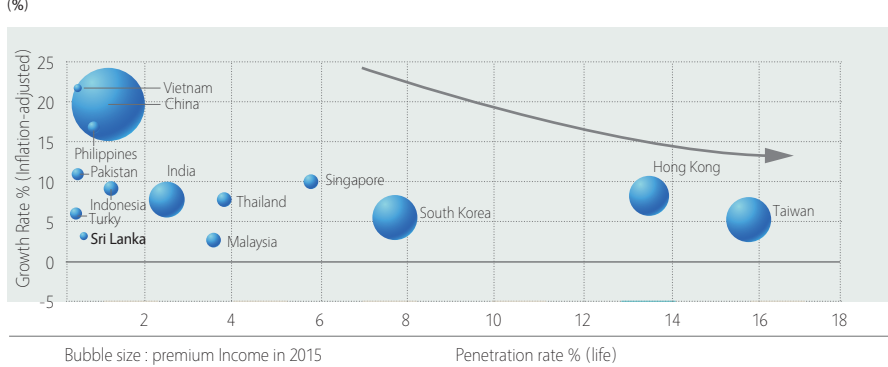
Claims and Benefits paid by Life Insurance Companies

(Rs. Mn)



Life Insurance Market Asia-Pacific Region - Penetration Rate and Growth Rate in 2015

(%)



Source: World Insurance in 2015 - Swiss Re Sigma

SWOT Analysis for Sri Lankan Insurance Industry

Strengths	Weaknesses
<p>The insurance industry in Sri Lanka is well regulated</p> <p>The industry is closely supervised by the regulatory authority, IRCSL therefore, there is a barrier to new entrance.</p> <p>The threat of substitute products is low</p> <p>There is no direct substitute for life insurance products. Products such as investment plans, pension schemes, child education plans and other long-term financial solutions offered by non-insurance companies that address the need for savings, annuities and investment plans may be viewed as indirect substitutes to insurance products.</p>	<p>Higher level of policy lapses</p> <p>Compared to developed markets, Sri Lanka has a relatively higher level of policy lapses due to factors such as lack of servicing, wrong selling and negative market conditions. In 2018 total insurances policies lapsed as a percentage of total policies in force amounted to 8.47% compared to 8.96% in 2017.</p> <p>Relatively lower levels of technology adoption and innovations in the industry</p> <p>Weak digital infrastructure as compared to regional markets and lower awareness regarding digital adoption in insurance markets has slowed down progress.</p>
Opportunities	Threats
<p>High bank branch density</p> <p>Despite the strong presence of banking sector in Sri Lanka, Bancassurance is under penetrated compared to other regions of the world. Therefore, insurers can leverage the branch network of the banking industry to increase productivity and reduce the acquisition cost.</p> <p>Increasing demand for insurance</p> <p>Comparatively low penetration levels, increasing disposable income levels and an ageing population is likely to continue to drive faster growth. Growth in the industry has continued at an accelerating pace during last three years an indication that the industry is still in a growth phase.</p>	<p>Lack of quality sales advisors</p> <p>The Agency channel continues to be the dominant distribution channel in Sri Lanka. However, a serious lack of skilled Agents continues to pose a challenge.</p> <p>Dominance by major players in the market</p> <p>The Sri Lankan Insurance industry is dominated by the five largest players accounting for approximately 86% of total industry assets and over 81% of market share.</p>

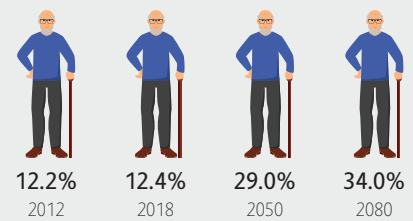
KEY TRENDS IMPACTING THE INDUSTRY

Social

Ageing population

Sri Lanka is experiencing a structural shift in the age composition of its population, with the size and share of its elderly population growing relatively faster than its working age population. Greater access to advanced medical facilities and longer life expectancy rates have led to a growth in the elderly population as compared to the working age population which continues to be impacted by declining birth rates. Sri Lanka's over 60 population accounted for 12.4% (2.68 Mn) of its total population in 2018, and is projected to account for almost a quarter of total population by 2041. This is a significantly higher proportion as compared to other South Asian countries.

Over 60 Age Group as a % of Total Population



Source: World Bank - Demographic Trends

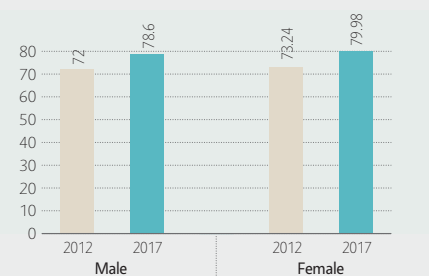
Impact

Growth in ageing population, reduced labour force participation and lower savings rates will create the need for long term health, pension and retirement plans.

Rising life expectancy

Average life expectancy in Sri Lanka, which is currently the second highest in South Asia is estimated to continue to increase due to ongoing investments in health and education. Moreover, female life expectancy which increased from 73.24 years in 2012 to 79.98 years in 2017 continues to be higher than that of males.

Average Life Expectancy (Years)



Source: World Bank 2017 and CBSL Annual Report 2018

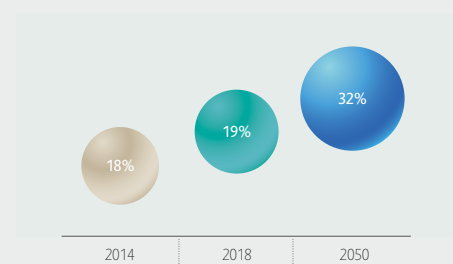
Impact

Rising life expectancy is expected to drive demand for pension and retirement products in the medium to long term. Meanwhile, with males still predominantly holding primary wage earner status in Sri Lankan households, women out living males is expected to drive demand for life insurance and pension products.

Urbanization

Increased labour mobility and economic development is expected to increase the level of urbanisation in Sri Lanka. Currently Sri Lanka's urban population is relatively low compared to the rest of the world amounting to 18.8% as at 2018. However Sri Lanka's urban population is growing rapidly and is projected to increase to 31.6% by 2050.

Urban Population (%)



Source: UN World Urbanisation Prospects Report 2018

Impact

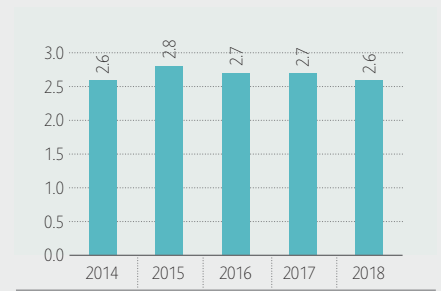
Rising standards of living and greater levels of urbanisation is likely to increase demand for life insurance covers.

OPERATING ENVIRONMENT

The rise of Non-Communicable Diseases

Non-Communicable Diseases continue to be on the rise due to changing lifestyles and account for a significant percentage of all deaths in Sri Lanka. Meanwhile Private Consumption Expenditure (PCE) on health continues to grow due to both inflationary pressures as well as an increase in health spend by individuals due to greater awareness of health issues.

PCE on Health as a % of Total PCE (%)



Source: CBSL Annual Report 2018

Impact

The increased risks of Non-Communicable Diseases combined with rising health costs is providing an impetus for growth in demand for health / life insurance.

Technological

Increased demand for an enhanced digital customer experience

Customers are increasingly demanding digital tools and experiences and that offer customised solutions and support.

Impact

The Insurance industry has advanced its customer engagement methods with the use of Artificial Intelligence driven advisors / chat bots. These AI-powered digital advisors interact with customers, gathering data and using it to recommend specific policies. This allows insuring companies to offer a high level of personalisation and interaction without having to scale up their customer service teams.

Development of fitness applications and wearable tech to improve customer proposition

Wearable tech devices provide valuable health related data from customers such as activity levels, blood pressure, BMI, etc. which enable a higher level of interaction and personalization to customers. Many insurance firms have also developed wellness programmes such as rewarding customers regularly for exercising, maintaining healthy weight, etc. and policy riders that offer discounts and other rewards to encourage healthy behaviour patterns through these wearable devices.

Impact

Insurers are now moving towards offering a more holistic value proposition to their customers through disrupting the traditional business models.

Digitisation and data analytics

Digitisation and the growing availability and complexity of data is driving operational improvements, shifting customer expectations and introducing new areas for regulatory scrutiny. Developments in data analytics can provide new opportunities for more sophisticated risk management and efficient customer servicing, but also provide challenges as the insurance industry seeks to keep up with innovations.

Impact

Traditional products and business models are being challenged as new entrants focus on bespoke propositions, personalisation, ease and simplicity.

Political

Regular changes in the political environment

Political and economic instability through much of last year had a negative impact on the insurance industry due to the loss of investor confidence and a postponement of buying decisions of non-essential goods and services such as life insurance. Changes to the political landscape since the Presidential Election in November and subsequent stimulus measured announced in the form of tax reforms are however positive developments.

Impact

The tax cuts led to a situation where the general public accumulated more disposable income ultimately improving the tendency of investing in more insurance policies. As a result, the insurance industry witnessed improved opportunities for new business along with the improving premium payments.

Environmental

Climate change

With agriculture accounting for 7% of national output, changes to climate has a significant impact on the performance of the economy which in turn impacts purchasing power.

Impact

Changes to the economic growth and performances effects the demand on insurance products and pricing. Further this can lead to investment over or underperformance: whether due to direct climate impact on the specific assets. Also there can be changes to current mortality, morbidity and uncertainty around future trends which has a direct impact on the actuarial valuation as well as the changes to the insurance regulatory environment.

Regulatory

Changes to regulatory environment

The insurance industry is highly regulated, and we ensure that we are compliant with all applicable rules and regulations. As an active member of the Insurance Association of Sri Lanka (IASL), we also maintain a close dialogue with policymakers and regulators to drive policy dialogue for the betterment of the industry.

The table below sets out key developments in the regulatory environment during the year and UA's responses to the same.

Impact/ Response









	Area	Description	UA response
Insurance Regulatory Commission of Sri Lanka	Direction 18 Unclaimed benefits of long term insurance business	All insurers who carry on long term insurance business are prohibited from transferring any unclaimed benefits to shareholders, with effect from financial year ended 31 December 2018, and further required to record the same as a liability in the Long Term Insurance Fund Balance Sheet as "unclaimed benefits".	Compliant with the Direction
	Direction 20 Prohibition of payments for usage of acronym and / or trade mark	All insurance Companies are hereby prohibited to make payments to their parent Companies, Related and / or unrelated Companies for using the acronym and / or trade mark of the parent, related and / or unrelated Companies.	Compliant with the Direction
	Circular 40 Health insurance covers underwritten by insures who carry on long term insurance business	The circular specifies the requirement with regard to Health Insurance policies and health insurance riders attached to Life Insurance policies.	Compliant with the Circular
	Circular 41 Procedure for taking enforcement action by the IRCSL.	a) Procedure for violation and / or non compliance with Reporting Requirements (Returns, etc.) of the IRCSL – Non-submission on or before the due date stipulated by the IRCSL b) Procedure for violation and / or non compliance with provisions of the RII Act, other than on reporting requirements.	Compliant with the Circular

OPERATING ENVIRONMENT

	Area	Description	UA response
Inland Revenue Department	I – E	<ul style="list-style-type: none"> Based on an interpretational dispute, IRD has raised assessments for years of assessments 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17. Y/A 2011/12, 2012/13, 2013/14, and 2014/2015 are at Tax Appeals Commission (TAC) hearing stage. TAC has issued opinion favouring IRD for the Y/A 2010/11 	<ul style="list-style-type: none"> Valid appeals have been lodged for assessments for the Y/A 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/2017. Appropriate actions are being taken in consultation with Messer KPMG. Y/A 2010/11, Written submission was produced to the Court of Appeal on 2 October 2019 and argument at Court of Appeal is fixed for 2nd and 3rd March 2020.
	VAT on Financial Services, NBT on Financial Services and VAT	<ul style="list-style-type: none"> IRD has issued notices of assessments for VAT on financial services, NBT on financial services and VAT for the period from 1/4/2016 to 31/12/2016. 	<ul style="list-style-type: none"> Valid appeals have been lodged on these assessments with the assistance of the external tax consultant.
<p>The Directors are of the view that the Company has followed due process and acted in accordance with prevailing laws in its tax submissions for above assessments and therefore, the above assessment have no rationale or basis in law.</p>			
	Area	Description	UA response
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.	A GAP analysis is being carried out with the consultation of External Auditor and External Actuary. The GAP analysis is expected to be completed by March 2020.
	SLFRS 16 Leases	The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	UA has recognised a asset and a liability in respect of lease agreements of branch network and vehicle fleet. Impact to the capital adequacy ratio is not significant.
	Area	Description	UA response
Financial Intelligence Unit	The Guidelines on Money Laundering & 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.	Requirements of the Guidelines have been embedded into the Company processes and procedures including underwriting process.

Risk and Opportunities












We closely monitor developments in our operating environment in order to proactively identify opportunities and risks and take strategic measures to mitigate, overcome or capitalise on them. Some of the key risks and opportunities identified during the year and our responses are tabled below.































	Risks and Opportunities	Impact Classification	Our Response
ECONOMIC ENVIRONMENT	Rising Interest Rates Ceiling rates for bank deposits and policy rate cuts by Central Bank resulted in higher re-investment risk on future business and investment cash flows.	 High	Maintaining a diversified investment portfolio to ensure high risk tolerance levels and implementation of investment management strategies to increase the investment yield despite of the drop in overall interest rates in investment products.
	Sluggish Equity Markets Negative returns on equity investments due to volatility in the market.	 High	Purchasing of undervalued stocks to rebalance the equity portfolio with the focus of earning returns in the long-run.
	Slower Economic Growth and Inflationary Pressures Slower economic growth negatively impacted consumer purchasing power and reduced spending on non essential products such as insurance products.	 Medium	Introduction of value added products with additional features such as health and lifestyle benefits Product integration via ecosystems. Launching tailor made products for niche markets such as lawyers, doctors and teachers.
SOCIAL ENVIRONMENT	Changing Demographics A growth in the ageing population, rising life expectancy, increased risk of Non-Communicable Diseases and urbanisation is changing the demand dynamics of the insurance industry.	 High	Launching products such as Union Smart Health Premier, Union Ultra Protect and Union Advantage Premier catering to the investment, health and protection needs of the customers.
TECHNOLOGICAL ENVIRONMENT	Digitisation of the Industry Customers are increasingly demanding an enhanced customer experience through AI-based tools. Meanwhile competitors are increasingly leveraging technology and data analytics to offer a more holistic value proposition.	 High	Continuously upgrading core system and other systems in line with the technological developments. Upgrading GOYO fitness app with more features. Advanced data analytics transformations project was commenced in last year and two use cases are being rollout.
REGULATORY ENVIRONMENT	Evolving Regulatory Environment Constant changes in the regulatory environment cause uncertainties in the business expansion, product development and overall growth of the Company.	 High	Continuously monitoring changes in the regulatory environment to ensure compliance and protect stakeholder interests.
POLITICAL ENVIRONMENT	Change in Government The new Government announced several tax concessions which is likely to have a positive impact on consumer purchasing power.	 Medium	Enhanced marketing and communication activities to reach a wider customer base.
ENVIRONMENT	Climate Change Erratic weather conditions impact certain customer segments.	 Medium	Regular review of assumptions made with regard to actuarial valuations and business plans.

Capital Management Summary

CAPITAL TRADE OFFS

We constantly review our resource allocation decisions to ensure sustained value for our stakeholders through resource optimisation. Below are some of the quantifiable trade-offs from our resource allocation decisions during the year.

	Key Actions During the Year	Capital Trade Offs
 <p>Financial Capital</p>	<ul style="list-style-type: none"> Implementation of strict budgetary control mechanism to manage expenses better. Outsourcing management of equity fund portfolio to leverage expertise knowledge and optimise portfolio return and risk. Payment automation and on time settlement to business partners Implementation of stringent internal controls to strengthen the control environment 	<p>Social and Relationship Capital Rs.2.9 Bn on time vendor settlements </p> <p>6 online real time payment channels to ensure customer convenience</p> <p>Intellectual Capital Rs. 36.9 Mn investment in Software, systems and processes </p>
 <p>Manufactured Capital</p>	<ul style="list-style-type: none"> Seven strategic re-locations in key cities and townships across the country Upgraded a total of 15 branches through branch re-vamping initiative Addition of two state-of-the-art training auditoriums with a training capacity for 300 individuals. 	<p>Financial Capital Capital expenditure incurred for re-locations and refurbishments </p> <p>Social and Relationship Capital 8.5/10 customer satisfaction </p> <p>Human Capital Employee satisfaction </p>
 <p>Human Capital</p>	<ul style="list-style-type: none"> 73 targeted training programmes 5 leadership programmes conducted for over 106 employees of all levels Introduction of new incentive schemes to boost sales staff performance 9 employee engagement activities conducted by the UA recreation club 	<p>Financial Capital Training investment Rs. 12.9 Mn </p> <p>Payments to employees Rs. 1,023 Mn</p> <p>Social and Relationship Capital 8.5/10 customer satisfaction </p> <p>78% of field staff trained on selling skills</p> <p>Intellectual Capital Safeguard the tacit knowledge through managing staff attrition at acceptable level. </p>

	Key Actions During the Year	Capital Trade Offs												
 <p>Social and Relationship Capital</p>	<ul style="list-style-type: none"> Over 40,000 Facebook engagements on average Reaching customers through 86 agency channel branches and 545 Bancassurance channel branches 24/7 available call centre 210 health awareness programmes carried out with an investment of Rs. 6.4 Mn Customer complaints handling committee meeting held monthly during the year 	<table border="0"> <tr> <td>Financial Capital</td> <td>Increased brand equity through CSR activities enabling new businesses to grow</td> <td></td> </tr> <tr> <td>Human Capital</td> <td>Overseas training opportunities for staff from the reinsurance partners</td> <td></td> </tr> <tr> <td>Intellectual Capital</td> <td>Business partners sharing best in class technology</td> <td></td> </tr> <tr> <td>Natural Capital</td> <td>Business partners are providing enhanced opportunities for sustainable sourcing</td> <td></td> </tr> </table>	Financial Capital	Increased brand equity through CSR activities enabling new businesses to grow		Human Capital	Overseas training opportunities for staff from the reinsurance partners		Intellectual Capital	Business partners sharing best in class technology		Natural Capital	Business partners are providing enhanced opportunities for sustainable sourcing	
Financial Capital	Increased brand equity through CSR activities enabling new businesses to grow													
Human Capital	Overseas training opportunities for staff from the reinsurance partners													
Intellectual Capital	Business partners sharing best in class technology													
Natural Capital	Business partners are providing enhanced opportunities for sustainable sourcing													
 <p>Intellectual Capital</p>	<ul style="list-style-type: none"> Launched 6 new products Several process improvements aimed at greater operational efficiency Launched of new e-learning facility for field staff Launched of Union Brainwave to encourage employee innovativeness 	<table border="0"> <tr> <td>Financial Capital</td> <td>Increased revenue through product innovation</td> <td></td> </tr> <tr> <td></td> <td>Cost savings increased profitability</td> <td></td> </tr> <tr> <td>Human Capital</td> <td>Improved employee motivation through opportunities to innovate / engage</td> <td></td> </tr> </table>	Financial Capital	Increased revenue through product innovation			Cost savings increased profitability		Human Capital	Improved employee motivation through opportunities to innovate / engage				
Financial Capital	Increased revenue through product innovation													
	Cost savings increased profitability													
Human Capital	Improved employee motivation through opportunities to innovate / engage													
 <p>Natural Capital</p>	<ul style="list-style-type: none"> Water treatment plant built in Kurunegala branch Improvement to branch layout to save energy Branch initiatives to reduce emissions Initiatives to ensure efficient utilisation of water resources 	<table border="0"> <tr> <td>Financial Capital</td> <td>Cost savings due to energy efficient initiatives</td> <td></td> </tr> <tr> <td>Social and Relationship Capital</td> <td>Increased customer brand reputation by being a socially responsible entity</td> <td></td> </tr> </table>	Financial Capital	Cost savings due to energy efficient initiatives		Social and Relationship Capital	Increased customer brand reputation by being a socially responsible entity							
Financial Capital	Cost savings due to energy efficient initiatives													
Social and Relationship Capital	Increased customer brand reputation by being a socially responsible entity													

Financial Capital



Prudent financial management is a critical element of our value creation process as it enables us to create sustained value to all our stakeholders and enhance our financial capital.

PERFORMANCE HIGHLIGHTS 2019



Rs. 11.6 Bn
Gross Written Premium



362%
Capital Adequacy Ratio



Rs. 19.65
Earnings Per Share

OUR FINANCIAL CAPITAL RESOURCES



20
Dividend Per Share

EQUITY

Rs. 14.7 Bn

LIFE FUND

Rs. 36.7 Bn

INVESTMENT PORTFOLIO

Rs. 44.8 Bn



CONTRIBUTION TO SDGs



We contribute to economic development in the country through sustained financial performance brought about through prudent financial management.

HOW WE CREATED VALUE IN 2019

- Increased collections and reduced cost of collection costs through optimisation of cashless online channels.
- Prudent investment decisions to increase yield and manage risks.
- Ensured compliance with all reporting standards.
- Implemented cost saving initiatives.
- Automated payments to partners.
- Strengthened internal control environment.
- Revised reward and recognition schemes to drive higher performance.
- Outsourced management of equity portfolio to a third party fund management company to leverage expert knowledge and optimise portfolio return and risk.

WAY FORWARD

- Further improve premium collection mechanism.
- Integrate customer premium payment points through real time premium updating and acknowledgement.
- Strengthen the monitoring of strategy execution and management information system.
- Fine tune reward and recognition schemes to drive higher performance.
- Improve cost efficiency and implement cost saving initiatives.
- Improve yield of the investment portfolio whilst managing risk.
- Enhance customer experience by improving claim settlement period.

MANAGEMENT APPROACH

Prudent financial management is a critical element of our value creation process as it enables us to create sustained value to all our stakeholders. Robust systems and processes are in place to ensure that budgetary control, cost control, expense disbursement, liquidity management, investment management, internal audit, management information systems and information security are carried out effectively and efficiently to enhance our Financial Capital.

OVERVIEW OF THE FINANCIAL RESULTS

During the year under review total assets of the Company grew by 12% to Rs. 55.2 Bn compared to Rs. 49.1 Bn in 2018. Despite the challenging internal and external pressures, revenue for 2019 grew by 4% with an impressive ANBP growth of 20%. The primary contributor for the revenue growth is expansion of Bancassurance channel which recorded a growth of 29% over 2018. Life fund grew by 16% in 2019 which was Rs. 30.6 Bn in 2018. Our PBT is Rs. 1,708 Mn which is a growth of 8% from 2018 after adjusting for notional tax credits of Rs. 537 Mn included in the investment income of the previous year profit. Company EBITDA has grown by 15% to Rs. 2,008 Mn compared to Rs. 1,750 Mn in 2018 after adjusting for notional tax credits. However, despite the challenges we were able to maintain a strong Capital Adequacy Ratio of 362% with a Dividend payout ratio of 102% which indicates our strong financial position.



FINANCIAL CAPITAL

KEY VALUE DRIVERS

ANNUAL AVERAGE PREMIUM PER POLICY (AAPP)

AAPP increased by 6% during the year to Rs. 86,760 (2018: Rs. 81,948), mainly due to the improved quality of the policies underwritten. During the year the Company strategically focused on increasing the case size, to improve the quality and persistency of the policies. Several training programmes on selling high case valued policies and attracting high quality businesses were conducted throughout the year.

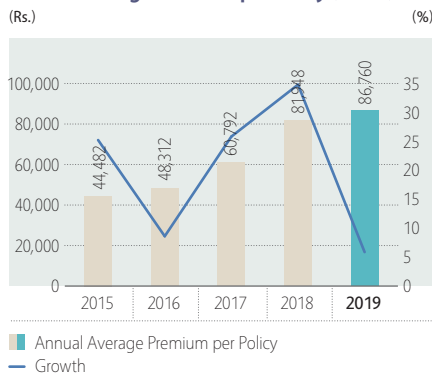
PREMIUM PERSISTENCY

Premium persistency ratio indicates how consistently a customer pays for a policy. We monitor premium persistency at three levels; 13 months, 25 months and 37 months. The 13 months persistency ratio in 2019 stood at 81% down from 84% in 2018. The decrease was on account of the growth in monthly premium payment policies during the year as a result of a change in incentive drivers. Challenging economic conditions also contributed to this reduction. The 25 months and 37 months persistency ratios however increased in 2019 and stood at 73% (2018: 72%) and 67% (2018: 65%) respectively; an indication of the stability of our renewal business. Several initiatives were implemented during the year to improve premium collection including a lapse prevention initiative implemented leveraging advanced data analytics.

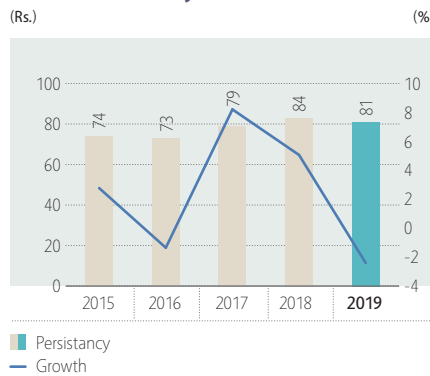
PRODUCTIVITY

Productivity is measured as the average number of policies sold by an Agent for a month. Agent productivity increased by 47% to 1.26 policies per Agent in 2019 compared to 0.86 in 2018. The improvement in productivity is mainly on account of the growth in monthly mode policies which has ultimately increased the policy count.

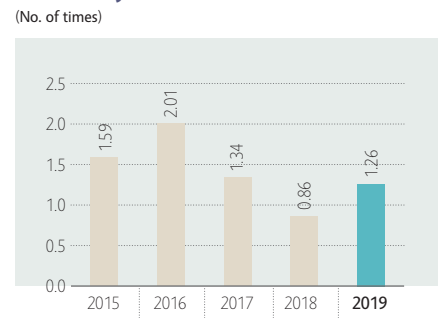
Annual Average Premium per Policy (AAPP)



Premium Persistency



Productivity Ratio



FINANCIAL PERFORMANCE

Gross Written Premium (GWP)

Despite the adverse negative business climate and internal pressures, GWP increased by 4% to Rs. 11.6 Bn during the year. The growth was driven mainly by the renewal business which witnessed an increase of 11% during the period as a result of impact of initiatives of the Company.

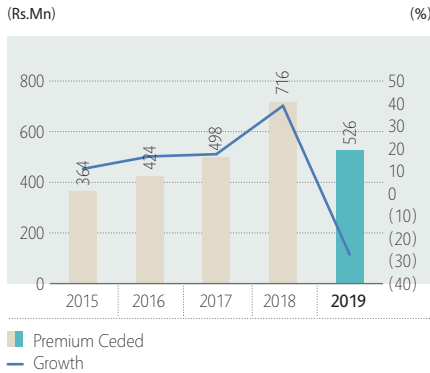
Gross Written Premiums (GWP)



Premium Ceded to Reinsurers

Reinsurance ceded which is the portion of risk that a primary insurer passes to a reinsurer, reduced to 5% of GWP in 2019 as compared to 6% of GWP in 2018. This enables the primary insurer to lower its risk exposure to an insurance policy as it has been underwritten by passing the risk to another Company. This has provided Company with access to different markets with competitive pricing.

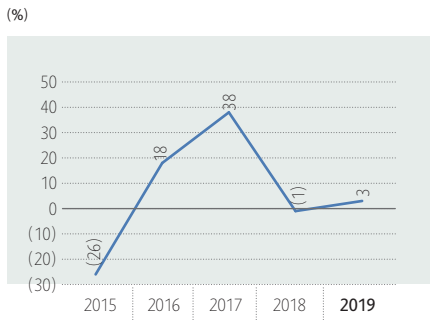
Premium Ceded to Reinsurers



Investment and Other Income

Investment and other income which consists mainly of income generated from investment portfolio, recorded a 3% growth over last year and amounted to Rs. 4,140 Mn compared to Rs. 4,001 Mn in 2018. During the year investment on financial assets grew by 15% which has ensured the availability of adequate funds under management for investment. Lower interest rates and policy rates during the period resulted in a decrease in income from Government securities whilst the gradual recovery of the equity market during the last quarter of the year resulted in a reduction of unrealised losses. During the year the Life fund was able to provide a weighted average return of 10.53% and shareholders’ weighted average return was 10.95%.

Investment and Other Income



Rs. 3.7 Bn
CLAIMS AND BENEFITS PAID

Rs. 4.1 Bn
INVESTMENT IN OTHER INCOME

Net Insurance Benefits and Claims

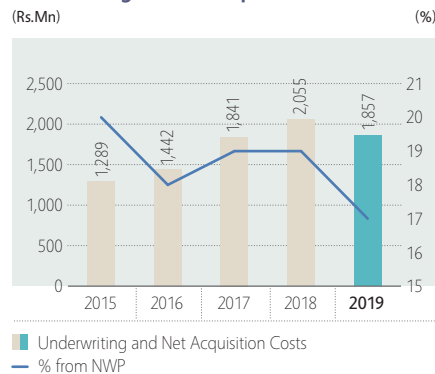
Insurance benefits and claims including claims outstanding grew by 20% and amounted to Rs. 3,504 Mn in 2019 compared to Rs. 2,908 Mn in 2018. Net claims witnessed a growth of 20% and amounted to 32% of net written premiums in 2019 as compared to 28% of net written premiums in 2018. This increase was mainly on account of the 25% increase in policy surrenders brought about by negative economic conditions post the Easter Sunday attacks. Maturities which account for 51% of the total benefit and claims increased in line with the contractual obligations.

Claim Type	2019	2018	2017	Growth
Maturities	1,789,600	1,654,841	1,882,229	8%
Policy Surrenders	1,082,126	869,044	509,552	25%
Death Disability and Hospitalisation	277,553	214,635	273,888	29%
Annuity Payments	354,605	169,319	13,366	109%
Total Net Claims and Benefits	3,503,883	2,907,839	2,679,035	20%

Underwriting and Net Acquisition Costs

Underwriting and net acquisition costs declined by 10% due to a change in the composition of new and renewal insurance premiums for which different commission rates are paid to Agents and banks. A change in the incentive structure during the year also impacted underwriting and net acquisition costs. Underwriting and net acquisition costs accounted for 68% of new business premiums in 2019 compared to 72% in 2018.

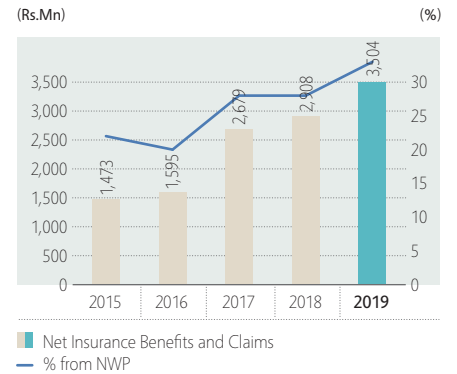
Underwriting and Net Acquisition Costs



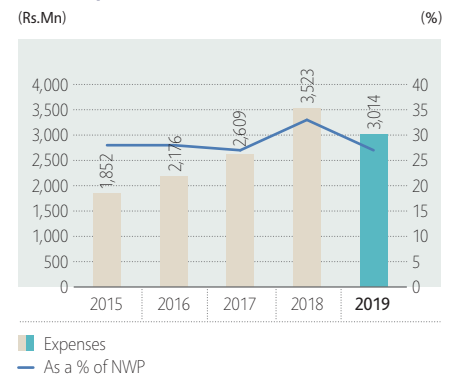
Other Operating, Administrative and Selling Expenses

Other operating, administrative and selling expenses which include staff costs, administration, marketing, utility charges, professional fees,

Net Insurance Benefits and Claims



Operating, Administration and Other Expenses



finance charges and other expenses declined by 14% during the year to Rs. 3,014 Mn. During the year several measures such as the introduction of strict budgetary controls and cost management initiatives were implemented to improve cost efficiency. Other operating, administrative and selling expenses accounted for 26% of the total GWP in 2019.

Operating Profits and EBITDA

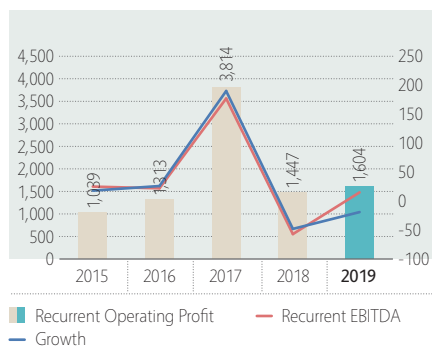
During the year recurrent operating profits grew by 11% compared to 2018 after adjusting for notional tax credits. The total net revenue grew by 9% (after adjusting for notional tax credits) and total benefits, claims and expenses have grown by 9%. Therefore, identical growth

FINANCIAL CAPITAL

in revenue and expenses has resulted in a 11% growth in the recurrent operating profit.

Recurrent EBITDA for the year has witnessed a growth of 15% amounting to Rs. 2,008 Mn compared to Rs. 1,750 Mn after adjusting for notional tax credits recognised in 2018.

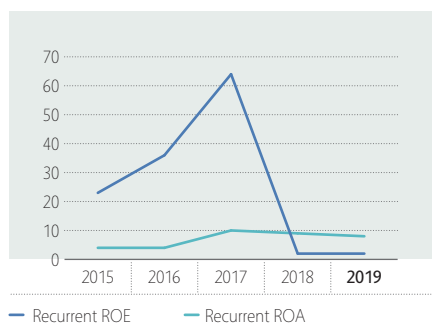
Operating Profit (Rs.Mn) (%)



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

Recurrent ROA and ROE stood at 2% and 8% respectively in 2019 after adjusting for notional tax credit recognised in last year. ROA and ROE stood at 7% and 25% in 2018 whilst recurrent ROA and ROE stood at 2% and 9% in 2018.

ROE and ROA (%)



Other Comprehensive Income

Other comprehensive income comprises of revaluation gains arising from the valuation of land and buildings, fair value gains and losses arising from Available for Sale (AFS) assets and the change in fair value of AFS financial assets of equity accounted investees. A Revaluation gain of Rs. 403 Mn from land and buildings and valuation gain of Rs. 615 Mn from sale of AFS assets resulted in a 223% increase in the other comprehensive



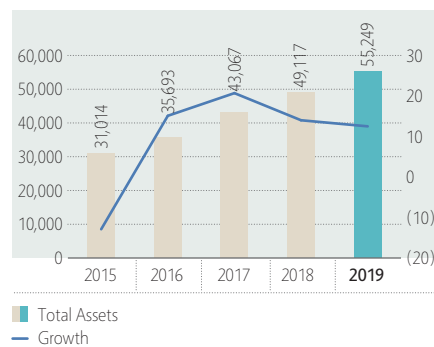
income for 2019. This gain on valuation of AFS financial assets has arisen from the marked to market valuation of financial instruments as a result of decrease in the interest rates.

FINANCIAL POSITION

Total Assets

Total asset base of the Company as at 31.12.2019 amounted to Rs. 55.2 Bn, a 12% growth over 2018. The growth was mainly on account of the increase in financial investments which grew by almost 15%.

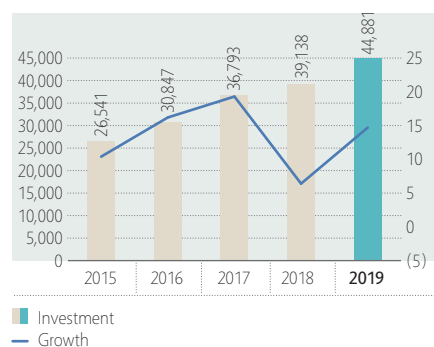
Total Assets (Rs.Mn) (%)



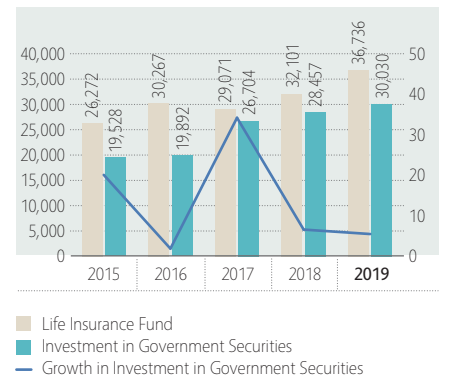
Financial Investments

Financial investments which accounts for 81% of the total assets grew by 15% to Rs. 44.8 Bn during the year. 62% of financial investments consists of Treasury Bonds, while investments in Fixed Term Deposits account for 7% of total financial investments. The composition of the investment portfolio is depicted below.

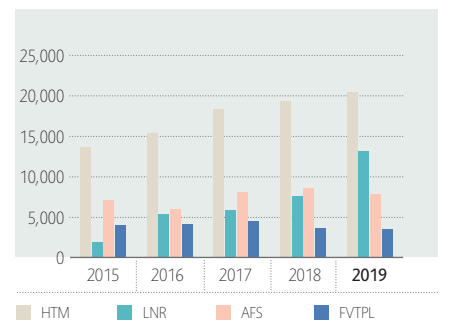
Financial Investment (Rs.Mn) (%)



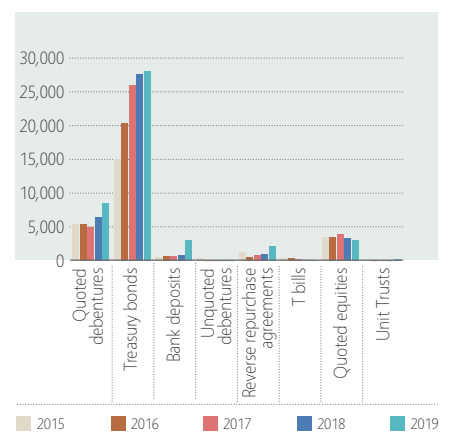
Investment in Government Securities - Life Fund (Rs.Mn) (%)



Composition of the Financial Investments (Rs.Mn)



Financial Instrument by Type (Rs.Mn)



With the growth of our investment portfolio, a middle office was established during the year to ensure compliance of the investment function. Managing of the equity fund was outsourced during the year to leverage on expert knowledge and optimise returns. The Investment Committee provides the direction of the investment strategy and details of the Investment Committee functions are discussed in the Corporate Governance section of this report in pages 98 to 131.

PERFORMANCE OF INVESTMENT PORTFOLIOS

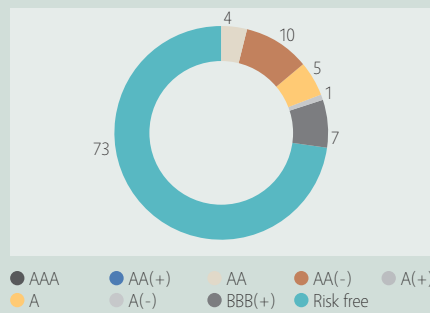
LIFE FUND

Investment in fixed income assets

In 2019 UA invested LKR 6.0 Bn in fixed income assets maturing across 3-20 years. During the year treasury securities yields declined by more than 200 bps while yields on short-term bonds (2-5 years) declined by 250 bps. Of the total fixed income security investments, 35%, 38% and 27% was invested in short, medium- and long-term securities respectively.

All investments other than treasury securities are invested in instruments / entities with investment grade credit ratings. The graph alongside depicts an analysis of credit ratings of our investment portfolio.

Credit Rating Analysis (%)



Equity investments

During the year UA's net investment in equities amounted to Rs. 117 Mn. Return on equity investments was negative in 2019 due to poor performance of capital markets during the year. UA's equity investment return underperformed the S&P (TR) index by approximately 400 bps in 2019 while total unrealised loss and total gross dividends of life fund amounted to Rs. 236 Mn and 107 Mn respectively. UA manages equities passively with a long-term horizon and less turnover. During the year UA changed its equity portfolio management strategies, and we expect the returns to be reflected in the next financial year.

Life shareholder fund

The shareholders fund invests in Government securities, corporate debt securities, reverse repo and cash. The main objective of this fund is to manage the cash flows of UA's shareholders. During the year the Shareholders fund's net investment amounted to LKR 1.5 Bn. The Shareholders fund, yield for 2019 stood at 10.95%.

Unit linked investments

UA has three unit linked investment funds; Unit Linked Fixed income (FIXD), Unit Linked Managed (MNGD) and Unit Linked Equity fund (EQTY). FIXD invests in a range of fixed income securities in order to provide stable returns through regular current income. MNGD is a balanced fund which invest in fixed income securities and equity. EQTY's objective is to deliver relatively high returns over the long term on a risk adjusted basis though equity investments. The FIXD fund is managed by UA while management of MNGD and EQTY funds have been outsourced to an external fund manager.

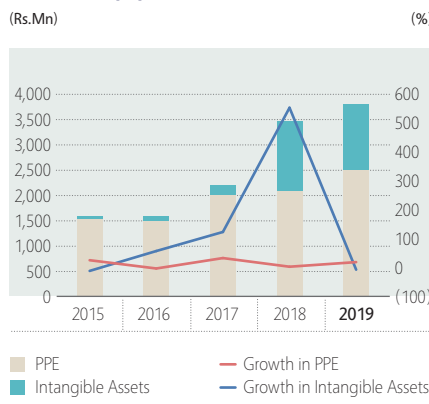


Intangible Assets and Property, Plant and Equipment

Property, Plant and Equipment (PPE) accounted for 5% of total assets as at 31.12.2019. PPE increased from Rs. 2.1 Bn as at 31.12.2018 to Rs. 2.5 Bn as at 31.12.2019. The increase was mainly on account of the revaluation surplus of Rs. 403 Mn arising out of the revaluation of land and buildings carried out in December 2019. Investments on branch and head office refurbishments carried out during the year also contributed to the increase in PPE.

Intangible assets of Rs. 1.3 Bn, declined by 6% mainly due to the amortisation of policy administration system and Bancassurance distribution rights.

Intangible Assets and Property, Plant and Equipment



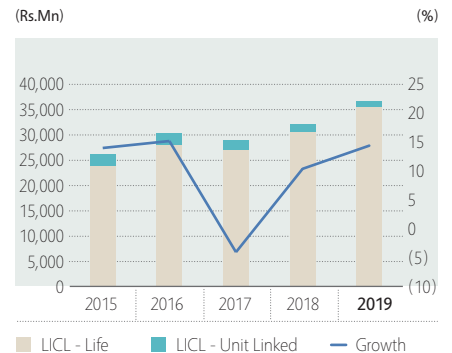
Total Liabilities

Total liabilities amounted to Rs. 40.6 Bn as at 31.12.2019 compared to Rs. 35.4 Bn as at 31.12.2018. The increase was mainly due to increase in insurance contract liabilities.

Insurance Contract Liabilities

Life insurance contract liabilities are maintained to ensure that future obligations of the policyholders are met. Life insurance contract liabilities including unit linked grew by 14%. in line with growth of the insurance portfolio and contractual obligations. This was due to net of inflow of funds of Rs. 5,989 Mn and surplus transfer of Rs. 1,000 Mn.

Insurance Contract Liabilities

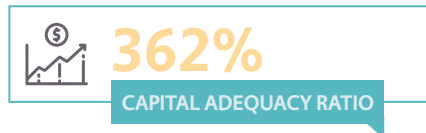


Rs.35.5 Bn

LIFE FUND

FINANCIAL CAPITAL

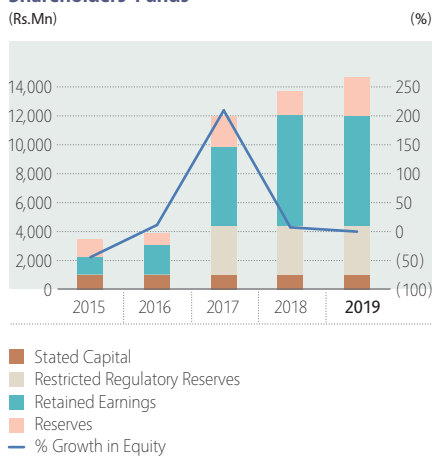
Despite the adverse negative business climate and internal pressures, GWP increased by 4% to 11.6 Bn during the year.



Shareholder's Funds

Shareholder equity increased by 7% during the year due to net of current year profit of Rs. 1,158 Mn, 2018 dividend payment of Rs. 1,178 Mn, appreciation of AFS reserve by Rs. 615 Mn and revaluation gain of Rs. 403 Mn.

Shareholders' Funds



Solvency and Admissible Assets

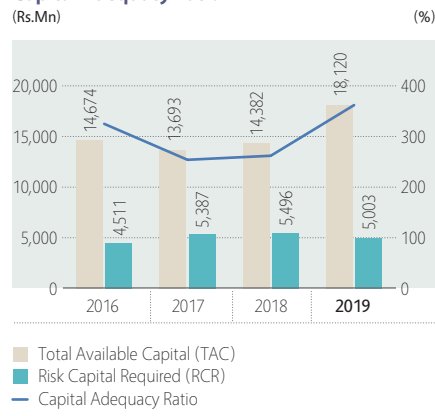
Section 25 of the Regulation of Insurance Industry (RII) Act No. 43 of 2000 requires life insurance companies to maintain not less than 30% of the assets of life fund in the form of Government securities. Section 26 of the same act, the Company shall maintain in respect of each class of insurance business, a solvency margin such amount as may be determined by the Board in respect of that class of insurance business, by rules made in that behalf. The Company complies with the requirement of Determination 1 (Sec 26) which requires minimum limits of admissible assets against insurance liabilities (Refer to page 135 of the risk management section) and section 25. (Refer page XX of note to the Financial Statements).

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). This indicates the capability of insurers to absorb risk in relation to its capital position. UA maintained a CAR of 362%, complying with the IRCSL guidelines of maintaining CAR above 120% and a total available capital of Rs. 500 Mn.

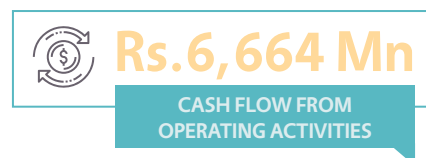
Capital Adequacy Ratio



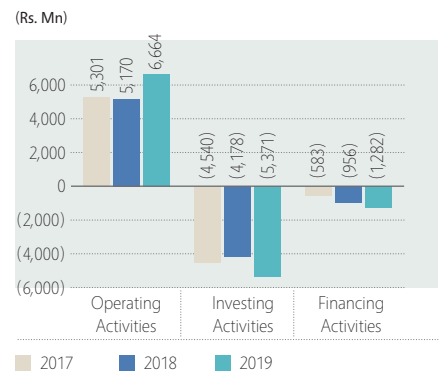
CASH FLOW

Cash and cash equivalents in the statement comprises cash in hand and at bank and investments in short term investments with the maturity of three months or less. Cash and cash equivalents grew marginally by 3% increasing to Rs. 465 Mn as at 31.12.2019 compared to Rs. 453 Mn as at 31.12.2018. Net cash flows from operating activities grew by 29% to Rs. 6,664 Mn as at 31.12.2019 mainly on account of inflows from insurance premium payments. Net cash flow from investment activities indicated an outflow of Rs. 5,371 Mn due to the increase in financial investments during the year. Cash flow from financing activities too was an outflow of Rs. 1,282 Mn mainly on account of dividend payments made in relation to 2018 and related taxes.

Proper management of cash flows is key to the Company as it has assets with short term tenures and liabilities with long term tenures. Regular monitoring of the maturity profiles of the assets are conducted by the Investment Committee together with finance, actuarial and investment team to avoid any negative impacts created through assets and liability mismatches.



Cash Flow Generated Based on Activities



UA SHARE PERFORMANCE

Issued Share Capital

There was no change to the number of shares issued by the Company during the year with the number of shares issued remaining at 58,928,572 shares.

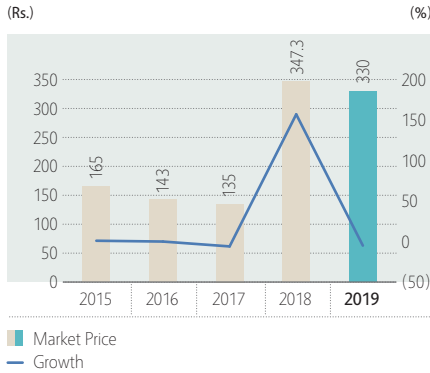
UA Share Performance

UA is listed in the Diri Savi Board of the CSE (UAL.N0000). The share price declined by 5.0% in 2019 to close at Rs. 330.00 and traded throughout the year with an average daily volume of 3,319 shares. UA shares traded between a low of LKR 260.00 and a high of LKR 375.00. The shares beta against the ASPI stood at 0.08 as of fourth quarter of 2019.

UA Share Performance vs Market Performance



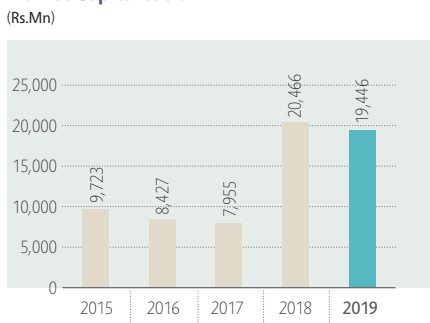
Market Price Movement



Market Capitalisation

Market capitalisation declined by 4.9% to Rs. 19.4 Bn during the year due to the decline in UA's share price during the period under review. UA represents 0.68% of the total market capitalisation of the Colombo Stock exchange.

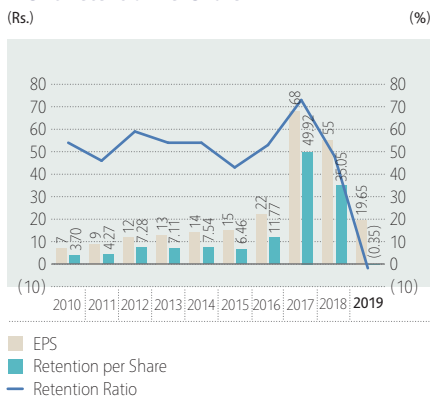
Market Capitalisation



Earnings Per Share Vs. Retention Per Share

The EPS was Rs. 19.65 compared to Rs. 55.05 in 2018. Recurrent EPS increase by 2% inline with the increase in recurrent profit after tax. The recurrent EPS stood at Rs. 19.65 compared to Rs.19.27 in 2018.

EPS vs Retention Per Share



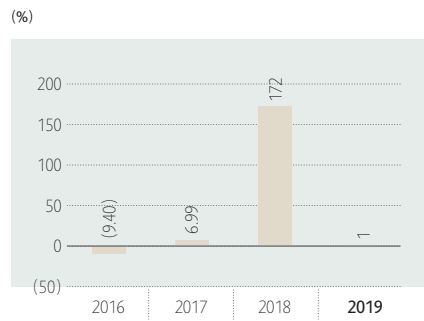
*Excluding one-off surplus transfer of Rs. 3.4 billion in 2017

*Excluding notional tax credit and deferred tax asset recognised in 2018

Total Shareholder Return

Total return to shareholders amounted to 1% during the year and was mainly driven by declined in share price by Rs. 17 and dividend per share of Rs. 20.

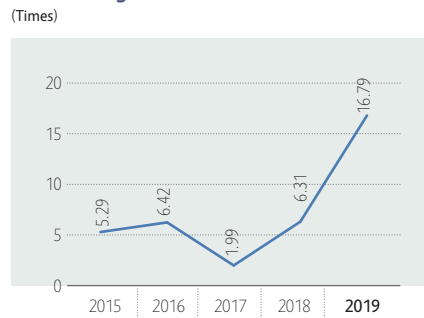
Total Shareholder Return



Price to Earnings Ratio (PER)

UA's PER stood at 16.79x as at 31 December 2019 higher than the 6.3x recorded in 2018. The sector and market PE stood at 2.99X and 10.83X respectively PER increased due to degrowth in profit after tax by 64%.

Price Earnings Ratio (PER)



Liquidity

During the financial year 740,153 shares changed hands over 2,030 transactions compared to 7,854,353 shares and 4,500 transactions in the previous financial year. The average daily turnover of the UA shares was Rs. 1,104,435 in 2019 in comparison to Rs. 6,916,546 recorded in last year.

Trading Statistics	2019	2018
Number of transactions	2,030	4,522
Number of shares traded	740,153	7,854,353
Value of shares traded	246,289,053	1,514,723,584
Shares traded as a percentage of total shares in issue (%)	1.26	13
Market capitalisation (Rs. Mn)	19,446	20,466
Percentage of market capitalisation (%)	0.68	0.72
Gross dividend (Rs. Mn)	1,179	1,179

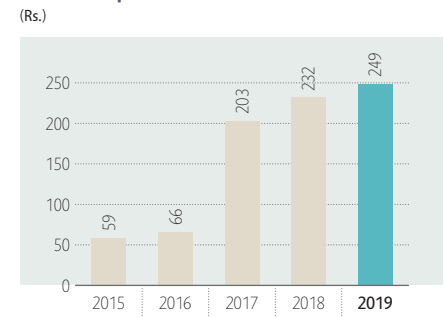
Price to Book Value Ratio

The price to book value ratio as at 31 December 2019 was 1.33 times compared to 1.50 times the previous year. The sector and market price to book value stood at 0.96X and 1.14X respectively.

Net Assets Per Share (NPS)

Net assets per share of UA increased by 7% to Rs. 249 in 2019 compared to Rs. 232 in 2018. This is on account of growth in equity.

Net Assets Per Share (NPS)

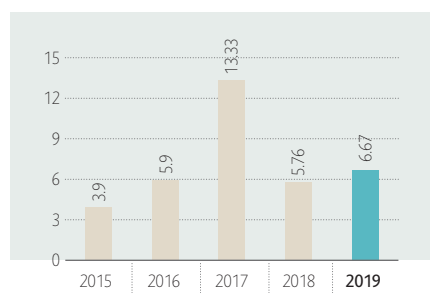


FINANCIAL CAPITAL

Dividend Yield

The dividend policy implemented by UA ensures that the dividend payout reflects improvement in shareholder return while having sufficient funds to meet risk-based capital requirements as stated by the regulator in short, medium and long term. The Board declared a first and final dividend of Rs. 20 per share in February 2020. Consequently, the gross dividend for the year ended 31 December 2019 amounted to Rs. 1,179 Mn (2018 - Rs. 1,179 Mn). The declared dividend recorded a dividend yield of 6.67%.

Dividends Yield (%)

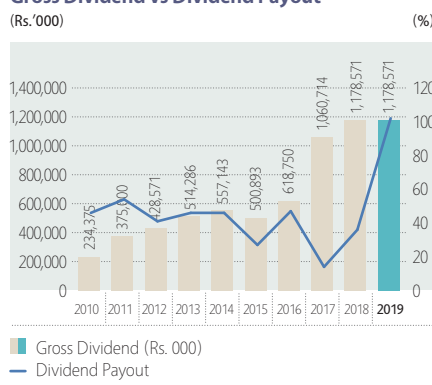


Gross Dividend vs. Dividend Payout

The Capital Adequacy Ratio (CAR) of the Company is 342% after payment of dividend which is significantly above the minimum requirement of 120% as stipulated in the RBC guideline.

The Company declared a first and final dividend out of retained earnings for the year ended 31 December 2019 and dividend payout is 102%.

Gross Dividend vs Dividend Payout



Despite the challenges we will be able to maintain healthy CAR of 342% after payment of dividends and dividend payout of 102% which indicates our strong financial position.

Distribution and Composition of Shareholders

The Company has a diversified base of shareholders across a wide geographical spread and includes both private and institutional shareholders. The total number of shareholders decreased from 1,476 as at 31st December 2018 to 1,406 as at 31st December 2019. The Company has 1,298 registered individual shareholders representing 92% of the shareholders. A majority of the individual shareholders are residents of Sri Lanka and 8% of the Company shareholdings consists institutional shareholding. The top 20 shareholders hold 96.6% of UA's share capital. The Directors do not hold any shares in their capacity as of 31 December 2019.

COMPOSITION OF SHAREHOLDERS

	31-Dec-19				31-Dec-18			
	No of shareholders	%	No of shares	%	No of Shareholders	%	No of shares	%
Directors & spouses	-	-	-	-	-	-	-	-
RESIDENT:								
Individuals	1,295	92.11	3,650,008	6.19	1,361	92.21	3,470,360	5.89
Institutions	94	6.69	1,595,774	2.71	98	6.64	1,955,767	3.32
NON-RESIDENT:								
Individuals	3	0.21	587,294	1.00	13	0.88	57,181	0.10
Institutions	13	0.92	59,781	0.10	3	0.20	409,549	0.69
Shareholders holding more than 10%:	1	0.07	53,035,715	90.00	1	0.07	53,035,715	90.00
Total	1,406	100.00	58,928,572	100.00	1,476	100.00	58,928,572	100.00

DISTRIBUTION OF SHAREHOLDERS

Range of shareholders	31-Dec-19				31-Dec-18			
	No of shareholders	%	No of shares	%	No of Shareholders	%	No of shares	%
Less than 1,000	1,029	73.19	248,152	0.42	1,079	73.10	271,036	0.46
1,001 to 10,000	317	22.55	994,436	1.69	336	22.76	1,094,701	1.86
10,001 to 100,000	52	3.70	1,507,226	2.56	51	3.46	1,525,557	2.59
100,001 to 1,000,000	6	0.43	1,793,043	3.04	9	0.61	3,001,563	5.09
Over 1,000,001	2	0.14	54,385,715	92.29	1	0.07	53,035,715	90.00
Total	1,406	100.00	58,928,572	100.00	1,476	100.00	58,928,572	100.00

PUBLIC SHAREHOLDING

The Company is listed on the Colombo Stock Exchange and the percentage of shares held by the public, the number of public shareholders and the float adjusted market capitalisation is as given below;

As at	31-Dec-2019	31-Dec-2018
Public shareholding (%)	10	10
Public shareholders	1,406	1,476
Complaint under option 1 - float adjusted market Capitalisation (Rs. Bn)	1.94	2.05

DIRECTORS' SHAREHOLDINGS

No. of Shares as at	31-Dec-2019	31-Dec-2018
Mr. K.N.J. Balendra (Chairman) [Appointed w.e.f. 01.01.2019]	Nil	N/A
Mrs. D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]	Nil	Nil
Mr. S. Rajendra	Nil	Nil
Mr. H. A. J. De S. Wijeyeratne	Nil	Nil
Mr D. H. Fernando	Nil	Nil
Mr. S.A. Appleyard [Appointed w.e.f. 01.01.2019]	Nil	N/A
Mr. A. D. Pereira [Resigned w.e.f. 31.10.2019]	N/A	Nil

CEO'S SHAREHOLDINGS

No. of Shares as at	31-Dec-2019	31-Dec-2018
Mr. A. D. Pereira [Resigned w.e.f. 31.10.2019]	N/A	Nil
Mr. Jude Gomes [Appointed w.e.f. 01.12.2019]	Nil	N/A

FINANCIAL CAPITAL

TWENTY LARGEST SHAREHOLDERS

Name of the Shareholder As at	31-Dec-19		31-Dec-18	
	No of Shares	%	No of Shares	%
John Keells Holdings PLC	53,035,715	90.00	53,035,715	90.00
Mr. S.N.P. Palihena	1,350,000	2.29	1,000,000	1.70
Suktam Holdings (PVT) Ltd	609,000	1.03	609,000	1.03
Citibank Newyork S/A Norges Bank Account 2	580,294	0.98	402,549	0.68
Rubber Investment Trust Limited A/C # 01	199,000	0.34	199,000	0.34
Corporate Holdings (Private) Limited A/C # 01	149,373	0.25	149,373	0.25
Captain D.V.H. Palihena	138,495	0.24	150,524	0.26
People's Leasing & Finance PLC / Mr. L.P. Hapangama	116,881	0.20	124,719	0.21
Mrs. A. Selliah	100,000	0.17	100,000	0.17
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	83,135	0.14	82,701	0.14
Mr. J.D. Badaranayake & Miss N. Bandaranayake & Dr. V Bandaranayake	59,019	0.10	-	-
Mr. J.D. Badaranayake & Dr. V Bandaranayake & Miss. I Bandaranayake	59,019	0.10	-	-
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
Mrs. R.Z. Wikramanayake (Deceased)	53,585	0.09	53,585	0.09
Mr. N.I. Wikramanayake	53,059	0.09	53,059	0.09
Mr. H.A. Rehmanjee & Mrs. R.H.A. Rehmanjee	50,001	0.08	-	-
Dr. S. Selliah	50,000	0.08	50,000	0.08
Mr. V. Sharda	44,200	0.07	-	-
Others	1,996,904	3.40	2,717,455	4.61
Total	58,928,572	100.00	58,928,572	100.00

RECORD OF CHANGES IN NUMBER OF SHARES

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

CAPITAL TRADE OFF

Nurturing our Financial Capital will enable us to;



Invest more in our employee value proposition.



Expand our geographical and digital footprint through investment in Manufactured Capital



Nurture our Social and Relationship Capital through mutually beneficial relationships with our partners, customers and community.



Invest more in research and development and knowledge development and process efficiencies



Allocate more resources to adopt more sustainable environmental practices across our operation.

WAY FORWARD

We strive to achieve excellence in resource utilisation through robust controls and governance mechanisms. Our main source of capital expansion is Company retained profits. Therefore, we will continue to focus on topline growth as well as the profitability. In the short-run we will strive to maintain acceptable dividend levels while ensuring capital adequacy. In the medium to long term many strategic initiatives are expected to transform into sustainable results, enhancing value, we create to our own stakeholders.

Social and Relationship Capital



Creating and nurturing strong bonds with our stakeholders by building mutually beneficial relationships is an integral part of our success, as it is these relationships that foster trust and confidence in our brand.

PERFORMANCE HIGHLIGHTS 2019



8.5/10

Customer Satisfaction Score



Rs. 2.9 Bn

Total Payments to Suppliers



Lives Touched **703,180**
(through Dengue, Thalassemia, and Diabetes Initiatives)

OUR SOCIAL AND RELATIONSHIP CAPITAL RESOURCES

POLICY HOLDERS

219,036

REINSURANCE PARTNERS

04

VENDORS

1,468

BANCASSURANCE PARTNERS

05



CONTRIBUTION TO SDGs



We continue to introduce new insurance products and find innovative delivery channels.



We work closely with relevant Government bodies to create awareness and eradicate Dengue, Diabetes and Thalassemia.

HOW WE CREATED VALUE IN 2019

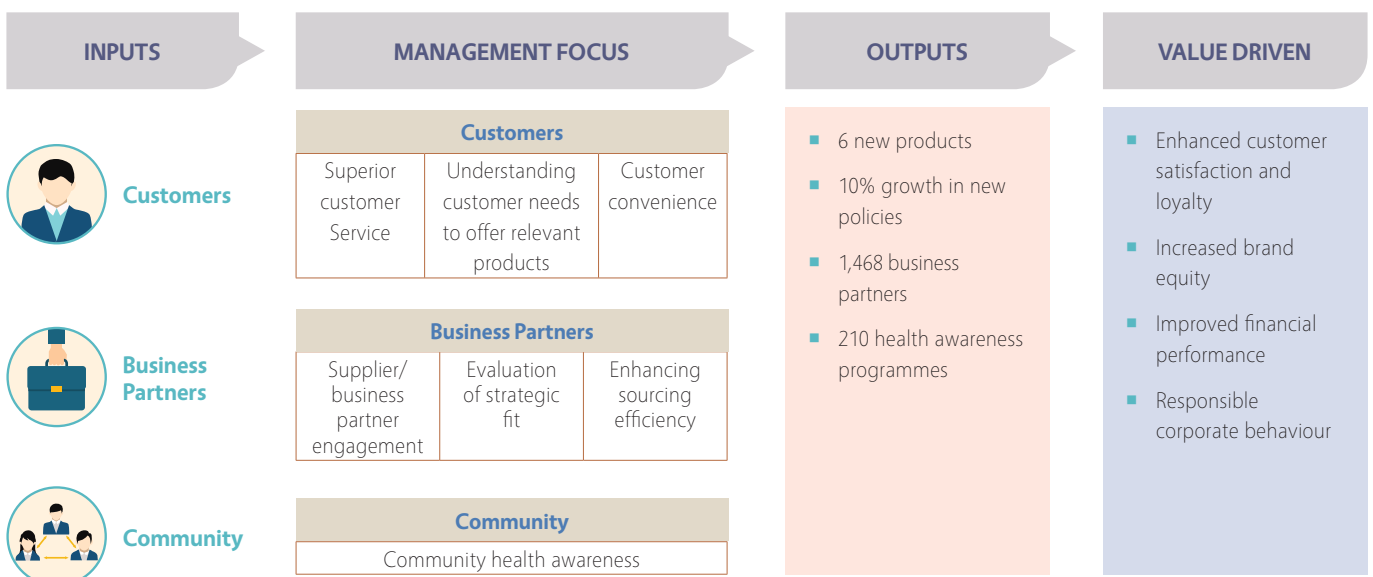
- Expanded product offering with 6 new products.
- Introduction of new customer relationship management system (SimpleCRM) to enhance service quality standards of the Call centre.
- Implementation of new call evaluation mechanism (real time and monthly) to ensure call quality and service quality.
- Introduction of a dedicated counter for insurance advisors.
- A total of 210 health awareness programmes carried out with a total CSR investment of Rs. 6.4 Mn.
- Upgrading of Bank channels to real time premium update.

WAY FORWARD

- Continue to develop customised insurance solutions.
- Enhance customer experience at every touch point.
- Greater community involvement.
- Enhance delivery channels by expanding strategic partners.
- Improve premium persistency.

MANAGEMENT APPROACH

As an organisation involved in the business of insurance, the relationships we nurture with our customers, business partners and community are an integral part of our success, as it is these relationships that foster trust and confidence in our brand. Creating strong bonds with our stakeholders by building mutually beneficial relationships is therefore of critical importance. We also ensure that we strictly comply with all regulatory requirements. There were no instances of non-compliance with laws and regulations during the year.

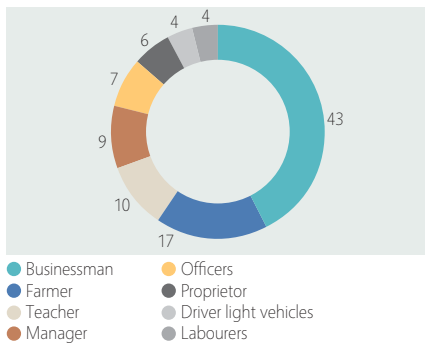


SOCIAL AND RELATIONSHIP CAPITAL

CUSTOMERS

We are privileged to serve over 219,000 customers across Sri Lanka. Our customer basis includes individuals, corporate and loan customers. An analysis of our top 8 customer segments can be depicted below;

Top 8 Customer Segements
(%)

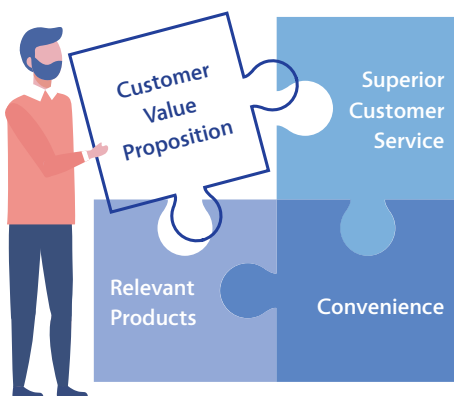


Our current market share is 13.1% which indicates a 6% slight decline from 2018



A Unique Value Proposition

We strive to create and maintain life-long relationships with our customers by identifying their current insurance needs, anticipating their future needs and creating a positive customer experience. Our customer value proposition therefore revolves around consistently offering relevant products, convenience and superior customer service and is based on our core business values of excellence, caring, innovation, trust, ethics and integrity.



Superior Customer Service

We firmly believe that price is not a long-term differentiator and that customers instead place greater value on convenience, transparency and trust when choosing an insurer. We therefore strive to provide our customers a superior customer service experience right from the point of initiation of a policy to the event of a claim or maturity. The efforts taken to improve customer service levels are described below;

Dedicated Customer Service Unit (CSU)

A dedicated customer service unit is in place to ensure both internal and external customer's needs are addressed promptly and efficiently. During the year we also introduced a dedicated counter for insurance advisors to discuss and resolve operational concerns on a real time basis. We continue to monitor performance of the CSU as against standard Service Level Agreements (SLA) and are proud to note that 95% of customers contacting the CSU have been served within 15 minutes which is the SLA for handling customers. Meanwhile we continue to track key indicators in several of our key operations.

Call Centre

- 91%** Handle 97% of presented inbound calls (2018 - 90%) ▲ 1%
- 74%** 96% of the inbound calls to be answered within 20 seconds (2018 - 78%) ▼ 4%
- 9%** Total abandoned calls to be below 3% (2018 - 10%) ▲ 1%

Customer Service Unit

- 95%** Meeting the needs of walk-in customers within 15 minutes (2018 - 96%) ▼ 1%

New Business

- 99%** 100% underwriting decision making on new proposals within two days (2018 - 92%) ▲ 7%
- 60%** 100% of policies to be dispatched within three days (2018 - 80%) ▼ 20%
* In 2019, SLA base has been revised from 8 days to 3 days

Policyholder Servicing

- 93%** 100% of minor alterations to be completed within a day (2018 - 98%) ▼ 5%
- 93%** 100% of policy assignments and reassignments to be completed within a day (2018 - 99%) ▼ 6%
- 93%** 100% of bank standing order requests to be processed within two days (2018 - 100%) ▼ 7%
- 89%** 100% of revival requests to be completed within two days (2018 - 95%) ▼ 6%
- 86%** 100% of major alterations to be completed within two days (2018 - 92%) ▼ 6%
- 93%** 100% of customer letters to be responded to within two days (2018 - 93%)

Claims

78%

End to end Turn Around Time (TAT)- all claims approved (from intimation to customer receiving the payment)
(Target - >90% - 14 working days)

99%

Claims paid TAT (approval to customer receiving the payment)
(Target - >95%: 4 working days)

98%

Claims processing TAT (document receipt to approval)
(Structured claims – 100% within same day)

80%

Claims processing TAT (document receipt to approval)
(Unstructured claims – 80% within same day)

* SLAs have been changed for 2019 as per the above criteria

UA 24/7 Call Centre

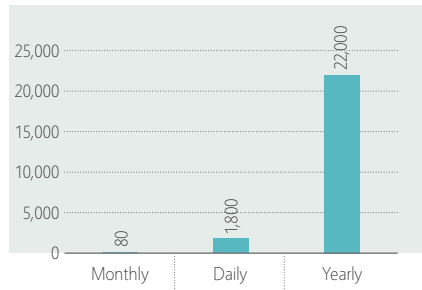
Customers can access our call centre 24/7 to make inquiries on claims, products or provide feedback on business aspects. This personalised interaction helps us to develop enduring relationships with our customers. During the year we implemented several initiatives to further enhance the service levels of our contact centre. These include;

- Introduction of new customer relationship management system (SimpleCRM) to enhance service quality standards.
- Implementation of new call evaluation mechanism (real time and monthly) to ensure call quality and service quality.
- Monthly examinations for call centre staff to measure product knowledge.
- Training on effectiveness for all call centre staff.



Customer Engagement

Average Incoming Calls Report (Nos)



Online Support

With an increasing number of customers seeking to interact with us through our corporate website and through social media platforms, we continue to develop these channels to offer our customers a better online experience. We continue to witness increasing traffic on our website and social media platforms an indication of the growing importance of this aspect.

ONLINE INTERACTIONS	2019	2018
Corporate website visits	127,597	271,876
Facebook likes	161,930	163,129
Facebook fan base engagement rate	25%	6%
Instagram followers	581	325
Youtube subscribers	1,300	1,000
LinkedIn followers	2,665	2,142

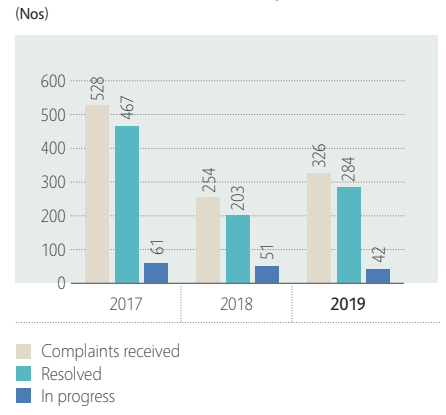
Complaint Management

Identifying and addressing customer pain points enables us to continue to improve our customer service by identifying product and process improvements and having a greater level of engagement with our customers. Multiple channels including a dedicated customer service hotline and e-mail are available in addition to customers being able to lodge complaints in writing or verbally at any of our branch locations. Feedback received is uploaded to an online customer feedback system (CFS) and reviewed weekly by the CFS committee consisting of senior management. The customer feedback committee physically meet monthly based on the necessity and nature to discuss and address customer complaints. The graph alongside depicts the total customer complaints received over the past 3 years and the progress on resolving the complaints.

Access to Product / Claim Information

Product details are available in an easy to understand manner on our corporate website together with tools for inquiries and feedback. In instances where claims are repudiated the Company clearly states the reasons for the repudiation and informs the customer in writing. If the customer does not agree with the decision, he / she has the option of referring the case to the Insurance Ombudsman or the Insurance Regulatory Commission of Sri Lanka. Additionally, our marketing activities also focuses on the highest level of transparency and professionalism. We adhere to the Group policy on voluntary standards on advertising. We have given due regards to the aspects of customer privacy as our business involves gathering considerable amounts of customer sensitive data. We have implemented several measures to ensure the confidentiality of this data. There have been no instances of non-compliance concerning product information, marketing communications or customer privacy.

Movement of Customer Complaints



Rs. 15.7 Mn
INVESTMENT IN CUSTOMER RELATIONSHIP MANAGEMENT

SOCIAL AND RELATIONSHIP CAPITAL

Relevant Products

In an increasingly homogenised insurance sector, we strive to stand apart by understanding our client’s requirements and offering innovative solutions to meet their complex Insurance and investment needs. We continue to evolve with changing customer lifestyles with fit for purpose products that support customer aspirations.

Ongoing customer engagement through customer surveys, market research and customer dialogue enable us to understand evolving customer needs, and consistently offer a relevant product portfolio.

Our extensive product portfolio aims to meet the different insurance needs of an individual

throughout his or her lifetime. Cognizant of the evolving nature of our customer requirements we continue to review our product portfolio and introduced several innovative products during the year. (Please refer page 83 on Intellectual Capital for list of new products introduced during the year.

<p>RETAIL CUSTOMER</p>	 <p>Savings and Investment Protection</p>	<p>Union Advantage Universal life product with long term (ie. 10 or more years) premium payment to build investment for future savings need.</p> <p>Union Super Investor Universal life product with short term (ie. 05 years) premium payment to boost and investment for future savings need.</p> <p>Union Single Premium Advantage Universal life product allowing customers to deposit a lump sum to generate higher investment benefits.</p>
	 <p>Family Healthcare</p>	<p>Union Advantage With additional covers to provide tailor made health solutions.</p>
	 <p>Retirement</p>	<p>Pension Advantage Universal life product that builds a fund for retirement with regular premium remittances up to desired retirement age.</p>
	 <p>Healthcare</p>	<p>Union 60+ Combines a health insurance policy with that of a life insurance policy to protect health and wellbeing of senior citizens.</p>
<p>LOAN CUSTOMERS</p>	 <p>Protection Against Loan Repayment</p>	<p>Union Loan Protection decreasing term assurance policy to cover all loan types.</p>
<p>CORPORATE</p>	 <p>Employee Welfare</p>	<p>Union Protect Employee benefit scheme to provide a comprehensive protection solution.</p>
	 <p>Wellness Solution</p>	<p>GOYO A wearable device linked to an app which works as a “personal health advisor”.</p>
	 <p>Continuous Income</p>	<p>Family Income Benefit Can be obtained under Group Life schemes designed for employer-employee groups.</p>
	 <p>Healthcare</p>	<p>Lady Care Critical illness group rider cover pays a lump sum to the life assured upon diagnosis of listed critical illnesses..</p>

Convenience

We strive to offer our customers a convenient and efficient service through our Island-wide network of branches and Agency force, multiple payment channels, customer portal and efficient systems and processes.

Island-Wide Presence

Our wide geographic presence consisting of 86 branches and 3,397 Agency force offer customers greater accessibility and convenience. During the year we upgraded 5 flagship branches, 10 spoke branches and in addition head-office premises were refurbished.

Multiple Payment Channels

With customer convenience in mind, we have tied up with multiple service providers to make available a wide array of payment channels to our customers. We continue to encourage usage of online payment channels by the customer. Meanwhile we continue to develop our mobile payment channel to leverage the mobile phone penetration in Sri Lanka. mCash collection grew by 20% to 19.2% during the year and this led to decrease in collection cost of the channel due to economies of scale. We have taken several steps to increase the usage of the standing order payments as well as the online payment settlement. During the year we made several bank payment channels online real time to ensure on timely premium

update. In 2019 Bank deposits including standing order collection is 39%. These multiple payment channels ensure more convenient service to customers and undisrupted payment for policies which will result in lower lapsations.

Payment Channel Usage	
Head office and Branch Network	18%
Bank Deposits Including Standing Orders	39%
Abans PLC	18%
Keells Super	3%
mCash	19%
UAL Website and Head Office	3%

Payment Channels	Standing Order	Internet Banking	ATM	Tele Banking	Over the Counter	Credit Card	Mobile Cash	Pay Easy
Commercial Bank of Ceylon PLC	■	■	■		■	■		
DFCC Bank PLC	■					■		
Union Bank PLC	■	■		■	■	■		
HSBC		■	■	■		■		
Keells Super					■	■		
Hatton National Bank PLC	■	■				■		
People's Bank	■	■				■		
Bank of Ceylon	■	■				■		
National Savings Bank	■	■				■		
Standard Chartered PLC	■	■				■		
mCash							■	
Easy Cash							■	
Abans PLC						■		
Sampath Bank PLC	■	■	■	■	■	■		■
Nations Trust Bank PLC	■	■	■	■	■	■		■

Customer Portal

All existing policyholders have access to a customised online customer portal which provides an array of personalised services.

Efficient Systems and Processes

Systems and procedures are constantly being streamlined to ensure that claims are processed speedily and efficiently. We have engaged a third-party service provider (TPA) to ensure faster / efficient settlement of health claims. Our ability to consistently meet high levels of service standards is an evidence of the efficiency of our systems and processes.



BUSINESS PARTNERS

Our business partners are those parties that support our operations across our value chain. Nurturing mutually beneficial relationships with our business partners is critical to maintain a smooth operation. We strive to ensure that all our relationships with business partners are based on trust and mutual respect.

Strategic partners	Financial and regulatory service providers	IT infrastructure	Other services	Assets and material providers	Outsourced services
<ul style="list-style-type: none"> Bancassurance partners Reinsurers partners 	<ul style="list-style-type: none"> Banks and financial institutions Regulators State agencies 	<ul style="list-style-type: none"> IT hardware suppliers Software service providers (SAP) Software development and modification service providers Network service security providers Manpower service providers 	<ul style="list-style-type: none"> Auditors Utility service providers Consultants Media Advertising partners 	<ul style="list-style-type: none"> Office equipment suppliers Stationery suppliers Furniture and vehicle suppliers 	<ul style="list-style-type: none"> Courier service providers Security Catering services Sanitary services Fire services

Relationships with Vendors

We ensure that all dealings with our vendors are transparent and fair. We have established the following ground rules for all our dealings with our suppliers.

■ **Fair and unbiased selection**

A formal process and strict guidelines are in place to ensure that procurement is unbiased and as per specified guidelines. (see box alongside for selection criteria for products and suppliers). Certain products and services are sourced at Group level to ensure economies of scale, in these instances UA also participates in the category management committees held for selecting vendors.

■ **Strategic fit**

It is important to us that our business partners share our core values in terms of ethical behaviour and make every effort to deal only with ethical business partners. When we commence a partnership, we conduct an initial evaluation of their operations to ensure that compliance with social and environmental criteria. This is followed by annual reviews to ensure sustained compliance. During the year 100% of all new suppliers were screened using environmental and social criteria.

■ **Timely settlement of payments**

We ensure that suppliers are paid within the agreed timelines and that contract terms and conditions are strictly adhered to.

■ **Supplier engagement**

Ongoing engagement with suppliers ensures that expectations of all parties are clearly communicated and met and our supply chain is managed effectively. Suppliers are evaluated annually, and feedback provided as part of our ongoing dialogue with vendors in addition to ongoing knowledge sharing and capacity



Criteria for selecting products

- Fitness for the purpose
- Quality and durability
- Price competitiveness
- Energy consumption and reusability of the product
- Operational simplicity

Criteria for selecting suppliers

- Financial stability
- Governance process
- Environment practices followed
- Labour practices followed
- Human right practices followed
- Anti-corruption policy

building initiatives. Meanwhile we ensure that conflicts and disputes are managed in an unbiased, amicable manner.

Relationships with Bancassurance Partners

We continue to expand our Bancassurance Partnerships, as we see this as an important business channel in our next phase of business growth. Currently, we have two strategic partnerships with Nations Trust Bank and Union Bank where UA has obtained distribution rights to serve customers of these banks. Additionally, we operate on an open architecture agreement with Commercial Bank, Sampath Bank and Seylan Bank. We continue to have discussions with different banking partners to obtain distribution rights and expand performance.

Relationships with Reinsurance Partners

Our Reinsurance partners are key strategic partners as they enable us to expand our risk appetite. When selecting we ensure our reinsurance partners are financially stable with financial and credit ratings well above the minimum ratings stipulated by IRCSL. We maximise the synergies from these relationships by working closely with our re-insurance partners throughout the reinsurance process by;

- Exchanging accurate and timely information to ensure that reinsurers have access to all information required to make sound business decisions.

- Maintaining a balanced portfolio with diversified risk and higher profitability. So, the losses can be balanced collectively to ensure better negotiations with reinsurers. We have highly skilled underwriting team to ensure that the policies are underwritten as per the globally accepted underwriting rules.
- Implementation of a robust risk assessment process to identify the types of risks which provide opportunities and potential pitfalls. This has enabled us to accept appropriate level of risk within the defined risk appetite and the tolerance level. We always attempt to make risk assessments which provides

a clear view of variables which UA and the reinsurance partners may be exposed to.

Refer Risk Management Section pages 132 to 139 for further details of re-insurers.

COMMUNITY

Our core CSR initiatives are carried out under the 'Union Manushyathwaya' – 'ලැබුවත්, සුවපත්, යහපත් හෙටක්' platform launched in 2015. The main objective of this platform is to create healthier communities for the future through awareness and prevention programmes on critical health issues. Initiatives are selected based

on community needs, resource availability and the availability of project partners with relevant expertise. During the year several initiatives were carried out in collaboration with the Health Ministry to create awareness on diseases such as thalassemia, dengue, and diabetes. (Refer below for details of these initiatives). Total CSR spend on these initiatives amounted to Rs. 6.4 Mn.

CSR Committee

The Company's CSR initiatives are driven by a dedicated CSR committee comprising senior cross functional staff members. A streamlined process (as depicted below) with assigned responsibilities is in place to ensure the effective implementation of CSR initiatives.

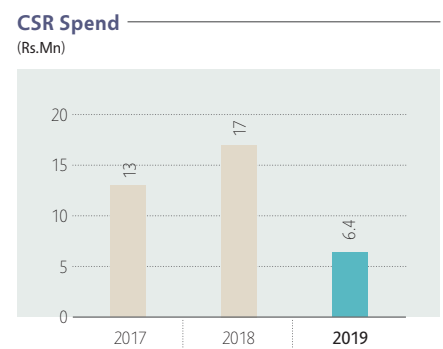


Supporting Our Communities

Our CSR objectives



Our CSR Impact



	2019	2018
Beneficiaries	703,180	720,290
No. of employees engaged	23	253
Employee volunteer hours	92	1,012

SOCIAL AND RELATIONSHIP CAPITAL

HEALTH AWARENESS PROGRAMMES CONDUCTED DURING 2019

DENGUE AWARENESS AND PREVENTION



Shramadana Campaign

Key Initiatives during the year

- Dengue awareness programmes and shramadana programmes were conducted in two schools in collaboration with the Divisional Ministry of Health (MOH) and the Public Health Department (PHD) of the Colombo Municipal Council (CMC).
- Two Island wide direct mailer campaigns were carried out to increase dengue awareness.
- Conducted several digital campaigns on dengue awareness.



Impact

- Population reached through direct mailer campaign - 13,013
- Population reached through digital campaigns - 19,714
- Population reached through conducting shramadana campaigns to schools - 3,300
- Total number of programmes conducted - 09

Direct mailer campaign	Number of Views
"Be aware of dengue"	6,541
"Let's prevent the dengue"	6,472
"Rainy season means its dengue season! It is our duty to protect our loved ones"	9,600
"Flip it to prevent dengue!"	10,000
"Make sure your potted plants get plenty of rain water, but not too much! Water logging..."	114

DIABETES AWARENESS AND PREVENTION



"One Spoon Project" awareness session

Key Initiatives during the year

- "One Spoon Project", an initiative aimed at creating awareness on Diabetes and encouraging lower consumption of sugar, was carried out among UA staff.
- Special direct mailer campaigns were carried out to mark Diabetes Day and create awareness among the public through social media.



Impact

- No. of participants in 'One Spoon Project' - 1,309
- Population reached through direct mailer campaign - 10,296
- Total number of programmes conducted - 18

Direct mailer campaign	Number of Views
"It's World Diabetes Day, so let's turn some age-old diabetes"	2,255
"A balanced diet throughout the day is the key to managing the risk"	1,526
"Genetics are just one of the many causes of Diabetes"	6,515

THALASSEMIA AWARENESS



Thalassemia awareness session

Key Initiatives during the year

- Conducted 41 programmes partnering with St. John's Ambulance Commission Kandy.
- Conducted 134 thalassemia awareness and blood screening programmes with National Thalassemia Centre- Kurunegala and Hemal's Adolescent and Adult Thalassemia Care (attached to the Ragama Teaching Hospital).
- Conducted 8 digital and direct mailer campaigns.



Impact

- Population reached through direct mailer campaign - 230,650
- Population reached through digital campaigns - 387,282
- Population reached through blood screening programmes - 28,424
- Population reached through successful life programmes - 9,192
- Total number of programmes conducted- 183

Direct mailer campaign	Number of Views
"World Thalassaemia Day"	110,125
"What is Thalassaemia?"	40,455
"Who are required to get tested?"	40,303
"How to prevent Thalassaemia?"	39,770

RELATIONSHIP WITH COMPETITORS

We attempt to maintain healthy competition with competitors and act ethically to maintain industry standards. We are a participating institution of the Insurance Association of Sri Lanka (IASL) and our CEO participates at the Executive Committee meetings conducted at the IASL on a regular basis. In addition, respective General Manager or department head participates in technical sub committees conducted by the IASL as given alongside in order to uplift the industry standards and address common issues;

- Life Insurance Forum (LIF)
- Legal Advisory Forum (LAF)
- Marketing and Sales Forum (MSF)
- Human Resources Sub Committee (HRSC)
- Financial & Technical Sub Committee (FTSC)
- Information Technology Sub Committee (ITSC)
- Actuarial Sub Committee (ASC)

Apart from the above, we actively participate in the following public institutions and chambers to assist in developing policies for the interest of the industry;

- The Ceylon Chamber of Commerce.
- American Chamber of Commerce in Sri Lanka
- Insurance Association of Sri Lanka
- Employers Federation of Ceylon
- Sri Lanka Institute of Directors
- LIMRA (Life Insurance and Market Research Association)

ETHICS AND ANTI-CORRUPTION BEHAVIOUR

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

Anti-Corruption Procedure

Our anti-corruption procedure is focused on addressing that everyone at UA observes the highest levels of integrity and are not involved in any corrupt activity. The guidelines make it clear that the Company and its individual Directors,

officers, employees, Agents could be held liable for any direct or indirect involvement in corruption practices. Entire workforce is expected to understand and adhere to the code of ethics and standards in their respective area of work. Similarly, anti-corruption procedures defined by the Company contain the following main guidelines.

- Each member of UA is responsible individually to set up and maintain a high standard of business conduct in compliance with anti-corruption practices specified by applicable laws and regulations.
- Every member has a deep understanding in respect of the content, scope and importance of the policy.
- Every employee is required to sign off the policy on Code of Conduct on periodic basis to ensure the adherence.
- Demonstration of adherence to the policy in their behaviour.

There were no significant misconduct reported during the period under review.

CAPITAL TRADE OFF

Increased investments in Social and Relationship Capital will lead to;



Investing in our Social and Relationship Capital will positively impact our brand value which will in turn generate financial returns.



Stronger relationships with our customers, business partners and community will improve our brand value.



Our CSR programmes aimed at creating awareness amongst general public will have a positive impact on the environment.

WAY FORWARD

We will continue to nurture our relationships with customers, business partners and community in order to differentiate ourselves and stand above the rest. To do so we will strive to create the benchmark in the insurance industry by offering dynamic insurance solutions promoting inclusivity in insurance among Sri Lankans. Placing the interests of our customers at the heart of everything we do, we will continue to emphasise customer-centricity, and expansive geographical reach to increase insurance penetration in Sri Lanka without compromising on ethical and Government regulations.

Human Capital



Our diverse team is a key asset in our value creation process. They guide, nurture and enhance value creation capacity and our overall performance. Employees at all levels are provided the opportunity to interact and openly communicate with the Management to ensure that their individuality is of value to our organisation.

PERFORMANCE HIGHLIGHTS 2019



354

New hires during the year



8,235

Training hours provided to 1,332 employees

OUR HUMAN CAPITAL RESOURCES

Great Place To Work.

Certified as a "Great Place to Work" in 2019

PERMANENT EMPLOYEES

567

FIELD SALES STAFF

3,397



CONTRIBUTION TO SDGs



We provide employment to over 4,161 individuals across the country.



52% of our workforce are Female and we provide an equal opportunity work environment.



All our employees are entitled to a comprehensive range of health benefits.

HOW WE CREATED VALUE IN 2019

- Training investment of Rs. 12.9 Mn on targeted training programmes.
- Total payments to employees Rs. 1,023 Mn.
- 05 leadership programmes conducted for over 106 employees of all levels.

WAY FORWARD

- Develop and implement signature leadership development programmes.
- Implement employee engagement activities that create an enjoyable and performance driven culture.
- Restructure Sales Force Administration (SFA) division to provide better and speedy services to our sales teams..
- Align Learning and Development (L&D) objectives with Company long term objectives.
- Ensure alignment of HR initiatives with the Company's digital strategy.
- Launch of the National Million Dollar Round Table (MDRT) dream team for 2020.
- Revamp Bancassurance induction programmes to provide more sales focus including conversational selling.

MANAGEMENT APPROACH

Our Human Capital consisting of our diverse team of 567 permanent employees, 197 fixed term contract employees and 3,397 field sale staff is a key asset in our value creation process. A comprehensive Human Resource (HR) policy framework, strong governance structure, robust systems and processes guide nurturing of human capital and ensure equal opportunities for all our employees. The Human Resources Department is responsible for the implementation of HR strategy and ensuring alignment between HR strategy and business strategy. We strive to incorporate HR best practices as a part of our "People Promise" and are proud that we were certified as a "Great Place to Work" in 2019.

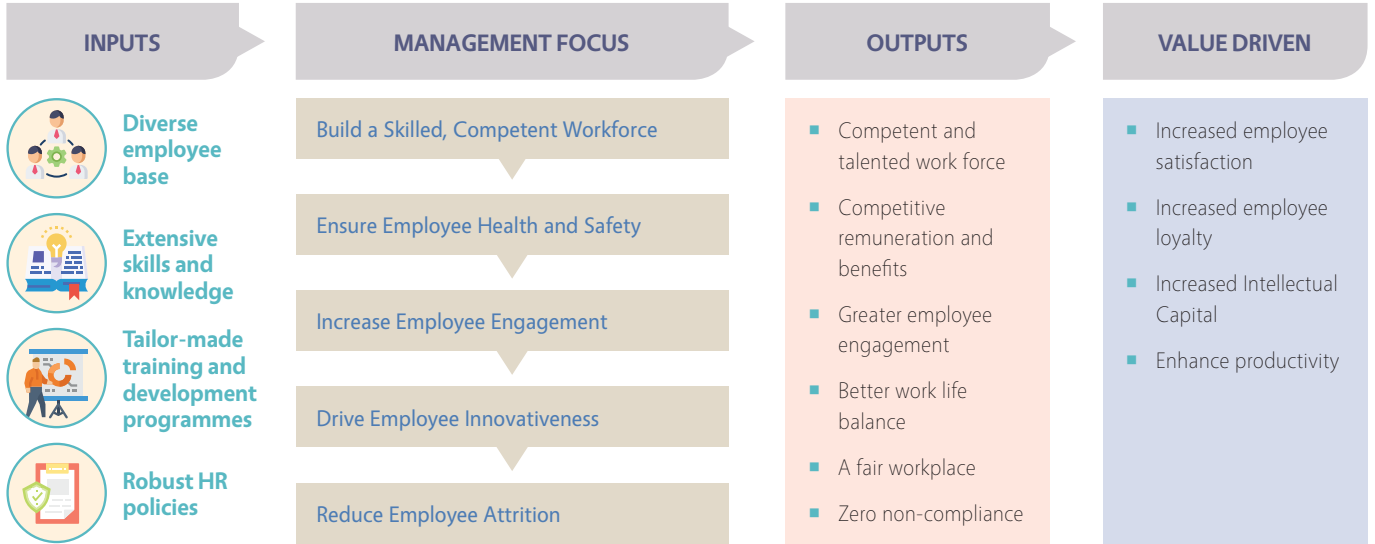
HUMAN CAPITAL MANAGEMENT PROCESS

UA's Human Capital management process is driven by the overall strategy of the Company and is focused on enhancing value creation capacity and the overall performance. We believe these activities will enhance employee performance, knowledge base and overall satisfaction.



The detailed process is described on the next page.

HUMAN CAPITAL



OUR TEAM PROFILE

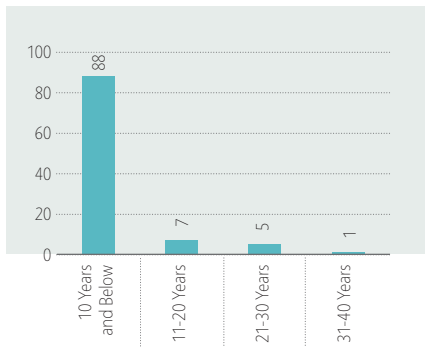
Our team of 4,161 workforce as at 31 December 2019 is as diverse in composition as it is in the knowledge and experiences it brings to the table. As an insurance Company with an Island-wide branch network, almost 81% of our cadre consists of field staff from all parts of the Island employed



on a contract basis. Meanwhile almost 52% of our employees are female, a clear indication of our commitment to maintaining gender diversity in our organization while 18% of our permanent employees (excluding the field staff) are from outside of the Western Province.

policies ensure that we attract a diverse group of individuals from varying backgrounds and that the selection of employees is based entirely on qualifications, merit and capability and there is no discrimination based on their race, religion, gender, age, or any other factor.

Service Analysis of Employees (%)

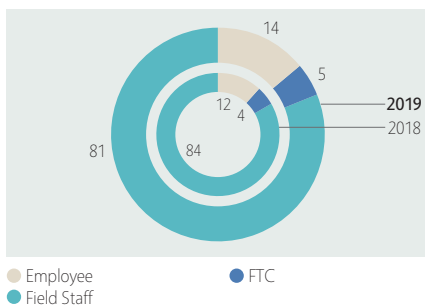


TALENT ATTRACTION AND RETENTION

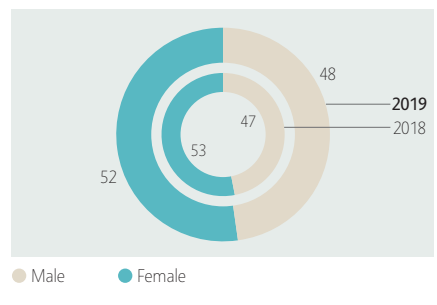
Our recruitment strategies are focused on acquiring the right talent to the desired position in a timely manner. A formalised approach consisting of structured interviews based on a competency framework are combined with modern screening methodologies such as assessment centres and aptitude and psychometric testing to ensure that our new recruits are the best fit for the job role and organisation as a whole. Total number of new recruits during the year amounted to 354. As an equal opportunity employer, our recruitment

Management closely monitors attrition levels in order to proactively address issues and maintain healthy levels of staff retention. Overall attrition at Company level was 24% while new hire attrition was 16% during the year. Reflecting industry trends, attrition at non-executive levels was higher due to increased labour mobility within the industry. Proposition of attrition by women was 43% during the year compared to 40% during the previous year. As per the Company's resignations, terminations and transfer policy, exit interviews are conducted prior to employees leaving the Company to identify and address reasons for exit.

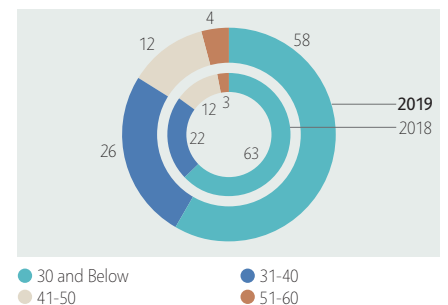
Workplace by Type of Employment (%)



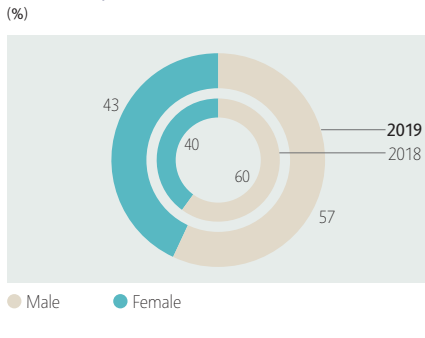
Employees by Gender (%)



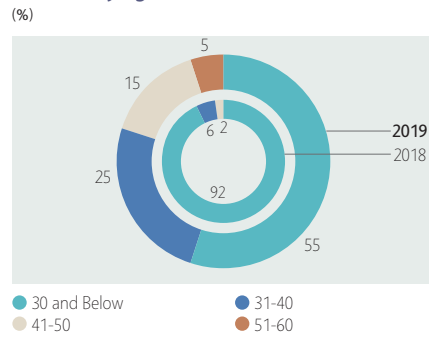
Employees by Age (%)



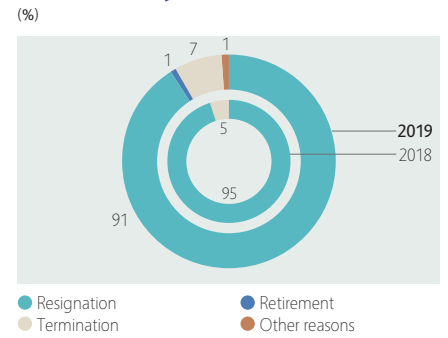
Attrition by Gender



Attrition by Age



Staff Turnover by Reason

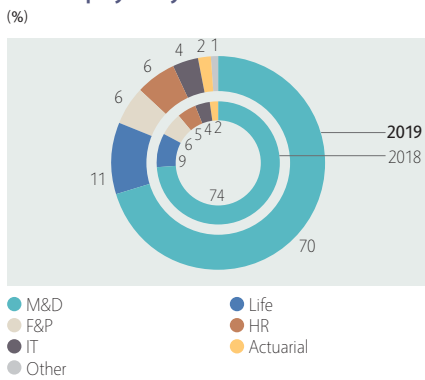


TALENT DEVELOPMENT

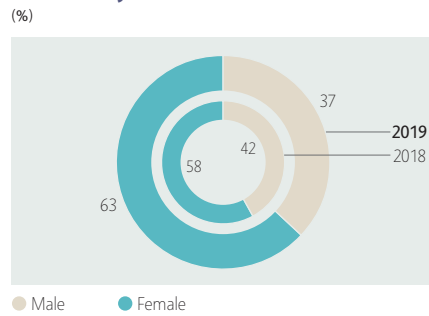
Talent development is a key aspect of our employee value proposition as it nurtures engaged, professionally and personally fulfilled employees while ensuring effective succession planning. We take a holistic approach to talent development combining blended training initiatives, mentoring programmes and leadership development, and an unbiased, merit-based performance management and rewards and recognition system. As a member of the JKH Group, we ensure that our talent management initiatives are aligned with JKH Group initiatives.



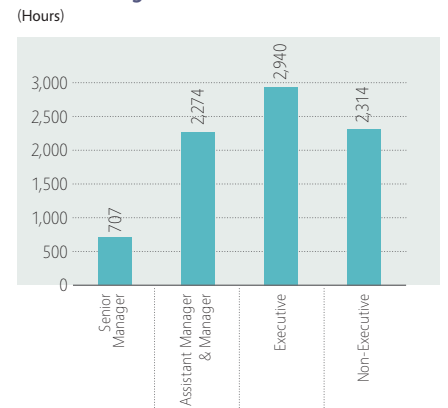
Total Employees by Division



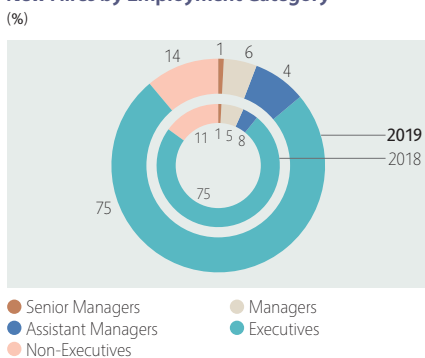
New Hires by Gender



Total Training Hours



New Hires by Employment Category



Training and Development

Training and development is an integral component of our talent development strategy. Our training programmes and facilities which have been recognised as some of the best in the insurance industry are consistently rated high by our employees. Training needs are closely aligned to our business needs and are identified by closely monitoring individual performance and KPI's to address performance gaps. We strive to ensure that training and development initiatives are all inclusive by providing targeted training to all staff such as special training programmes for Million Dollar Round Table (MDRT) achievers, top achievers' training, back to track training for low performers, dream team training, grooming sessions for Annual award winners, special refresher training programmes for Certified Investment Planners (CIPs). In 2019 we conducted 26 in-house training programmes and 47 external programmes including 7 overseas programmes, translating to a total of 8,235 training hours during the year. Total investment in training and development in 2019 amounted to Rs. 12.9 Mn.

Leadership Development

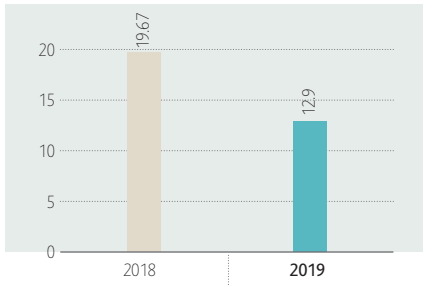
Our specially designed leadership development programmes aim to nurture a strong pipeline of future leaders with the competencies, skills and knowledge required to navigate an increasingly complex business environment. Several tailor-made programmes were conducted during the year for all levels. We also ensure that our field staff achieve personal and professional success by implementing a system where advisors can track performance based on achieving business volumes and provide a transparent and fulfilling career path.

Rs. 15.25 Mn

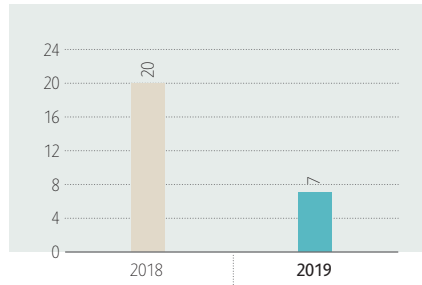
REVENUE PER EMPLOYEE

HUMAN CAPITAL

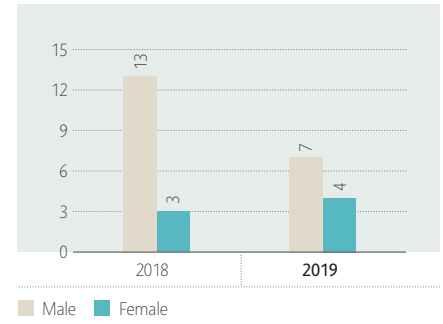
Investment in Learning and Development
(Rs. Mn)



No. of International Training Programmes
(No.)



Overseas Training by Gender
(No.)



Our Leadership Programmes



Leadership Program	Target Audience	No. of Participants
<p>Top Gun A two year leadership programme targeted at selected talent from Assistant General Manager and Senior Manager categories.</p>	Assistant General Managers & Senior Managers	Conducted once every 3 years
<p>Manager Par Excellence Conducted over a period of 4 months the programme covers a wide range of topics including personal effectiveness, leadership and management, coaching and mentoring, managing and leading change, creativity and innovation. Communication and presentation skills, negotiation skills, decision making skills and business etiquette.</p>	Managers & Assistant Managers	20
<p>Exercise Magnum Opus An outbound session for participants of the Manager Par Excellence programme aimed at developing team building and leadership skills.</p>	Managers & Assistant Managers	20
<p>Executive Development Programme Selected participants are given the opportunity to further their careers by honing critical skills such as leadership, presentation and communication skills among others.</p>	Senior Executives & Executives	28
<p>The Ladder Project Participants work through a series of challenging scenarios aimed at building personal and leadership capacity. Modules covered in the programme include problem solving, customer focus, being strategic and innovative, communication and teamwork and project evaluation.</p>	Non-Executives	21
<p>Toastmasters Club Union Assurance Toastmasters Club provides employees a platform to improve their communication and leadership skills and bring the corporate community of Union Assurance to the next level.</p>	All Employees	17

Performance Management

Performance appraisals are carried out annually for all the employees including field staff. A robust performance evaluation process which includes self-assessment against communicated KPI's, independent assessments by cross functional committees, ongoing feedback on performance and an appeals mechanism ensures that the performance management process is transparent, collaborative and equitable.



Performance Appraisal

- Self assessment
- Supervisor assessment
- Career committee / Career discussion panel review



Performance Feedback

- One to one feedback from the immediate supervisor and another member of career committee / career discussion panel



Appeals Process

- A documented appeals process

Rewards and Recognition

Recognising and rewarding our employees is an important aspect of our talent management process. The Company has implemented multiple platforms for rewarding and recognising staff. In addition to annual increments and performance-based pay, employee and sales staff contributions are recognised through service appreciation awards, employee recognition awards, BRAVO awards (spot recognition scheme), overseas tours for top talent and an ESOP scheme among others. An innovative initiative during the year was the "Employee Appreciation Week" which provided managers the opportunity to recognise and thank their staff for efforts during the year.



Employee Recognition Awards 2019



Employee Recognition Awards 2019

REMUNERATION AND BENEFITS

In addition to remuneration which consists of a fixed pay component and a variable component linked to performance, permanent employees are also eligible for a range of benefits including retirement benefits, maternity and paternity leave, gratuity entitlements among others. (See below for full list). Going beyond statutory requirements we offer male employees three days of paternity leave. Total payments to employees amounted to Rs. 1,023 Mn during the year while total contribution to benefit schemes such as Employee Provident Fund (EPF) and Employee trust fund (ETF) amounted to Rs. 85.5 Mn in 2019.

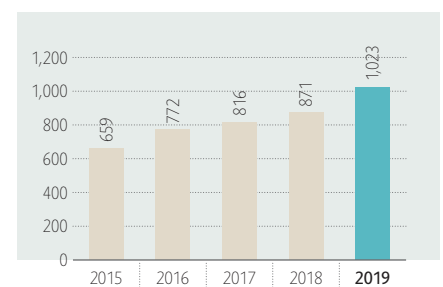


Benefits to Full Time Employees

- EPF
- ETF
- Gratuity
- Maternity leave
- Three days of paternity leave
- ESOP
- Comprehensive medical cover (hospitalisation/OPD)

Employee Compensation and Benefits

(Rs. Mn)



Rs.8,376

SOCIAL WELFARE COST PER EMPLOYEE

HUMAN CAPITAL

Parental Leave	Male	Female
Employees entitled to parental leave	345	405
Employees who took parental leave	7	16
Total number of employees who returned to work in the reporting period after parental leave ended	7	15
Total number of employees who returned to work after parental leave ended that were still employed 12 months after their return to work	7	15

Continues engagement with employees will create more cohesive work environment and creates fertile ground for innovative thinking. Employees at every level given the opportunity to voice out their concerns and ideas to enhance the work place collaboration.

EMPLOYEE ENGAGEMENT

We believe that continuously engaging with our employees not only fosters a more cohesive work environment but also creates a fertile ground for innovative thinking. We strive to engage with our employees at every level and have multiple communication channels where employees are given the opportunity to communicate their concerns and ideas and be true partners in the organisation’s journey.

Open Communication

Employees at all levels are provided opportunities to interact with management through focus group discussions, action planning sessions and one-to-one meetings with management. “Coffee with CEO” and “Coffee with GM HR” offer employees the opportunity to directly interact with senior management while skip level meetings facilitate interaction between employees and skipped supervisors. A new initiative during the year was a series of meetings chaired by the CEO to obtain feedback from employees with over 25 years of service.

Great Place to Work Survey

The annual Great Place to Work employee satisfaction survey was conducted for the seventh consecutive year in collaboration with the Great Place to Work institute. The survey captures employee feedback for organisational improvement and ranks the organisation based on a “Trust Index” and Culture Audit. We are proud to note that UA was certified as a “Great Place to Work” in 2019. GPTW score for the year was 70% as calculated by the GPTW institute.

We Celebrate Our Children

As part of our efforts to engage not only with our employees but their families as well, the “We Celebrate Our Children” Initiative was conducted during the year. The initiative emphasises the importance of work-life balance and was aimed at providing parents the opportunity to identify the children’s future desires.



Annual Dinner Dance - Union of Joy

Grievance Management Process

Proactively engaging with our employees and addressing weak links is critical in ensuring employee satisfaction. Our grievance handling procedure encourages employees who are aggrieved by alleged unfair, unjust or inequitable practices to seek redress without prejudice to the complainant. The Company has implemented an online grievance handling system in order to maintain anonymity.

Whistle Blowing

A comprehensive whistle blowing policy provides a formal procedure for employees to report incidents of mismanagement, corruption, illegality, or 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.

OPEN DOOR POLICY

Our open door policy encourages our employees to openly express their concerns, contribute ideas and become true partners of the organisations' progress.



Union Brainwaves and Eureka Initiatives

The above initiatives were launched during the year to encourage suggestions and reward employees for providing constructive suggestions for the betterment of the organisation. This was met with a large number of responses, many of which have been successfully implemented.

visits at the head office on a frequent basis and an annual health checkup in collaboration with My Doctor. This year too we conducted the Union Health Camp with over 375 participants at the head office in order to educate and create awareness on health issues. Confidential counselling support is also offered to employees if required.

While the nature of our operations is such that, physical injuries at the workplace are limited we take every effort to ensure that all our locations are accident free spaces with necessary warning signage. There were no significant injuries at the workplace during the year.

WORK LIFE BALANCE

We promote a healthy work life balance for our employees, as we believe it results in greater engagement, commitment and productivity. Several

initiatives are in place to assist employees better manage both their professional and personal lives.

FLEXIBLE WORKING ARRANGEMENTS

We continue to explore flexible working arrangements such as flexi hours for selected functional areas and a working from home option in certain situations. The telecommuting option was utilised by 67 employees in 2019 indicating a growing interest in more flexible working arrangements.

RECREATIONAL ACTIVITIES

Recreation activities and events such as the annual family get together and sporting events are organised throughout the year by the UA Recreation Club which seeks to foster camaraderie among staff. Employees are encouraged to participate in inter Company (JKH Group) sporting events and are provided support for participation. The Union Hobby and Adventure Club (UHAC) is yet another forum for staff members with similar interests to interact.

A FAIR WORKPLACE

We are committed to ensuring the rights of all our employees and have in place strong policies with regards to human rights, sexual harassment and discrimination that are compliant with all labour regulations in the country and the UN Global Compact Principles. We ensure our employees are aware of these standards through regular awareness and training sessions while periodic audits and reporting mechanisms ensure compliance. There were no incidents of violation of human rights or discrimination during the year. Meanwhile all security personnel are trained in human rights policies and procedures.



Union Brainwave Competition e-Flyer

EMPLOYEE HEALTH AND SAFETY

We are committed to providing a safe, secure and healthy work environment for our employees and have a health and safety policy that goes well beyond the minimum health and safety regulations stipulated by law. All employees and their dependents are entitled to a comprehensive medical cover which covers a range of medical expenses including hospitalisation and OPD expenses. Employees also have free access to the My Doctor App which gives them unlimited access to call consultations, mobile lab facilities and other services on their mobile. We also offer doctor



Union Assurance Basketball Team becoming First Runners Up at 29th Mercantile League Tournament 2019

HUMAN CAPITAL

GENDER PARITY

Workforce diversity is part of the culture in the Company and policies and processes are in place to ensure equality and fairness to all candidates at recruitment, promotions, career development, etc. We take pride in non-discrimination and being performance centric. A special focus is given to certain diversity groups at times, where an internal imbalance is prominent that may be given attention at recruitment. Considering this fact where more than one person is equally qualified for a job the female or male may be given a preference.

We maintain an environment conducive for all and is free from any form of harassment. Sexual harassment is considered as an act of

misconduct and strongly condemns any sexual harassment conduct within the workplace. Similarly, we advocate an environment which strictly prohibits violence against any one of our employees. Gender equality is advocated within our workplace and we prohibit any gender-based violence and advocate against any form of violence against women within the social sphere, as part of our responsibility towards society.

The Company has engaged and initiated many activities / awareness sessions, role plays, etc on areas such as sexual orientation and gender diversity at work place to maintain a harmonious work environment. Furthermore, as part of John Keells Group, the Company has engaged in many initiatives to create a safe and a healthy work

place for female staff by conducting awareness sessions to empower women. At the JKH Group level, the organisation conducts a specific project on the above titled, "Project Wave" (Working Against Violence through Education).

OUR COMMITMENT TOWARDS FIELD STAFF

Our field staff consist of non-permanent front-line sales staff who form an integral part of our Human Capital. Development of field staff is an important aspect of our HR strategy since, as the face of the Company our field staff demonstrate the values of the Company to current and potential customers. Development of the field staff is carried out under 5 pillars.

Pillars	Activities								
Recruitment	Targeted initiatives such as profile recruitment, the Women’s Day campaign recruitment and the 100k recruitment campaign were carried out during the year to attract the best talent.								
	<div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 60%;"> <p>New Recruits (No.)</p> <table border="1"> <caption>New Recruits (No.)</caption> <thead> <tr> <th>Year</th> <th>New Recruits (No.)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>2,211</td> </tr> <tr> <td>2019</td> <td>1,776</td> </tr> </tbody> </table> </div> <div style="width: 35%;"></div> </div>	Year	New Recruits (No.)	2018	2,211	2019	1,776		
Year	New Recruits (No.)								
2018	2,211								
2019	1,776								
Learning and Development	Learning and development initiatives revolve around the following core areas;								
	<table border="1" style="width: 100%; text-align: left;"> <thead> <tr> <th style="background-color: #d3d3d3;">Personal Development</th> <th style="background-color: #d3d3d3;">Skill Development</th> <th style="background-color: #d3d3d3;">Knowledge Sharing</th> <th style="background-color: #d3d3d3;">Mindset Shaping</th> </tr> </thead> <tbody> <tr> <td style="background-color: #f5f5dc;"> <ul style="list-style-type: none"> ■ Personal image / brand building ■ Activity planning ■ Goal setting ■ Time management ■ Money management ■ Income planning ■ Interpersonal skills ■ Rapport building skills </td> <td style="background-color: #d3d3d3;"> <ul style="list-style-type: none"> ■ Quality prospecting ■ Communication skills ■ Understanding customer needs ■ Conflict resolution skills ■ Selling skills ■ Customer service ■ Strategic thinking ■ Decision making ■ Negotiation and persuasion skills </td> <td style="background-color: #d3d3d3;"> <ul style="list-style-type: none"> ■ Product knowledge ■ Knowledge on insurance & financial planning ■ Features, advantages & benefits (FAB) of product offerings ■ Digital knowledge ■ General knowledge ■ Policy conditions ■ Basic underwriting knowledge </td> <td style="background-color: #ffe4c4;"> <ul style="list-style-type: none"> ■ Embracing challenges ■ Positive thinking ■ Self-awareness ■ Performance oriented mindset ■ Professional behaviour ■ Ethical behaviour </td> </tr> </tbody> </table>	Personal Development	Skill Development	Knowledge Sharing	Mindset Shaping	<ul style="list-style-type: none"> ■ Personal image / brand building ■ Activity planning ■ Goal setting ■ Time management ■ Money management ■ Income planning ■ Interpersonal skills ■ Rapport building skills 	<ul style="list-style-type: none"> ■ Quality prospecting ■ Communication skills ■ Understanding customer needs ■ Conflict resolution skills ■ Selling skills ■ Customer service ■ Strategic thinking ■ Decision making ■ Negotiation and persuasion skills 	<ul style="list-style-type: none"> ■ Product knowledge ■ Knowledge on insurance & financial planning ■ Features, advantages & benefits (FAB) of product offerings ■ Digital knowledge ■ General knowledge ■ Policy conditions ■ Basic underwriting knowledge 	<ul style="list-style-type: none"> ■ Embracing challenges ■ Positive thinking ■ Self-awareness ■ Performance oriented mindset ■ Professional behaviour ■ Ethical behaviour
Personal Development	Skill Development	Knowledge Sharing	Mindset Shaping						
<ul style="list-style-type: none"> ■ Personal image / brand building ■ Activity planning ■ Goal setting ■ Time management ■ Money management ■ Income planning ■ Interpersonal skills ■ Rapport building skills 	<ul style="list-style-type: none"> ■ Quality prospecting ■ Communication skills ■ Understanding customer needs ■ Conflict resolution skills ■ Selling skills ■ Customer service ■ Strategic thinking ■ Decision making ■ Negotiation and persuasion skills 	<ul style="list-style-type: none"> ■ Product knowledge ■ Knowledge on insurance & financial planning ■ Features, advantages & benefits (FAB) of product offerings ■ Digital knowledge ■ General knowledge ■ Policy conditions ■ Basic underwriting knowledge 	<ul style="list-style-type: none"> ■ Embracing challenges ■ Positive thinking ■ Self-awareness ■ Performance oriented mindset ■ Professional behaviour ■ Ethical behaviour 						

Pillars	Activities
Performance Management	A web-enabled sales force management system, FAME (Financial Advisor Management Explorer) ensures that performance management of field staff is carried out in a transparent and in efficient manner.
Career Progression	Field staff are provided transparent career paths with specific criteria to ensure career progression for all field staff. Ongoing training and development opportunities support employees to achieve their career objectives and fast track career progression.
Rewards and Recognition	Sales staff contribution is recognised through an Annual Awards scheme, which recognises and rewards excellence in sales. Top achievers are recognised at a glamorous awards ceremony and are awarded with plaques, certificates, cash prizes, overseas travel awards and other prizes.



UA Annual Awards 2019 held in Bangkok, Thailand

CAPITAL TRADE OFF

Increased investments in Human Capital will lead to;



Financial strain on the Company in the short run, however in the long run, this investment will translate in to higher financial gains due to employee efficiency gains.



Enhancing employee skills and attitudes will facilitate better customer relationships enhancing Social and Relationship Capital.



Enhancing employee skills and knowledge through continuous training and development will strengthen UA's Intellectual Capital.



Higher headcount resulting in a proportionately higher consumption of resources.

WAY FORWARD

In 2020, we will continue to improve our employee value proposition in order to nurture a group of employees / field staff equipped with the skills to achieve our long term strategic objectives. As a part of our long-term goal of making UA a Company that places the customers at the heart of everything we do, we will focus on providing our employees the skills and mindset to deliver innovative but simple solutions. Meanwhile we will continue to foster a culture that respects and embraces diversity in order to build an inclusive workforce fit for the future.

Intellectual Capital



Nurturing our Intellectual Capital is important in achieving our long-term growth plans. Our brand, systems and processes, culture of innovation, collective knowledge and skills have driven us to stay updated with the growing demands of the market.

PERFORMANCE HIGHLIGHTS 2019



Rs. 36.9 Mn

Investment in IT Systems



Rs. 1.94 Bn

Brand Value

OUR INTELLECTUAL CAPITAL RESOURCES



ISO 27001:2013

Information system security management certification

NET PROMOTER SCORE

47%

TACIT KNOWLEDGE OF OVER

4,161
employees & field staff



CONTRIBUTION TO SDGs



We continue to introduce innovative products and invest in cutting edge technology, driving the digital transformation of the insurance sector in Sri Lanka.

HOW WE CREATED VALUE IN 2019

- Process improvements during the year;
 - ◆ Achieved 100% digital submission of proposals.
 - ◆ Development of an online module to monitor progress of Agent sales competition.
 - ◆ Coaching solution to address advisor training gaps.
 - ◆ Issuance of e-policies and bi-annual e-premium statement generation.
- Launch of a new e-learning platform - "UA Learning Hub".
- Launch of six new product offerings.
- Continuation of skills upliftment and knowledge sharing initiatives.

WAY FORWARD

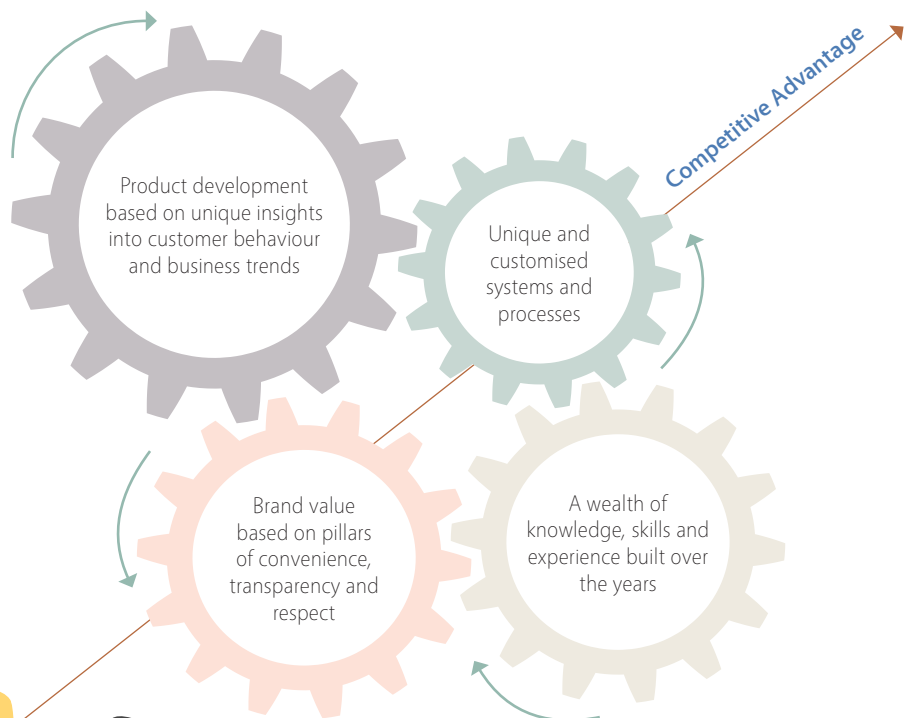
- Drive 'Digital First' agenda.
- Redefining brand positioning.
- Improve customer centricity.
- Employee technical and soft skills development.

MANAGEMENT APPROACH

Our Intellectual Capital consisting of our brand equity, systems and processes, culture of innovation, collective knowledge and skills is one of our key competitive advantages. Nurturing our Intellectual Capital is therefore of strategic importance in achieving our long-term growth plans.

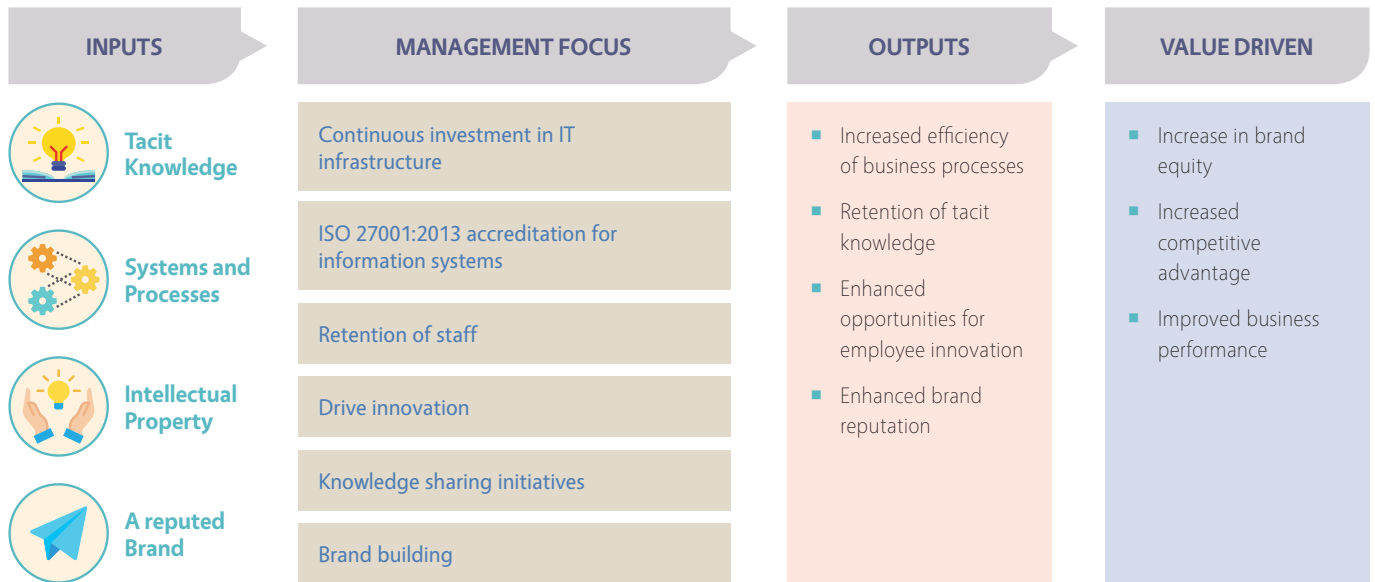
We drive value by continuously upgrading our IT infrastructure, investing in product development, harnessing the collective knowledge of our employee base and building our brand value. We have converted our Intellectual Capital capabilities into core competencies and continue to nurture these competencies into critical success factors to achieve competitive advantage by identifying the growing demands of the market.

Components of Our Intellectual Capital



INTELLECTUAL CAPITAL

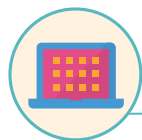
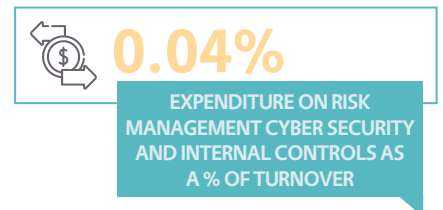
The following model depicts our approach to managing intellectual capital



SYSTEMS AND PROCESSES

We continue to invest in improving our systems, processes and IT infrastructure in order to stay ahead of a rapidly evolving competitive landscape. We remain at the forefront of the

industry's digital revolution and place strategic emphasis on deploying technology to optimise operating models and drive customer and employee convenience and satisfaction. Several process improvements and system upgrades were implemented as part of our 'Digital First' journey.



Key IT Developments During the Year

Digitisation of submission of new business proposals.

As a part of our efforts to digitise and fully automate the policy issuance process, a "New Business and Quotation System" was implemented during the year as a capacity enhancement to the digital adviser toolkit. The platform enables the digital submission and processing of new business proposals and has significantly enhanced productivity of underwriting staff. During the year we achieved 100% digital submission of proposals while 51% of all new proposals were underwritten through the system as compared to 25% in last year.

Automation of the recruitment process

Automation of the recruitment process continued with the launch of the e-recruitment portal which has enabled greater visibility and efficiency of the recruitment process.

Streamlining of staff performance management process

The staff activity management module was launched during the year facilitating weekly reviews between team leaders and regional managers in more efficient and transparent manner. The module which includes an online tracking and follow-up system as well as a detailed Management Information (MI) system has simplified tracking performance against targets.

Implementation of lead management module

The leads activity management module introduced during the year has significantly contributed to increased productivity in the channel. In particular, the introduction of the 10:3:1 funnel concept which monitors the number of calls made, number of quotations made during visits and proposals submitted has enabled better tracking of lead generation.

Online learning management

Introduced a new e-Learning platform (UA Learning Hub) to conduct and track advisor training path programmes with the objective of achieving 30% of the digital learners by end of the year.

Cyber security

Cyber security continues to be a priority concern and we are among the few banking and financial service industry (BFSI) companies in the country to have obtained ISO 27001:2013 certification. This certification assures the security of insurance assets, i.e. business information, customer data, financial information, intellectual property, employee details and information entrusted with third parties. Our Cyber Security Policy is in line with that of the JKH Group and we are currently in the process of implementing an IBM managed security operations centre and security intelligence platform.

■ **Automation of sales competition monitoring**

Implementation of a e-monitoring system for advisors to track status on sales Agent competitions on a regular basis and monitor gaps in achieving sales targets in a more systematic manner.

■ **Implementation of e-policy issuance and e-premium statements**

Customers are now able to access their insurance policy documents electronically immediately after issuance of policies using an SMS link sent by the Company. E-statements are also generated

for bi-annual premium statements as well as for monthly premium payments.

■ **Income generator module**

Income generator module was introduced to help advisors to achieve more as the potential income sources were shown to be used as positive reinforcement while the income losses were shown as negative reinforcement.

Investment in IT infrastructure will continue to be a priority through 2020 and we have several ongoing projects which will significantly enhance

our value proposition. Key among these projects is the building of a data lake to store enterprise data in a structured manner to improve data management for reporting, visualisation, advanced analytics and machine learning. We also plan to introduce a new underwriting system which is expected to increase Straight Through Processing (STP) rates from 51% to 80% by the end of 2020. A new sales compliance system is also in the pipeline to streamline the customer complaint process. Meanwhile configuration of systems will be implemented to comply with the new stipulations and guidelines of IFRS 17 accounting standards.

INNOVATIVE PRODUCTS

Unique insights into customer behaviour and business trends drive product development at UA, and we continue to hone our product offering to reflect the evolving needs of our customers. Several new products were launched during the year, aimed at meeting retirement, investment and savings needs of a changing demographic.



Union Smart Health Premier

- Three generation health solution with family cover
- World wide coverage
- Cashless service
- No claim bonus
- Reinstatement benefit
- Deductible options
- Free GOYO fitness tracker
- Mydoctor.lk benefits



Union Ultra Protect

- Higher family protection at a low premium during a policy term of the policyholder's choice.
- Option of adding a wide range of additional covers.
- The insurance policy will not yield a maturity value



Union Advantage Premier

- Part of the premium paid is deposited in the policyholder's investment account and continues to grow with annual dividends declared by Union Assurance.
- In the event of a demise the family will be entitled to a higher value of either the basic sum assured or the investment account.
- Maturity benefits including loyalty bonus of 10% in addition to the investment account value.



Union Smart Investor

- Comprehensive life insurance plan
- Premium payments limited to 5 years
- Flexibility to decide the investment amount and the payment mode.
- Attractive maturity and smart benefits.



Bundled Products for Bancassurance channel

- **Life and Medical Plan** – Customised medical plan to suit one's budget that comes in 3 packages Silver, Gold, Platinum with Union Smart Health Premier health cover and a three times Life Cover along with a maturity benefit.
- **Critical Illness Plan** – Customised Plan that comes in 3 packages Silver, Gold, Platinum with a Life Cover, Critical Illness Cover and a hospitalisation per day cover along with a maturity benefit.



Union Guru Rakawarana

- Exclusive Partnership agreement was signed with the "All Island Professional Lecturers Association" (APLA) and the existing products of Union Assurance are sold under the brand name "Guru Rakawarana" with value added benefits from Group partner companies.

INTELLECTUAL CAPITAL

TACIT KNOWLEDGE

Our diverse employee base creates a wealth of knowledge, skills and experience which we continue to harness by promoting a culture of knowledge sharing and mentoring across the organisation. Our Board of Directors comprise of highly experienced, professional individuals, with extensive experience in the insurance sector.

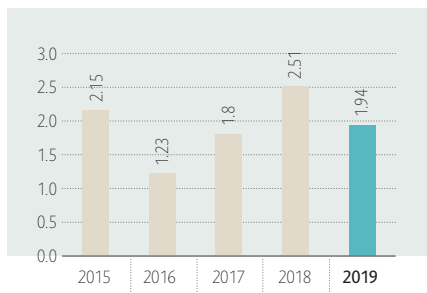
Approximately over 50 employees have served the Company for over 15 years and bring with them invaluable insights into the business. Training programmes, mentoring programmes and knowledge sharing sessions are carried throughout the year to ensure that this knowledge is passed down to all new recruits (Refer Human Capital section for more details). Meanwhile we continue to improve our employee value proposition in order to retain talent with the Company and have successfully maintained an employee retention ratio of 63.4%.

BRAND VALUE

We have built a strong brand that revolves around the principles of trust, convenience, transparency and respect. Our brand is consistently ranked among the country's leading brands and was ranked 48 in the LMD list of most valuable brands in 2019 with a rating of AA-. As per a brand valuation carried out by BrandFinance (UK) the UA brand was valued at Rs. 1.94 Bn.

Brand Value

(Rs.Bn)



63%

EMPLOYEE RETENTION RATIO

AWARDS & ACCOLADES

We are committed to achieve excellence in all areas of our operations. The numerous awards and accolades received during the year are a testament of this ongoing commitment and spur us on to achieving greater heights.



Winner in the Finance Services and Insurance Category at the ACCA Sri Lanka Sustainability Reporting Awards 2019.



Award for "Disruptive Innovation" at the John Keells Group Chairman's Awards 2018.



Winner at the Asia Insurance Technology Awards 2019 organised by Asia Insurance Review and celent.com under Legacy and Ecosystem Transformation category.



Gold award for the Best Annual Report in the Insurance sector and Gold award for Corporate Social Responsibility Reporting for the second consecutive year at the 55th CA Sri Lanka Annual Report Awards 2019.



Best Employer Brand Award for the 3rd consecutive year and Award for the Talent Management for the 2nd consecutive year at the 2019 Best Employer Brand Awards.



Gold Award in the Insurance Industry and two Merit awards for Excellence in Performance Management and Excellence in Corporate Social Responsibility at the National Business Excellence Awards (NBEA) 2019.



CAPITAL TRADE OFF

Increased investments in Intellectual Capital will lead to;



Investing in Intellectual Capital will enable us to maintain our competitive advantage in an increasingly complex market environment and achieve long term growth and higher financial returns.



Training programmes, knowledge sharing sessions and mentoring programmes aimed at nurturing tacit knowledge will enhance our employee value proposition through greater skills development opportunities.



Brand building initiatives and innovative product development will improve customer satisfaction.



Investment in upgrading systems and processes will bring about greater efficiency in resource consumption.

WAY FORWARD

We will continue to nurture our Intellectual Capital by investing in cutting edge technology, skills development and knowledge sharing initiatives. Meanwhile we will strive to add value to our customer proposition by introducing innovative insurance solutions and more efficient delivery channels. We will also continue to strengthen our brand equity through consistent brand communication using a strategic mix of conventional and new age communication tools.

Natural Capital



We continue to encourage our employees to be more energy conscious by promoting more energy efficient behaviour and introducing sustainable initiatives.

PERFORMANCE HIGHLIGHTS 2019



1,526 tCo2e
Carbon Footprint



334
Trees Saved



34,008 M³
Treated Waste Water Disposal



6,097 Kg
Paper Recycled



12,286 Kg
Waste Recycled

OUR NATURAL CAPITAL RESOURCES

ELECTRICITY CONSUMED

6,545 GJ

WATER CONSUMED

22,193 M³

CONTRIBUTION TO SDGs



Emission management to control emissions.



Waste water management to ensure availability of clean water.



Adoption of energy efficient technology and paper recycling initiatives across branch network.

HOW WE CREATED VALUE IN 2019

- Improvements to branch layouts and roll-out of energy saving technology across branch network.
- Improvements to water supply systems including washrooms to ensure more efficient utilisation of water.
- Introduction of the remote working concept to reduce employee commute related emissions.
- Awareness programmes for employees regarding recycling and re-use of resources.

WAY FORWARD

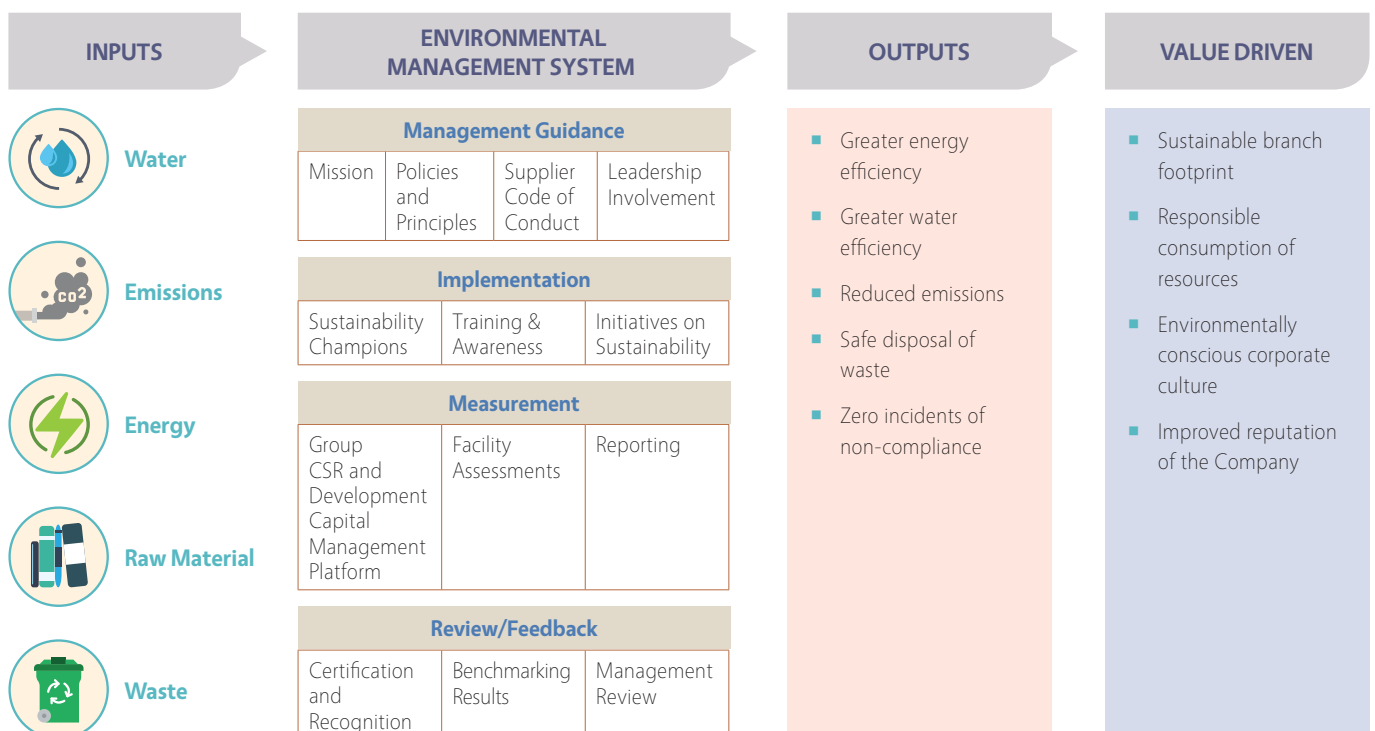
- Reduce carbon footprint by 4% by promoting use of hybrid / electric vehicles amongst staff through staff loan scheme.
- Reduce electricity consumption in branches by 6% in 2020 through the introduction of energy efficient technology.
- Reduce water consumption by 5% by increasing waste water recycling capacity.
- Formulating a purchasing policy to procure supplies through green certified suppliers.

MANAGEMENT APPROACH

We are committed to safeguarding our Natural Capital by creating an environmentally friendly mindset amongst our employees and customers and incorporating environmentally sound practices across our operations. Environmentally friendly policies and procedures have been

put in place to ensure that operations are conducted in the most sustainable and efficient manner to minimise the negative impact on the environment. Meanwhile our strategies support our mission of transitioning towards a more environmentally sustainable business model that is fully compliant with all regulatory requirements. Accordingly, our Natural Capital management

framework revolves around energy conservation, emission control, efficient water consumption, effluents and waste management. During the last few years, we have also taken measures to monitor the long term and short-term impacts on the environment as a result of the business strategies.



NATURAL CAPITAL

ENERGY MANAGEMENT

Our main source of energy is electricity which is sourced from the national grid, is used to power our premises. Petrol and diesel is used for transportation including field visits, marketing activities, staff transportation and other transportation requirements. Total energy consumption during the year amounted to 6,545 GJ. We are a 100% renewable energy sourced Company.

We continue to explore ways in which we can enhance our energy efficiency across our operation by adopting a more proactive, organised and systematic approach to energy management. Energy data is collected and analysed to track progress, identify opportunities to save energy and improve energy efficiency.

Ongoing improvements to our branch layouts and the introduction of energy saving technology (see table adjacent) have resulted in considerable saving in energy consumption. Branch layouts are being re-looked at to maximise usage of natural light during the day while the reduction of office space has contributed to the energy savings across the branch network. During the year energy consumption within the organisation marginally increased into higher level tiers due to upgrade of certain branches (by 6,386 GJ) to 6,545 GJ).

Meanwhile we continue to encourage our employees to be more energy conscious by promoting more energy efficient behaviour such as providing employees the opportunity to work from home to reduce fuel consumption from employee commute and by creating awareness about saving energy at office.



Energy Saving Technology Introduced

- Timer switches to Air-Conditioners (A/Cs)**

Timer switches have been installed to all A/C units in branches and head-office in order to reduce electricity usage.

- LED bulb replacement**

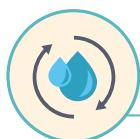
All bulbs have been replaced with environmentally friendly LED lights to reduce electricity consumption, maintenance cost and increase safety.

- Maintaining master key switches**

Continued with the initiative of maintaining master key switches on all floors at head office in order to control wastage of electricity.

WATER MANAGEMENT

Water used in our premises is sourced from the National Water Supply and Drainage Board. Drinking water is provided by third party vendors. We consumed 367 M³ of water for drinking purposes and withdrew 21,826 M³ of water for utility purposes during 2019. In some of our branches ground water is consumed in order to lessen the burden on the national water supply.



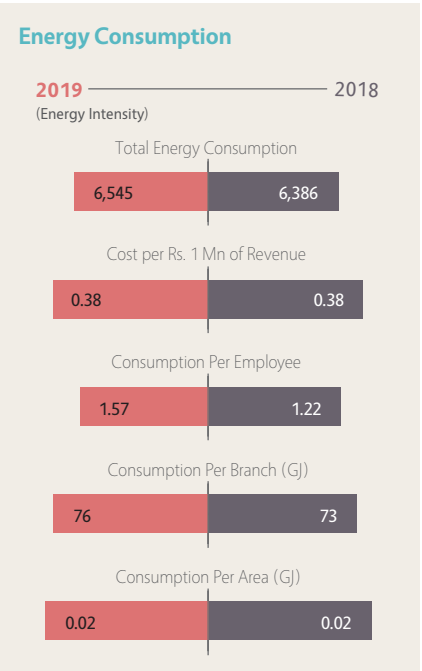
Water Management Initiatives

- Efficient utilisation of water**

Vacuum type syphons have been installed in all washrooms to reduce the amount of water used for flushing purposes.

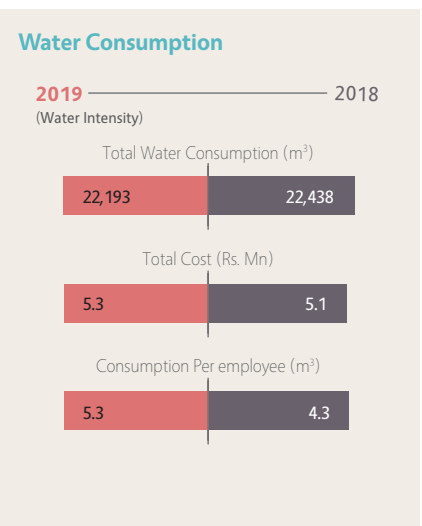
Sensor taps have been installed in lunchrooms to reduce water wastage.

Regular maintenance of water and discharge system



Energy Consumption by Type

Energy Type (GJ)	2019	2018
Electricity	6,545	6,386
Diesel	0.001	0.002
Petrol	0.003	0.003

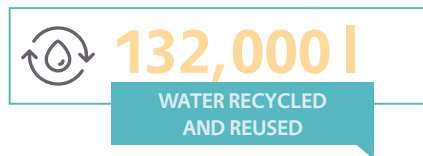
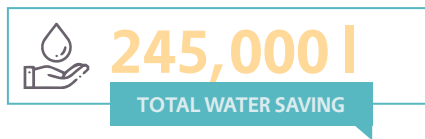


■ **Reuse of waste water**

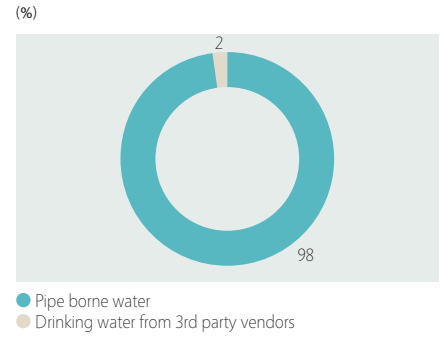
Water discharged from air-conditioning units are collected and reused for washing office vehicles and watering plants.

■ **Increased employee awareness**

Water saving tips are displayed to create awareness on water management.

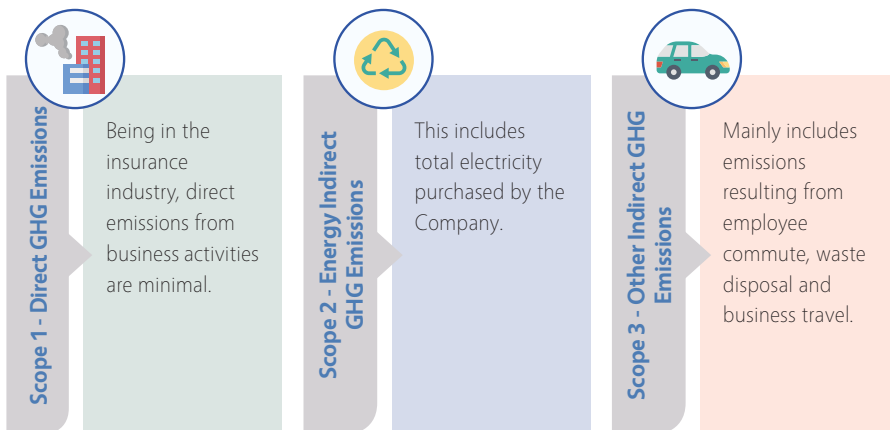


Water Consumption

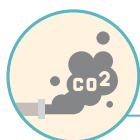


MANAGING OUR EMISSIONS

Our carbon footprint is measured on an annual basis in collaboration with Carbon Consulting Company (Pvt) Ltd. As per guidelines set out by the Greenhouse Gas Protocol-Corporate Accounting and Reporting Standard (GHG Protocol) emissions are measured under three scopes based on a series of surveys carried out within the organisation.



Given the business we operate in, our emissions are mainly Scope 2 emissions on account of electricity consumed and scope 3 emissions on account of employee commutes. We continue to strive to reduce our carbon footprint by implementing several initiatives aimed at reducing our emission levels. In 2019, our Carbon Footprint amounted to 1,526 tCo2e.



Emission Management Initiatives

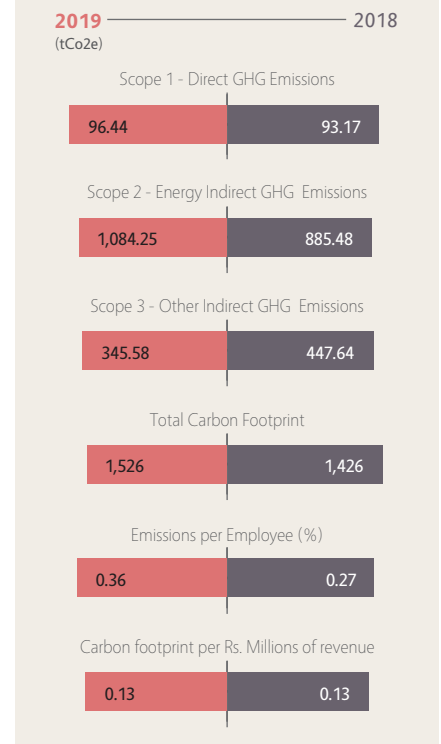
■ **Setting of targets**

We have in place a target to reduce our Carbon Footprint by 4% in 2020. To this end emissions are monitored on a consistent basis to ensure that emissions generated by Company activities fall within tolerance limits.

■ **Reducing vehicle emissions**

- ◆ Encouraging employees to use hybrid vehicles through Company vehicle loan facility.
- ◆ JKH Group is facilitating electric charging stations in order to encourage electric vehicle usage.
- ◆ Introduction of the remote working concept to reduce employee commute.

Carbon Footprint



MANAGING EFFLUENTS AND WASTE

Our approach to managing waste is based on the 5R concept of Refusing, Reducing, Reusing, Re-purposing and Recycling resources to minimise waste.

Our Approach to Waste Management

REFUSE

- Implement efficient procurement system to avoid unnecessary purchases

REDUCE

- Monitor usage of materials through inventory management system to ensure efficient consumption

REUSE

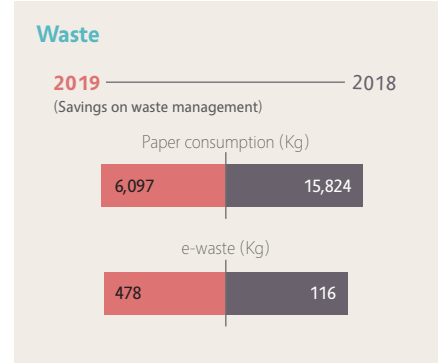
- Repair and recondition office equipment for reuse

REPURPOSE

- Find alternate uses for waste such as supplying non-hazardous e-waste for land filling purposes

RECYCLE

- Wherever possible recycle resources such as water, paper, etc.



2019	
Impact of Paper Waste Management	
Trees (No)	104
Oil (litres)	10,700
Electricity (kWh)	24,388
Water (litres)	193,763
Landfill (m3)	18
GHG emission saving (carbon Equivalent) (kg)	6,097
Impact of E-Waste Management	
Plastic Containers (No)	8,655
Petrol (litres)	3,841
Carbon emission (lbs)	2,704.80
Trees (No.)	230



Waste Management Initiatives

- Paper waste**
We continue to partner with Neptune Papers (Pvt) Limited to recycle paper waste.
- E-waste**
E-waste generated is managed by N.S. Green Links Lanka (Pvt) Ltd.
- Printer cartridges**
We have outsourced printing machines to a third party to reduce the impact of effluents and waste.
- Waste water**
Waste water treatment tank at Kurunegala branch releases treated effluents to drainage system.
- Food waste**
All food waste collected at head office is dispatched to a piggery daily.



ENVIRONMENTAL COMPLIANCE

We ensure that our operations comply with all relevant environmental laws, regulations, standards and other requirements and conduct ongoing knowledge sharing sessions on environmental compliance for our staff. No incidents of environmental non-compliance were recorded during the period under review.

Supplier Environmental Assessment

Our environmental agenda extends beyond our own operation to our entire supply chain. We believe sustainable supply chains are ones which ensure the well-being of the people and environments we deal with, while seeking to grow the business through ethical and legal business practices. We therefore expect

our suppliers to follow the same principals concerning precaution and environmental responsibility as we do. To this end, all contracts with external suppliers are assessed in terms of minimal requirements with regards to human rights, fair working conditions, environmental responsibility and business ethics, among others etc.

CAPITAL TRADE OFF

Increased investments in Natural Capital will lead to;



A direct impact on our stakeholders as we act as a socially responsible player in the industry which will in return affect the goodwill positively.



Our branch layouts incorporates environmentally sound practices in our operations which further facilitates our customers and employees better.



Efficient usage of water to provide cost efficiencies and energy saving initiatives to reduce the impact on the community.



Our strategies aligning with the environmental regulations and standards ensuring compliance with the relevant regulatory requirements acknowledging environmental accountability.

WAY FORWARD

Over the years we have strengthened our commitment towards conservation of the environment by incorporating environmental sustainability into our business strategies. We continue to be recognised for this commitment and are proud to note that we emerged as the winner in the Finance Services and Insurance category at the ACCA Sri Lanka Sustainability Reporting Awards 2018. As a responsible corporate citizen, we will continue to seek innovative ways in which we can have a positive impact on our environment.

Manufactured Capital



In line with the long-term business strategy, we have upgraded with modern infrastructure facilities to promote greater employee satisfaction, customer experience and align with the digital Agency.

PERFORMANCE HIGHLIGHTS 2019



15

No of Upgraded Branches



Rs. 120

Revenue per Investment in Manufactured Capital



Rs. 97.5 Mn

Capex Investment

OUR MANUFACTURED CAPITAL RESOURCES

BRANCHES ISLAND WIDE

86

CUSTOMER TOUCH POINTS

631

TRAINING SPACE

55,703 Sq.Ft.



CONTRIBUTION TO SDGs



We strive to achieve the widest possible reach through our Island wide branch network.



We invest in green infrastructure in our premises and continue to explore innovative ways to enhance our supply chain.

HOW WE CREATED VALUE IN 2019

- Seven strategic re-locations in key cities and townships across the country.
- Upgraded a total of 15 branches through branch re-vamping initiative.
- Addition of two state-of-the-art training auditoriums with a training capacity of 300 individuals.

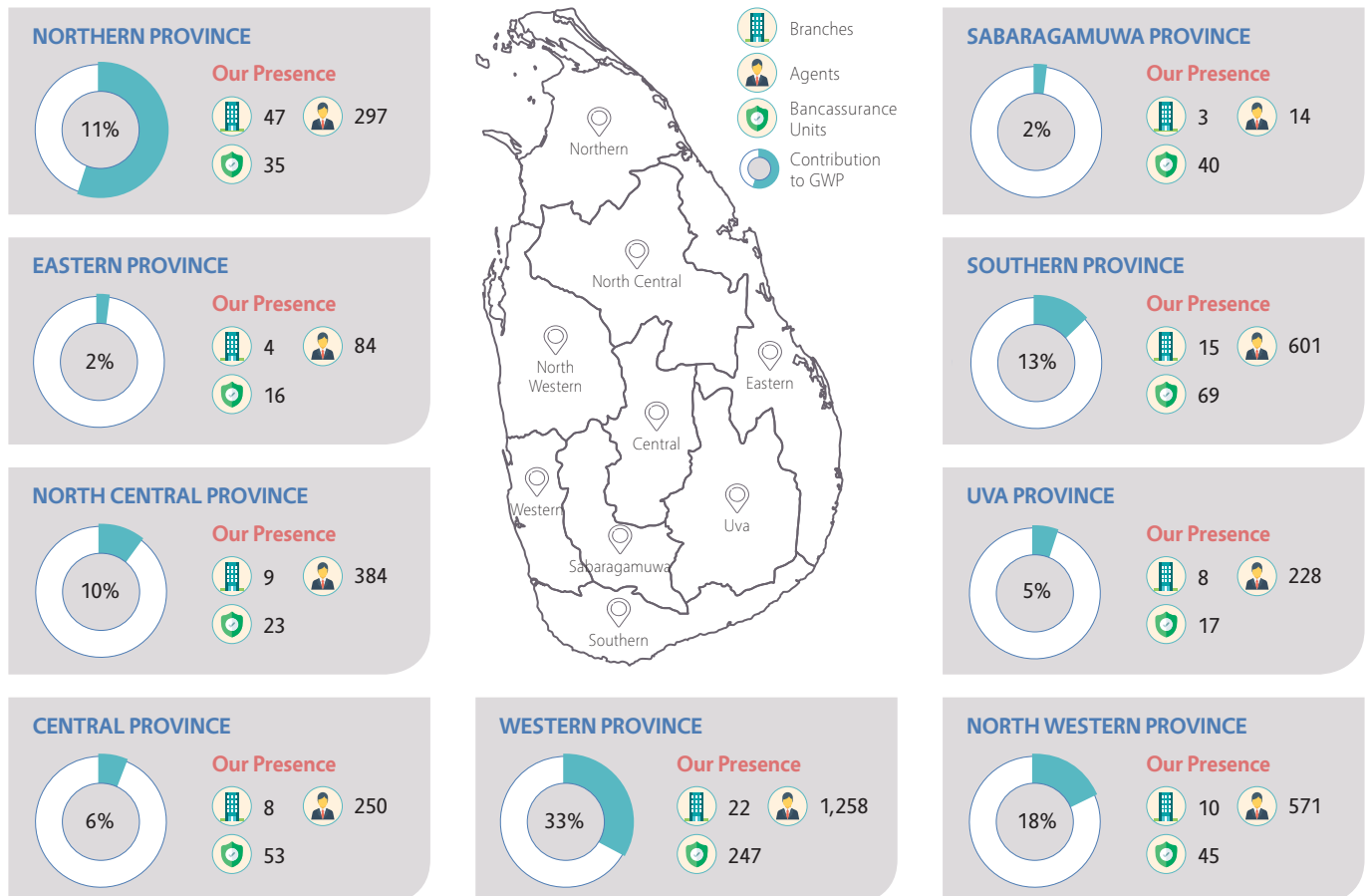
WAY FORWARD

- Continue to focus on upgrading the branch network.
- Strengthening IT infrastructure to build a robust technology platform for digitisation.
- Greater focus on greener infrastructure.
- Streamlining the procurement process.

OUR MANUFACTURED CAPITAL

Our Manufactured Capital consisting of our branch network and digital infrastructure is a critical aspect of our value creation process as it enables us to drive business growth through greater efficiency and wider reach.

OUR BRANCH NETWORK



MANUFACTURED CAPITAL

MANAGEMENT APPROACH

We continue to invest in our physical and digital infrastructure in order to provide a more efficient and convenient customer experience while creating a more attractive working environment for our people. We consider investing in our manufactured capital as a long-term investment and carefully consider ROI and other qualitative factors in all capital expenditure decisions.

VALUE ADDITION DURING THE YEAR

Total capital expenditure in 2019 amounted to Rs. 97.5 Mn compared to Rs. 154 Mn in 2018. Capital Expenditure during the year included improvements to the branch network and head office. We also invested in two state of the art large training rooms equipped with all modern facilities.

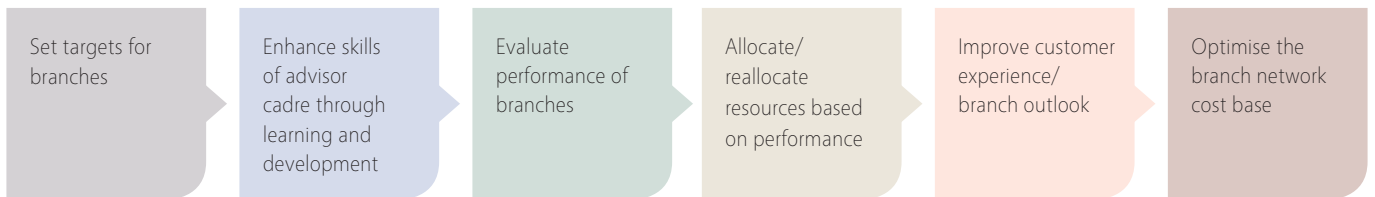
EXPANDING AND ENHANCING OUR BRANCH NETWORK

We continue to expand our geographical footprint through strategic re-locations. Branch locations are selected primarily based on branch visibility and accessibility in order to achieve the widest reach and ensure cost optimization. During the year we made 7 strategic re-locations in key cities and townships across the country, while refurbishing 8 branches.

Meanwhile we continue to upgrade our branch network in accordance with our long-term business strategy of creating a digital agency model. As part of this strategy branches are upgraded with modern infrastructure facilities and more attractive and efficient layouts. During the year, 5 branches were upgraded to flagship

branches (tier 1 status) and 10 branches were upgraded to spoke status (tier 2 status). The re-vamping initiative has brought about substantial value in terms of greater employer and customer satisfaction.

Resource allocation for branches is aimed at improving overall customer experience while optimising the branch network cost base and is based on a performance evaluation and ranking carried out on a monthly basis. We adopt a systematic process to rank branches based on performance which involves setting targets for branches, enhancing skills of branch staff through learning and development and regularly monitoring performance based on set target. The process which we have implemented when analysing branch performance can be depicted as follows;



CHANGES TO OUR BRANCH NETWORK

2019	2018
Upgrades	
15	21
Strategic relocations	
7	11
Closed down / consolidated	
-	15
Refurbishments	
8	9



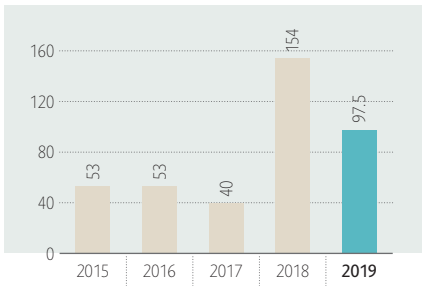
Polonnaruwa Branch Relocation



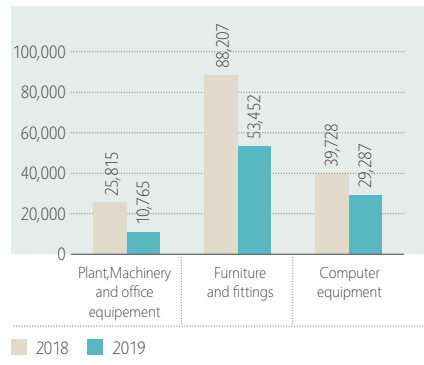
"Envision" Training Room Facility at Head Office

Value Added During the Year

Investment in Manufactured Capital (Rs. Mn)



Investment in Property, Plant and Equipment (Rs.'000)



3%
REPAIRS & MAINTENANCE COST AGAINST NET BOOK VALUE

22%
FULLY DEPRECIATED ASSETS AGAINST CAPITAL BASE

INVESTMENTS IN TECHNOLOGY

We continue to invest in improving our systems, processes and IT infrastructure and follow a carefully planned out information technology road map aimed at achieving our digital agenda. Key initiatives during the year include;

- E-policy issuance, claim automation and the implementation of a sales tracking system
- Rollout of a sales activity management system
- E-onboarding for new recruits
- Launched personalised customer dashboards and income generator
- Automated customer churn prevention dashboards
- Implementation of a system to monitor cross selling and anomaly detection
- Implementation of psychometric testing for recruitments
- Segregation of investment portfolio in ERP system inline with the regulatory requirements

We will continue to focus on improving operational efficiencies in all areas of business including underwriting and life operations, sales and marketing, analytics, actuaries, finance and HR. These improvements will be driven by big data and advanced analytics and include process improvements to areas such as claims underwriting, revival, Agent compensation and recruitment.

CAPITAL TRADE OFF

Increased investments in Manufactured Capital will lead to;



Requiring additional financial resources in the short run. However in the medium to long run Financial Capital will be favourably impacted by the resulting business growth and efficiency gains.



Process improvements resulting from greater use of IT which will lead to productivity gains for employees. Meanwhile efforts to re-vamp branches and employee spaces will result in greater employee satisfaction.



Improvements in physical and digital infrastructure which will positively impact customer satisfaction.



Selection of investments in green infrastructure which will have a positive impact on our Natural Capital in the medium to long run.

WAY FORWARD

We will continue to upgrade our branch network and consider strategic re-locations as part of our business growth strategy. Meanwhile we will continue to invest in state-of-the-art technology in order to improve both customer and employee experience which ultimately drive growth in the business.

Thinking *about your stability*

We steadfastly uphold the values upon which we were founded, relying on our inherent strength and resourcefulness to remain resolute and unflinching amid a changing environment.

Stewardship



98	Board of Directors
99	Executive Committee
100	The Chairman's Statement on Corporate Governance
101	Corporate Governance Commentary
132	Enterprise Risk Management

Corporate Governance

BOARD OF DIRECTORS

KRISHAN BALENDRA

Chairman / Non-Executive Director

(Member of the Board since 01 January 2019)

Board sub Committees: None

Skills and Experience: Krishan is a former Chairman of Nations Trust Bank PLC and the Colombo Stock Exchange. He started his career at UBS Warburg, Hong Kong, in investment banking, focusing primarily on equity capital markets. He holds a degree in Law (LLB) from the University of London and an MBA from INSEAD.

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 a Director of the Ceylon Chamber of Commerce and he is also the Hon. Consul General of the Republic of Poland in Sri Lanka. He is the Chairman of many unlisted companies in the John Keells Group.

SURESH RAJENDRA

Non-Executive Director

(Member of the Board since 16 August 2011)

Board sub Committees: Member of Board Audit and Compliance Committee.

Skills and Experience: Suresh has over 25 years of experience in the fields of finance, travel & 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 and Director/General Manager of Aitken Spence Hotel Managements (Pvt) Ltd, Sri Lanka. He 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 President of the property industry Group of the John Keells Group. He also serves as Director of Asian Hotels & Properties PLC.

Other Current Appointments: He serves as a Director in many unlisted companies of the John

Keells Group. He also serves as the Chairman of the Condominium Developers Association of Sri Lanka.

HARIN DE SILVA WIJEYERATNE

Independent Non-Executive Director

(Member of the Board since 07 September 2011)

Board Sub Committees: Chairman of Board Audit and Compliance Committee.

Skills and Experience: Harin is an Associate member of the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants, 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. In addition, he held the position of Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited (SLINTEC) for over 5 years (2013 to 2019).

Other Current Appointments:

Listed Companies: None

Others: He is a Board member of the Gamini Corea Trust and a Trustee of the SLINTEC Endowment Trust Fund and remains the Founder/Owner of Avastha Financial Advisory Services. He currently holds the position of the Chairman of the Audit Committee of MAS Holdings (Pvt) Ltd and also holds a strategic advisory role with ZONE 24x7

DUMITH FERNANDO

Independent Non-Executive Director

(Member of the Board since 03 August 2018)

Board Sub Committees: Member of Board Audit and Compliance Committee.

Skills and Experience: Dumith has two decades of experience in international investment banking and financial markets, based in New York and Hong Kong with JP Morgan Chase & Co. and Credit Suisse AG, until 2013. He was the Managing Director and Group Chief Operating Officer for Credit Suisse Asia Pacific. He worked at Credit Suisse from 2007 until 2013 at JP Morgan from 1995 until 2007 in roles across investment banking, equities, private equity and corporate strategy. He was elected by the World Economic

Forum to its Young Global Leaders forum in 2013. He holds a BA in Physics & Economics from Middlebury College in the U.S. and an MBA from Harvard Business School.

Other Current Appointments:

Listed Companies: Dumith is a Non-Executive Director of Singer (Sri Lanka) PLC.

Others: He is a Non-Executive Director of the Colombo Stock Exchange and member of the Economic Policy Steering Committee of the Ceylon Chamber of Commerce. Dumith is the Chairman of Asia Securities Holdings (Pvt) Ltd, a leading independent Investment Firm in Sri Lanka which offers investment banking, wealth management, stock brokerage and research services.

STEPHEN ANTHONY APPELYARD

Independent Non-Executive Director

(Member of the Board since 01 January 2019)

Board Sub Committees: None

Skills and Experience: Stephen has over 20 years experience in the life insurance industry across Europe, US and Asia in 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, finance and operational transformation. He has served as a 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

Notes:

- Mr. Dirk Pereira resigned from the Board w.e.f. 31 October 2019.
- Ms. Dilani Alagaratnam resigned from the Board w.e.f. 31 December 2019, upon her retirement as an employee of John Keells Holdings PLC.

EXECUTIVE COMMITTEE

JUDE GOMES

Chief Executive Officer

Jude joined Union Assurance on 01 December 2019.

He has over 27 years of experience in financial services working across key Asian markets. Previously, he was heading Manulife China Bank Life Assurance Co. Philippines as CEO and President.

Jude has been with Manulife Group since 2012, pioneering Bancassurance in Vietnam as Vice President and Head of Partnership Distribution.

He was founder member of Canara HSBC OBC Life Insurance Co. as Senior Vice President and Head of Channel and was subsequently seconded to Hong Kong at HSBC Insurance (Asia-Pacific) Regional Business Development, working across APAC markets.

Jude was among the pioneers at India's first privatised life insurer, HDFC Standard Life and also led wealth management for Centurion Bank of Punjab.

He is a recipient of Manulife's Global Star of Excellence Award in 2013 and 2015 and Standard Chartered Bank's Regional Award in 1999.

Jude holds a Bachelor of Commerce (Hons) from the University of Calcutta and a Masters Diploma in Business Administration, specialising in Marketing Management from the Symbiosis Institute of Management Studies, Pune. He is a Licentiate in Insurance (III), and is a Certified Associate of the Indian Institute of Bankers (CAIIB-I) – IIB, Mumbai.

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 respectively.

Prior to joining the 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 Jayawardenepura - Sri Lanka and is an Associate Member of the 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 an Associate of the Chartered Insurance Institute, UK. She also holds a BA (Hons) Degree in Business Management.

SURESH MUTTIAH

General Manager, Human Resources

Suresh joined Union Assurance in May 2016. He has been with the John Keells Group for 5 years serving in the capacity of Vice President - Human Resources, retail sector. He has more than 16 years experience in HR management and Operations, having worked at leadership positions at Dialog Axiata PLC, Carsons Cumberbatch PLC and Lion Brewery PLC.

Suresh holds a professional qualification in Human Resource Management (CIPM Sri Lanka), a Post Graduate Diploma and MBA from University of Southern Queensland - Australia. He is a member of SHRM (USA), IPMA -HR (USA) and The Association of HR Professionals - AHRP (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.

She 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 the Treasurer in 2015-2016.

HARSHA SENANAYAKE

General Manager, Information Technology

Harsha joined Union Assurance in October 2016. He has been with the John Keells Group for more than 14 years where he 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. He 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.

SENATH JAYATHILAKE

General Manager, Distribution

Senath joined Union Assurance in November 2019 from John Keells Logistics (Pvt) Ltd, where he served as Chief Executive Officer. He has served as a Vice President of John Keells Group and accounts for over 12 years of experience in business development, operations management, sales and marketing, financial analysis and strategy. He holds a BA (Hon) in Finance and Accounting from the University of Nottingham (UK), an Associate membership from the Chartered Institute of Management Accountants, UK and an MBA from University of Sri Jayawardenepura.

CORPORATE GOVERNANCE

THE CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholder,

On behalf of the Board of Directors of Union Assurance PLC (UA), I am pleased to present our Corporate Governance Statement for the financial year ended 31 December 2019. At UA, we believe good governance is fundamental to strengthening the trust our investors and customers have placed in us and in driving sustainable growth. This report explains the framework and activities carried out during the year, demonstrating our commitment to upholding the highest standards of Corporate Governance.

GOVERNANCE FRAMEWORK

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 Board bears ultimate responsibility for the financial, economic, social and environmental performance of the Company and is accountable to the shareholders who appoint the Directors. Operating within a clearly defined governance structure the Board provides strategic guidance and effective oversight of the operations while complying with legal and regulatory requirements. The Board delegates authority to the relevant Board sub committees and the Executive committee with clearly defined mandates and authority levels whilst maintaining accountability. These formal structures serve to ensure judicious empowerment and create an appropriate balance of authority and responsibility within the organisation.

CULTURE & ETHICS

Our culture is shaped by the Code of Conduct & Ethics which articulates the standards of conduct expected of Directors and employees. The Code is reviewed and updated from time to time to ensure it is fit for purpose in a rapidly evolving business environment.

ACCOUNTABILITY AND RISK

Setting in place a robust system of internal controls and risk management processes is a key responsibility of the Board and we are assisted in this by the Board Audit and Compliance Committee (BACC). The Board determines the level of risk that it is willing to accept in pursuing its strategic objectives and reviews risk assessments provided by the respective departments to ensure alignment. The BACC plays an important role in monitoring the Company risk and assurance systems and in regularly reviewing the efficiency and effectiveness of internal controls.

The Life fund was successfully segregated during the year bringing in greater governance.

The Board Supervisory Committee (BSC) was established during the year under review with the objective of assisting the Management for a specific period during the leadership transition of the Company.

A Middle Office of the investment division was established in order to ensure clear segregation of duties in the division and to monitor the investment transactions.

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

ENGAGEMENT WITH STAKEHOLDERS

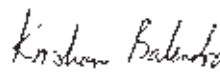
The feedback obtained from our stakeholder engagement mechanisms form a key input in strategy formulation, ensuring that the Company's growth is responsible and sustainable. Our stakeholder engagement mechanisms are structured and comprehensive, providing valuable insights into stakeholder concerns and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

FUTURE DIRECTION

The Board's priorities for 2020 remain consistent with that of last years. We will continue to monitor performance against strategy in enhancing corporate value. UA is committed to investing in and supporting our people to ensure the Company is equipped with the necessary skills and capabilities to drive desired growth.

STATEMENT OF DECLARATION

I 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.



Krishan Balendra
Chairman

28 February 2020

CORPORATE GOVERNANCE COMMENTARY

KEY CORPORATE GOVERNANCE HIGHLIGHTS FOR THE YEAR 2019

- Smooth transition in the appointment of a new Chief Executive Officer during the year by establishment of the Board Supervisory Committee (BSC) to assist the Management during the leadership transition of the Company.
- Establishment of Middle Office Function of Investment Division to ensure clear segregation of duties between front office and back office facilitating the independent verification of investment transactions.
- Adopting divisional Risk Grids that are compiled into the Company's overall Risk Grid and updating it on a quarterly basis to ensure all possible risks are covered.
- Revision of the Manual of Financial Authority (MOFA) to ensure proper control and adequate supervision over the financial authority with the changes in key management personnel and organisation structure.
- Proactive management of the Company's equity portfolio with a view of generating medium to long term returns in order to enhance the policyholder returns.
- Successful segregation and automation of Life Insurance Fund into three separate funds as required by the IRCSL.
- Strengthening of the cyber security resilience position of the Company. New initiatives include measures to further strengthen and streamline device management, user access, data protection, prevention of data leakage and malicious activity.



HIGHLIGHTS OF THE 32ND ANNUAL GENERAL MEETING HELD ON 29 MARCH 2019

- Mrs. D.C. Alagaratnam 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. A.D. Pereira 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. K.N.J. Balendra who retired in terms of Article 90 of the Articles of Association of the Company was re-elected as a Director of the Company.
- Mr. S.A. Appleyard who retired in terms of Article 90 of the Articles of Association of the Company was re-elected as a Director of the Company.
- Mr. D.H. Fernando 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.

COMPLIANCE BY THE COMPANY WITH MANDATORY AND VOLUNTARY CODES OF GOVERNANCE

Requirement	Adoption	Status	Page Reference
Corporate Governance Framework for insurers issued by Insurance Regulatory Commission of Sri Lanka (IRC SL). Section 96 (A) of the regulation of Insurance Industry Act No 43 of 2000	Mandatory	Complied	125 to 126
Statement of Compliance under Rule 7.6 of the Listing Rules of the Colombo Stock Exchange (CSE) on Annual Report Disclosure	Mandatory	Complied	126
Statement of Compliance under section 7.10 of the continuing listing requirements of the Colombo Stock Exchange (CSE)	Mandatory	Complied	127 to 128
Statement of Compliance under section 9.3.2 of the continuing listing requirements of the Colombo stock exchange (CSE)	Mandatory	Complied	128 and RPT Note on page number 236
Content of the Annual Report as per section 168 of the Companies Act No. 7 of 2007	Mandatory	Complied	128 to 129
Code of best practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) *	Voluntary	Complied	129 to 131
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	Complied	Online

* Complied to the extend of business exigency

HOW WE GOVERN

Corporate Governance at UA promotes the long-term interest of stakeholders, strengthens Board and Management accountability, fosters/reinforces and raises public trust in the organisation, further supported and strengthened by the John Keells Group reporting and governance structures. UA’s robust governance framework and sound principles have proven to be a solid foundation in driving sustainable value.

OUR INTEGRATED GOVERNANCE FRAMEWORK

The Board has set in place a governance framework and structure appropriate to the Company’s size, nature, complexity and risk profile. These are reviewed when necessary, to adapt to internal developments and reflect best practices. The framework is built on the core principles of transparency, accountability

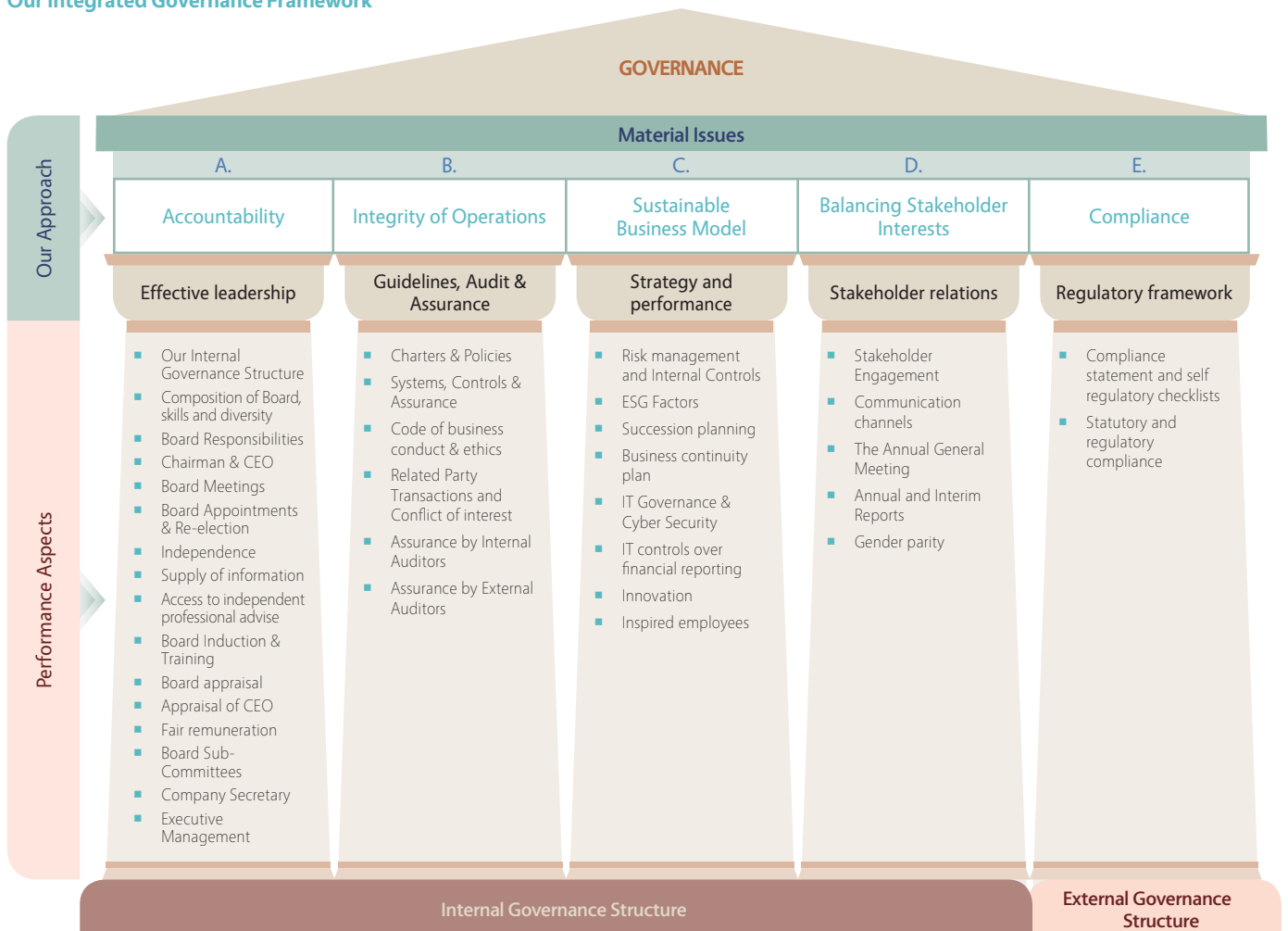
and ethical conduct which are essential for the creation, enhancement and maintenance of a sustainable business model.

INTERNAL GOVERNANCE STRUCTURE

Internal governance structure of the Company focuses on the responsibility of the Board of Directors, Board sub committees and Senior management who formulate, execute and monitor the Company’s business objectives.

It further endorses the operating structure of the organisation, assignment of responsibilities and authority levels, set up of reporting lines and information to be conveyed as well as the deployment of systems of internal control, including risk controls, compliance and internal audit. Summary of the elements of the internal and external governance structures are highlighted in the Company’s Corporate Governance model.

Our Integrated Governance Framework



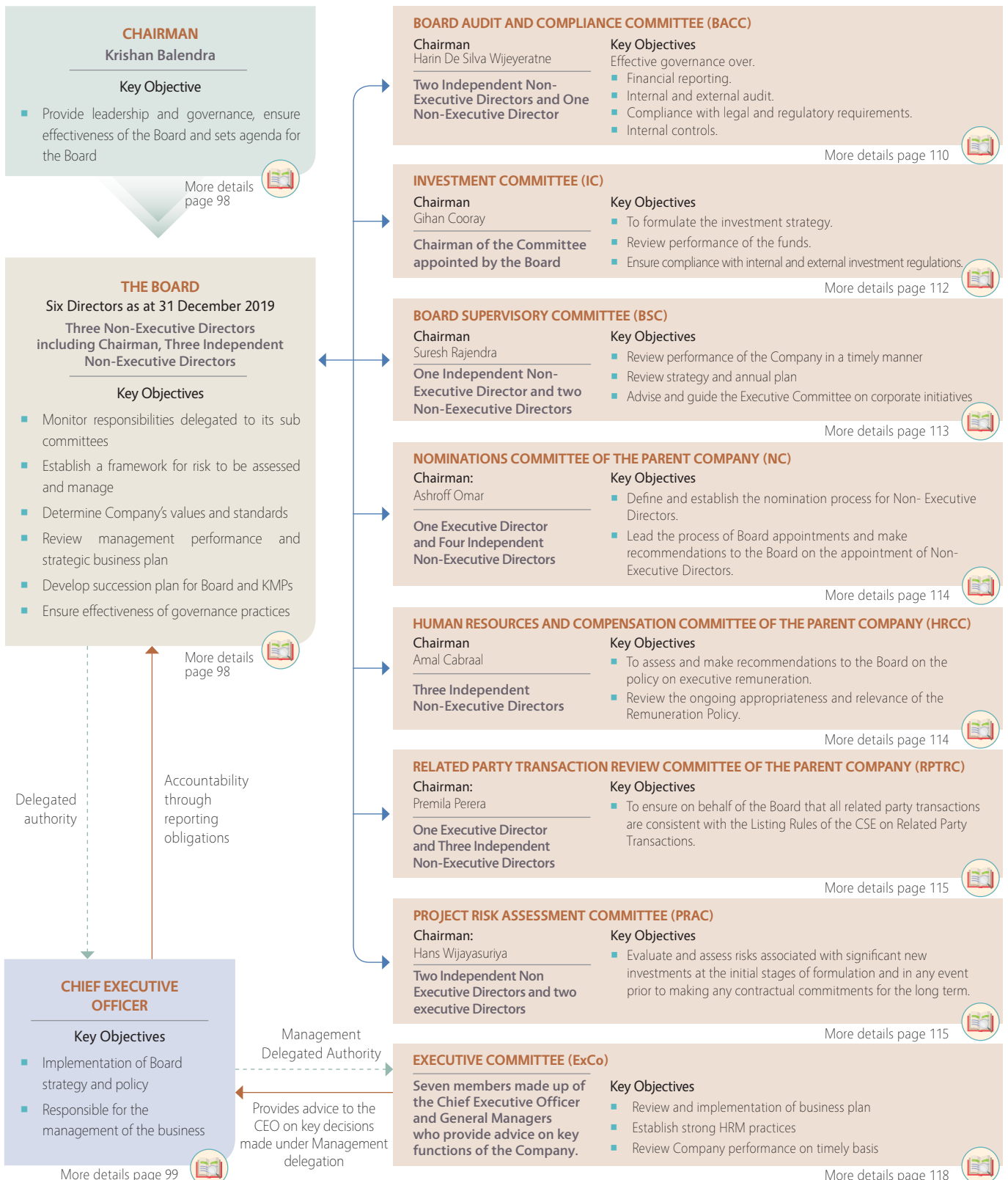
(A) ACCOUNTABILITY

1.0 EFFECTIVE LEADERSHIP

The Board of Union Assurance PLC appointed by the shareholders, has ultimate responsibility

and accountability for the performance of the Company and its state of affairs. The Board seeks to provide effective leadership in driving sustainable value while balancing the interests of all stakeholders. The Board determines strategic

direction of the Company, manages risk and sets in place a sound governance framework. Certain responsibilities have been delegated to Board sub committees and Executive Management.



CORPORATE GOVERNANCE

1.1 Our Internal Governance Structure

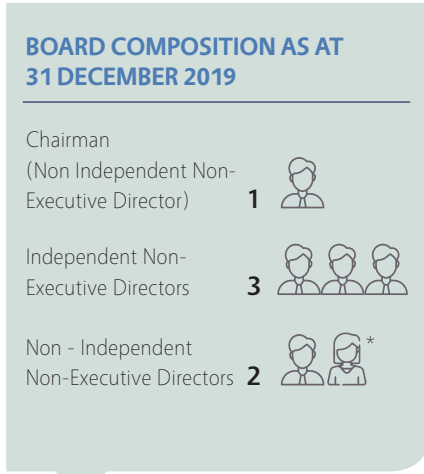
UA maintains a dual panel structure, namely the Board of Directors, who are Non-Executive Directors and, the Chief Executive Officer and Executive Committee. It thus distinguishes clearly between the supervisory body and the management including the division of responsibilities between the Chairman and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

1.2 Board Composition, Skills and Diversity

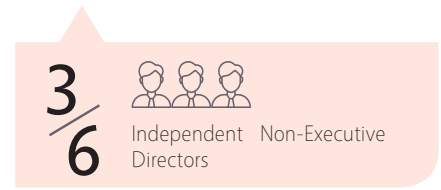
The Board of UA consists of six Directors as at 31 December 2019 who are all well-known professionals in their respective fields. The Board is diverse in its experience, expertise and age, contributing varied perspectives to boardroom deliberations and exercising independent judgement to bear on matters set before the Board. Brief profiles of the current Board members are given on page 98 of this report.

During the year, Executive Director / CEO resigned with effect from 31 October 2019 from the Board.

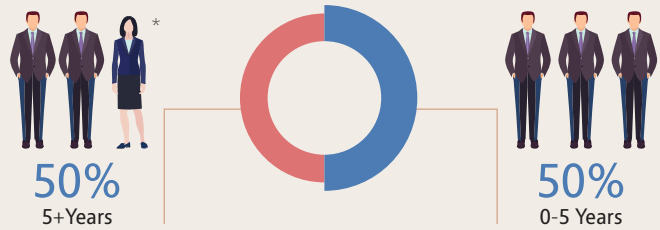
Collectively, the Board brings in a wealth of diverse exposure in the fields of management, business, finance, economics, legal, financial services, marketing, and human resources, which facilitates constructive and challenging discussions in the boardroom. All Directors of UA possess the necessary skills 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.



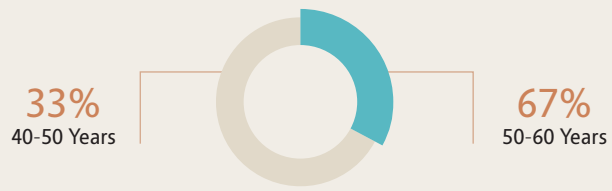
Company policy is to maintain a healthy balance between the Non-Executive Directors and Independent Non-Executive Directors. Three of the Directors are Independent Non-Executive, ensuring greater Board balance in driving independent judgement.



Board Tenure



Board Members Diversity – Age



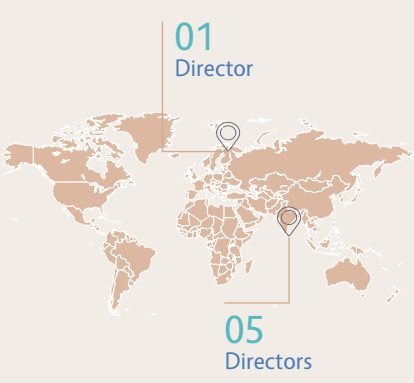
Experience



Gender Diversity



Nationality



* Ms. Dilani Alagaratnam - Non Executive Director resigned from the Board w.e.f. 31 December 2019

1.3 Board Responsibilities

In carrying out its responsibilities, the Board promotes a culture of openness, productive dialogue and constructive dissent, ensuring an environment which facilitates employee empowerment and engagement and creates value to all stakeholders.

The Board’s key responsibilities include:

Strategy and Business

- Providing strategic direction and guidance to the Company in the formulation of medium and long-term strategies which are aimed at promoting the long-term success of the Company.
- Reviewing and approving annual plans and long-term business plans.
- Monitoring performance and achievement of targets by tracking progress against set KPIs.
- Reviewing Top Management Succession Planning.

Risk and Governance

- Ensuring operations are carried within the scope of the Enterprise Risk Management framework.
- Monitoring systems of governance and compliance.

- Appointing the CEO and reviewing the performance of the CEO, the Board and its sub committees annually.
- Reviewing and approving required amendments to delegation of authority.
- Review of objectives and key performance indicators of the CEO and Senior Management and ensuring that the CEO and Management team possess the skills, experience and knowledge to implement the strategy.
- Review and approval of any amendments to Company policy documents.
- Reviewing HR process and approving annual increments, bonuses and changes in perquisites and incentives.

Stakeholder Engagement

- Ensuring all stakeholder interests are considered in corporate decisions.

Financial and Capital

- Approving the issue of equity / debt securities.
- Approval of financial policies and certain items outside the remit of the Investment Committee.
- Approval of Company’s Financial Statements.
- Recommending / declaring dividends.
- Reviewing systems of internal controls, risk management and integrity of the financial information.



1.4 Chairman & CEO

The roles and responsibilities of Chairman and CEO are segregated, ensuring appropriate balance of power and authority.

Key Governance highlight in 2019 was the smooth transition of the CEO with the resignation of Mr. Dirk Pereira with effect from 31 October 2019 and the subsequent appointment of Mr. Jude Gomes with effect from 01 December 2019.

CHAIRMAN	CHIEF EXECUTIVE OFFICER (CEO)
Role	Role
Critical to preserving good Corporate Governance, the Chairman provides leadership to the Board, preserving order and facilitating the discharge of duties.	Provides executive leadership and expertise in the implementation of plans and achievement of strategic objectives. He is held accountable to the Board for the performance of the Company.
Responsibilities	Responsibilities
<ul style="list-style-type: none"> ■ Ensuring the effective participation of all Directors at meetings. ■ Maintaining open lines of communication with Key Management Personnel. ■ Ensure constructive working relations between the Executive and Non-Executive Directors ■ Ensure, with the assistance of the Board Secretary that, <ul style="list-style-type: none"> ◆ Board procedures are followed ◆ Information is disseminated in a timely manner to the Board 	<ul style="list-style-type: none"> ■ Execute strategies and policies of the Board ■ Ensure efficient management of all businesses ■ Ensure the operating model is aligned with short and long-term strategies of the Company ■ Ensure succession planning of Senior Management

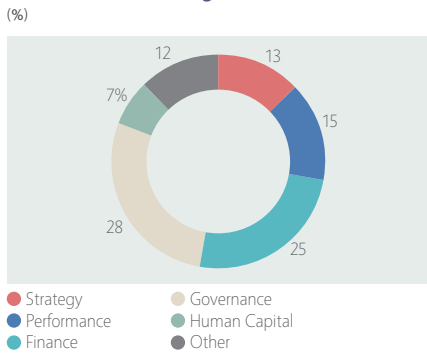
CORPORATE GOVERNANCE

1.5 Board Meetings

UA Board is well engaged and dedicates adequate time and effort to Company matters. Board meetings are usually held once in every two months, unless business exigencies demand the convening of additional meetings. During 2019 the Board met seven (7) times.

The Board agenda is prepared by the Company secretary and reviewed and approved by the Chairman, where necessary, in consultation with the CEO and members of the Board. The agenda and board papers are generally sent 07 days prior to the meeting, allowing members sufficient time to review the same. Urgent Board papers are included on an exceptional basis.

Board Activities During 2019



- ### Items Regularly on the Agenda
- Feedback on key matters from Board sub-committee Chairmen
 - The Chief Executive's brief on the long-term business plan, strategies adopted, its implementation and other business developments
 - Progress relating to strategic Bancassurance Partnerships both existing and potential
 - Brand study and details relating to market research
 - Progress and implementation plans relating to data analytics
 - Progress relating to Corporate Social Responsibility and Sustainability
 - Approval of quarterly and Annual Financial Statements
 - Review of Company risk grid
 - Digital Road Map

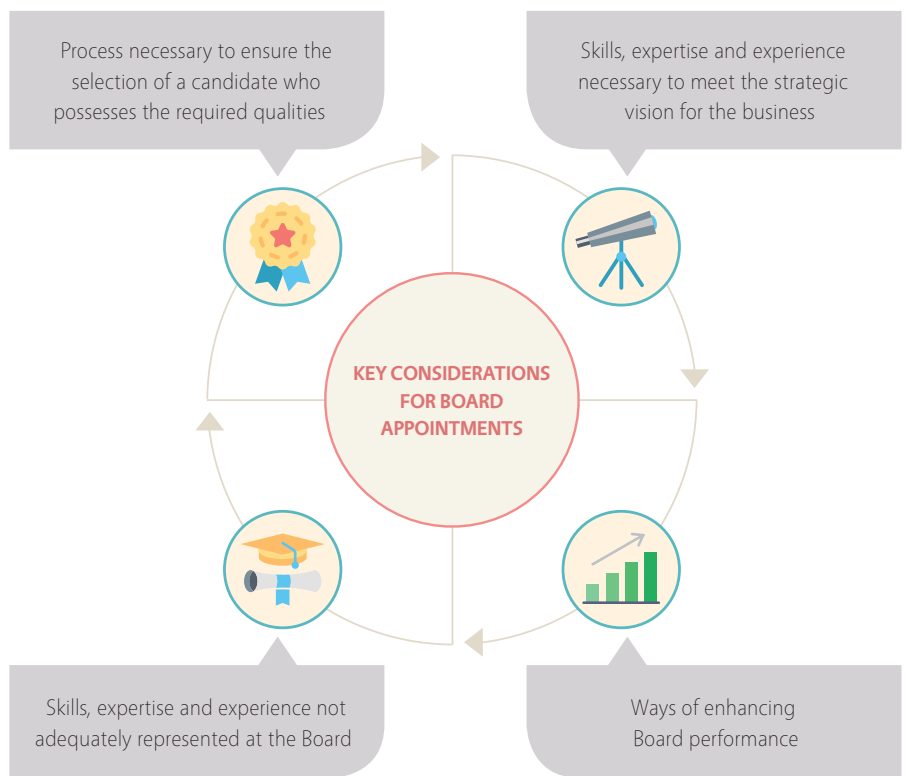
The calendar of Board meetings in 2019 and attendance is given below

Name of Director	Date of Appointment to The Board	Eligibility	Attendance
NON-EXECUTIVE			
Krishan Balendra	01.01.2019	7	7
Suresh Rajendra	16.08.2011	7	7
Dilani Alagaratnam (Resigned w.e.f. 31.12.2019)	16.08.2011	7	5
INDEPENDENT NON-EXECUTIVE			
Harin De Silva Wijeyeratne	07.09.2011	7	6
Dumith Fernando	03.08.2018	7	7
Stephen Appleyard	01.01.2019	7	6
EXECUTIVE			
Dirk Pereira (Resigned w.e.f. 31.10.2019)	28.05.2014	6	5

1.6 Board Appointments and Re-election

Board appointments follow a structured and formal process within the purview of the Nominations Committee. Terms of Reference of the Nominations Committee and the Committee Report can be found on page 114.

Key Considerations for Board Appointments



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 accordingly.

Re-Election

In accordance with the Articles of Association of the Company, one third of the Directors for the time being retire from office at each Annual General Meeting (AGM). The Directors except

Chairman to retire shall be those who being subject to retirement by rotation, have been the longest in office since their last election or appointment 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, and be eligible for re-election by the shareholders.



1.7 Independence

All Directors are Non-Executive, Independent of Management of the Company and free of business dealings that may be perceived to interfere with the exercise of their unfettered and independent judgement. They submit annual declarations to this effect which are evaluated to ensure compliance with criteria for determining independence in line with regulatory requirements.

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)
Harin De Silva Wijeyeratne	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
Dumith Fernando	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
Stephen 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.

CORPORATE GOVERNANCE

Directorship details of the Board Members

The following table illustrates the total number of Board seats held in other listed and unlisted companies by each Director.

Name of Director	Total Number of Directorships	No of Board seats held in Listed Companies		No of Board seats held in unlisted Companies
		Executive Capacity	Non-Executive Capacity	
Krishan Balendra (Chairman)	19	1	7	11
Dumith Fernando	17	-	1	16
Stephen Appleyard	-	-	-	-
Suresh Rajendra	19	1	-	18
Harin De Silva Wijeyeratne	-	-	-	-

1.8 Supply of Information

The Board pack is circulated at least 7 days in advance and provides comprehensive qualitative and quantitative information on issues to be raised at the meeting, ensuring robust discussion, informed deliberation and effective decision making. The Chairman ensures that all Directors are properly briefed on same by requiring the presence of members of the Corporate Management when deemed necessary. Directors have independent access to the Senior Management and unrestricted access to organisation information and resources to facilitate discharge of their duties. They may seek independent professional advice, coordinated through the Company Secretary, at the Company's expense. The Senior Management regularly makes presentations and keeps the Board abreast of important matters including strategy, regulatory updates, risk management, etc.

1.9 Access to Independent Professional Advise

To preserve the independence of the Board and to strengthen the decision making, the Board is encouraged to seek independent professional advice, in furtherance of their duties, at the Company's expense. This is coordinated through the Company Secretary, as and when requested.

1.10 Board Induction and Training

Directors undergo a comprehensive induction on appointment, 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, they are provided with the opportunity to meet with Key Management Personnel, External and Internal Auditors etc and visit key areas of operations, to obtain a greater understanding of the business.

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 Board Appraisal

The annual appraisal to assess the effectiveness of the Board was carried out in January 2020 using a questionnaire covering the operations of the Board and each of its principal committees. The findings were tabled and discussed at the Board meeting held on 10 February 2020.

1.12 Appraisal of the Chief Executive Officer (CEO)

The Board discusses and sets financial and non-financial targets at the beginning of each financial year to be achieved during the year by the CEO, aligned to the short, medium and long-term objectives of UA. Performance is reviewed at the end of the year against the backdrop of the operating environment, and remuneration revised based on performance.

1.13 Fair Remuneration

The Company has established a formal and transparent procedure for the determination of remuneration for individual Directors. No Director is involved in deciding his or her own remuneration. Accordingly, Human Resources

and Compensation Committee comprised solely of Independent Non Executive Directors of the Parent Company, John Keells Holdings PLC, functions as the Remuneration Committee of the company as permitted by the Listing Rules of the CSE. Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of personnel needed to run the Company.

Due care is taken to ensure that the 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 Non-Executive Director fee was reviewed and changes were made during the year 2019.

The break-up of remuneration paid to Directors is disclosed among the other disclosures regarding remuneration in Note 22 in the Annual Report.

1.14 Board Sub-Committees as at 31 December 2019

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 Board Sub committees are as follows;

1. Board Audit and Compliance Committee (BACC)
2. Investment Committee (IC)
3. Board Supervisory Committee (BSC)
4. Nominations Committee (NC)
5. Human Resources and Compensation Committee (HRCC)
6. Related Party Transaction Review Committee (RPTRC)
7. Project Risk Assessment Committee (PRAC)

Board Sub Committees comprised predominantly of Independent Non - Executive Directors.

Board Committee	Areas of Oversight	Composition	Further Information	No of Meetings
Board Audit and Compliance Committee (BACC)	<ul style="list-style-type: none"> ■ Financial reporting ■ Internal controls ■ Internal audit ■ External audit 	02 Independent Non-Executive Directors, and 01 Non-Executive Director	Report of the BACC on page 110	06
Investment Committee (IC)	<ul style="list-style-type: none"> ■ Review of Investment Policies ■ Manage risk exposure ■ Review investments ■ Review performance 	Deputy Chairman / Group Finance Director of John Keells Holdings PLC, Chief Executive Officer, GM Finance & Planning, GM Actuarial, Head of Investments	Report of the IC on page 112	12
Board Supervisory Committee (BSC)	<ul style="list-style-type: none"> ■ Assisting the management during the period of leadership transition ■ Review of strategic & annual plans ■ Review performance of the Company ■ Review & advise on policy papers, business plans and proposals 	02 Non-Executive Directors and 01 Independent Non-Executive Director	Report of the BSC on page 113	08
Nominations Committee (NC)	<ul style="list-style-type: none"> ■ Appointment of Key Management Personnel ■ Succession planning ■ Effectiveness of the Board and its Committees 	John Keells Holdings PLC (Parent Company) NC acts as Company's Nominations Committee.	Report of the NC on page 114	02
Human Resources and Compensation Committee (HRCC)	<ul style="list-style-type: none"> ■ Review remuneration policy ■ Succession planning of Key Management Personnel ■ Review and recommend performance-based payment plans 	John Keells Holdings PLC (Parent Company) HRCC acts as Company's HRCC	Report of the HRCC on page 114	03
Related Party Transaction Review Committee (RPTRC)	<ul style="list-style-type: none"> ■ Disclosure and review of related party transactions 	John Keells Holdings PLC (Parent Company) RPTRC acts as Company's RPTRC	Report of the RPTRC on page 115	04
Project Risk Assessment Committee (PRAC)	<ul style="list-style-type: none"> ■ Review and assess large scale investments and projects ■ Evaluate project risks 	John Keells Holdings PLC (Parent Company) PRAC acts as Company's PRAC	Report of the PRAC on page 115	01

CORPORATE GOVERNANCE

REPORT OF THE BOARD AUDIT AND COMPLIANCE COMMITTEE (BACC)

TERMS OF REFERENCE.

The Board approved Committee Charter clearly defines the Terms of Reference (TOR) of the BACC and regulates its composition, role and responsibilities.

The role of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities.

Key responsibilities include:

- Ensuring the integrity of the financial statements of the Company and that a sound financial reporting system is in place 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, Companies Act, Listing Rules of CSE and other financial reporting related regulations and requirements.
- Monitoring and review of the adequacy and effectiveness of the Company's internal control system and risk management function
- Reviewing the Company's compliance with relevant legal and regulatory requirements
- Exercising independent oversight of the Company's assurance functions including external and internal audit and ensuring the independence and effectiveness of both the internal and external audit functions.
- Assessing the Company's ability to continue as a going concern in the foreseeable future.

AUTHORITY OF THE (BACC)

The Committee is empowered to carry out any investigations it deems necessary and has unrestricted access to records, data and reports and to management and staff, to obtain relevant information considered necessary in the discharge of duties and responsibilities.

The Committee may seek external professional advice as and when required.

ACTIVITIES IN 2019

Key focus areas during the year are as follows:

The Chairman and members of the Committee were in regular contact with the management of the Company through numerous meetings and communications to oversee the auditing and control aspect in various initiatives the Company undertook during the year.

FINANCIAL REPORTING

- Oversaw the Company's financial reporting process to ensure Financial Statements are prepared in compliance with regulatory provisions including the Sri Lanka Accounting Standards, Companies Act, Insurance Industry Act and amendments thereto, and reflect a true and fair view on the financial position and performance of UA. Assessed the adequacy of the internal controls and procedures to obtain reasonable assurance that the financial reporting system is effective to provide reliable and timely information.
- Reviewed and recommended to the Board for approval, the annual and the quarterly Financial Statements, prior to their release. In reviewing the Financial Statements, the Committee focused 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.

INTERNAL CONTROLS AND RISK MANAGEMENT

- Continued to assess the adequacy and effectiveness of the internal control system. Satisfied itself that adequate controls and procedures are in place to provide reasonable assurance to the effect that the Company's assets are safeguarded.
- Reviewed the processes for identification, recording, evaluation and management of all significant risks throughout the Company. Reviewed the organisational risk grid presented by the Management on a quarterly basis illustrating the foreseeable risks the Company faces, likelihood and possible impact to the business and action taken to mitigate such risks.
- Further evaluated effectiveness of the Company's internal controls and risk management processes through reports furnished by the External and Internal Auditors.

COMPOSITION OF THE COMMITTEE

Harin De Silva Wijeyeratne - (Chairman)

Independent Non-Executive Director
Appointed 26.09.2011

Dumith Fernando

Independent Non-Executive Director
Appointed 03.08.2018

Suresh Rajendra

Non-Executive Director
Appointed 26.09.2011

REGULAR ATTENDEES BY INVITATION

- **Jude Gomes**
Chief Executive Officer (from 01.12.2019)
- **Asha Perera**
General Manager Finance & Planning
- **Hisham Nazeem**
Head of Group Business Review - John Keells Holdings PLC
- **Dirk Pereira**
Executive Director / Chief Executive Officer (up to 31.10.2019)

OTHER INVITEES

- Other Members of the Executive Committee
- External Auditors
- Internal Auditors

SECRETARY

- **Sherin Cader**
Executive Vice President/Chief Financial Officer of the Financial Services Industry Group of John Keells Holdings PLC

MEETINGS

Name	Eligibility to attend/attended
Harin De Silva Wijeyeratne	6/6
Dumith Fernando	6/6
Suresh Rajendra	5/6

Six (6) meetings were held during the year, attended by the External Auditors and Internal Auditors, on a need basis. These meetings were attended by the CEO, GM F&P and General Managers responsible for underwriting, distribution, actuarial, human resources and IT by invitation. Proceedings of BACC meetings are regularly reported to the Board.

- Requested Management to provide reports on controls in specific focus functions, on a need basis.

INTERNAL AUDIT

The Committee monitors the effectiveness of the Internal Audit function and is responsible for recommending to the Board, their appointment or removal and for ensuring they are adequately resourced to conduct audits.

- Monitored and reviewed the scope, extent and effectiveness of the Internal Audit function. Reviewed the annual audit plan for the year, prepared on risk based planning methodology. Evaluated the adequacy and frequency of coverage, assessed progress made and reviewed follow up on findings.
- Reviewed 40 internal audit reports covering operations of 36 branch locations and several head office functions including underwriting, claims, reinsurance, finance, investments and information technology.
- Commissioned a special study by an external consultant on adequacy of Business Continuity Plan (BCP) of the Company and recommendations adopted for implementation in 2020.
- Ensured the Internal Audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.
- Reviewed and monitored Management's responsiveness to the significant audit findings and recommendations of the Internal Auditors.
- Met the Internal Auditors without the presence of Key Management Personnel during the year.

INDEPENDENCE AND OBJECTIVITY OF THE EXTERNAL AUDITORS

The Committee has policies in place aimed at safeguarding and supporting the independence and objectivity of the External Auditors. The services provided by the External Auditors were segregated between what requires an independent view such as audit and assurance services and other advisory services such as tax consultancy. Work is assigned in a manner to prevent a conflict of interest for the External Auditors.

- Assisted the Board in engaging External Auditors for audit and non-audit services, in compliance with regulatory provisions.

- Discussed the audit plan, scope and the methodology proposed to be adopted in conducting the audit with the Auditors prior to commencement of the annual statutory audit.
- Reviewed the audit and non-audit work assigned during the year and monitored the independence, objectivity and effectiveness of the External Auditor.
- Reviewed audit findings, management letters and management responses.

Messrs. KPMG has been functioning as the External Auditor from 1988. Last partner rotation was carried out in year 2013 and as confirmed by the managing partner of Messrs. KPMG, the next partner rotation will be carried out in year 2020. The Company BACC has policies in place aimed at safeguarding and supporting the independence and objectivity of the External Auditor. The committee reviewed the audit and non audit work that is assigned to Messrs. KPMG, to ensure that provision of such services does not impair their independence.

External Auditors, Messrs. KPMG, have made a declaration as required by the Companies Act, confirming that they do not have any relationship or interest in the Company, which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

OVERSIGHT ON REGULATORY COMPLIANCE

The Committee with the assistance of both the Internal Auditors and the External Auditors closely scrutinizes compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

REPORT OF EXTERNAL ACTUARY

Written representations were received from the independent external actuary, summarizing the observations and comments with regard to the work performed.

ETHICS AND GOOD GOVERNANCE

The Committee continuously emphasizes on the importance of upholding ethical values by all staff members. The highest standards of Corporate Governance and adherence to the Company's Code of Ethics are ensured. The Code of Ethics and Whistle-Blowers Charter ensures all members of staff are encouraged to resort to whistle - blowing, if they suspect wrong doings or other improprieties.

All appropriate procedures are in place to conduct independent investigations into incidents reported through Whistle - Blowing or identified through other means. The Whistle-Blowers Charter guarantees the maintenance of strict confidentiality of the identity of whistle blowers

EVALUATION OF THE COMMITTEE

A self-evaluation exercise is conducted annually with input by each member of the Committee and in addition by the external and Internal Auditors, CEO, CFO and the Secretary of the Committee. The results were presented to the Board and was determined that the Committee was effective.

RE - APPOINTMENT OF THE EXTERNAL AUDITORS

The Committee has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ending 31 December 2020, subject to approval by the Shareholders at the next Annual General Meeting. The Committee recommends the fees payable to the statutory auditors for approval by the Board.

CONCLUSION

The Committee is satisfied that internal controls have been operating as designed and the Company's assets have been adequately safeguarded during the period under review. The Committee is also satisfied that the Company's Internal and External Auditors have been effective and independent throughout the period. The Committee believes that the Company's accounting policies are appropriate and have been applied accurately.



Harin De Silva Wijeyeratne
Chairman

Board Audit and Compliance Committee

28 February 2020

CORPORATE GOVERNANCE

REPORT OF THE INVESTMENT COMMITTEE (IC)

TERMS OF REFERENCE

The Committee is guided by the Board approved Investment Policy Statements (IPS). 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
- Manage risk exposure
- Ensure compliance with internal investment policy and procedures, and external investment regulations.

During the year, the Committee reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements and market conditions.

COMPOSITION

The Chairman of the Committee Gihan Cooray has extensive knowledge and experience in the field Accounting, Taxation, Corporate Finance and Strategy, Treasury and Information Technology. He is the Deputy Chairman/ Group Finance Director of John Keells Holdings PLC and Chairman of Nations Trust Bank PLC. He serves as a Committee Member of the Ceylon Chamber of Commerce.

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

SUMMARY OF ACTIVITIES

Strategic Planning

- Obtained independent expert 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. Assigned probabilities for different macro-economic scenarios in assessment of risk and forecasting.
- Reviewed budgeted investment income and profit plan for the life fund and advised

investment strategies considering the maturity profiles and risk tolerance of the respective funds.

- Reviewed the interim dividend rate for universal Life products having estimated the universal Life fund yield.

Policies and Guidelines

- Updated investment policies and procedures to reflect changes to regulatory requirements and market conditions.

Asset Allocation

- Adopted an active approach to asset management with a medium to long term perspective. Ensured all cash flows were invested efficiently, following assessment of expected yield curve movement

Performance Review

- Reviewed the performance of each fund against benchmarks and targets, including returns, durations of assets, return from equity investments, maturity analysis of fixed income securities, exposure limits and unit linked investment returns.
- Conducted annual performance appraisal of the External Fund Manager.

Compliance

- Segregated life fund in to three separate funds as required by IRCSL. This segregation was done after identifying the characteristics of liabilities and matching asset cash flows with liability cash flows. Segregation was extended to the SAP treasury system which records all investment related transactions.
- Regularly reviewed compliance with internal and external investment regulations, including IRCSL regulations and guidelines related to solvency and approved assets

The following core principles of asset management were adopted:

1. An effective and efficient Governance structure
 - UA's investment function is driven by a Board appointed Investment Committee which comprises of Deputy Chairman/Group Finance Director of John Keells Holdings PLC, members of the Senior Management team and Fund Management Specialists.
 - Solicited external expertise to advice on economic climate and any other specialised areas.

COMPOSITION OF THE COMMITTEE

Gihan Cooray - (Chairman)

Executive Director / Deputy Chairman / Group Finance Director - John Keells Holdings PLC
Appointed 26.02.2018

Jude Gomes

Chief Executive Officer
Appointed 01.12.2019

Asha Perera

GM Finance and Planning
Appointed 01.10.2018

Nimesha Liyanage

GM Actuarial
Appointed 01.09.2016

Angelo Keil

Head of Investment
Appointed 18.03.2015

REGULAR ATTENDEES BY INVITATION

- **Sherin Cader**
Executive Vice President/Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC

OTHER INVITEES

Independent professionals in the fields of economics, risk and investment management attend meetings when required, to provide technical input and facilitate decision making.

SECRETARY

- **Angelo Keil**
Head of Investment

MEETINGS

Name	Eligibility to attend/ attended
Gihan Cooray	12/12
Jude Gomes	1/1
Asha Perera	12/12
Nimesha Liyanage	10/12
Angelo Keil	12/12
Dirk Pereira*	11/11

* Resigned w.e.f. 31.10.2019

12 meetings were held during the year. The minutes of the Committee meetings are presented to the Board of Directors along with a detailed list of investments and their performance made during the period.

- Reviewed investment performance on a monthly basis, appraised 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.**
- Documented 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 minimised to increase accuracy and integrity.
 - A rigorous appraisal on market conditions and Issuer's performance is conducted in

the selection of investments, in addition to considering reports from rating agencies. The Company strictly complies with regulatory requirements on related party transactions. All transactions are entered into on an arm's length basis and follows guidelines set by the Parent Company's Related Party Transactions Review Committee.

4. Establish internal control mechanisms specifically with respect to investment activities.

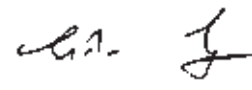
- Processes were streamlined to ensure the integrity of the investment activities. Front office, Middle office and Back office segregation was established and signatories and system controls structured to ensure proper work flow segregation.
- Restricted access and call recording facility was implemented in the investment division, to strengthen internal controls.
- Strictly enforced Authority and dealing limits via the Manual of Financial Authority (MOFA)

5. Implementing the middle office function

- UA implemented the middle office function in 2019 by assigning a manager – middle office. The middle office makes sure the front office complies with all internal limits and external regulatory requirements. Valuation of securities is carried out by the middle office and reported to the Investment Committee monthly.

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

28 February 2020

REPORT OF THE BOARD SUPERVISORY COMMITTEE (BSC)

The Board Supervisory Committee (BSC) was established during the year to assist the Board of Directors during the period of leadership transition of the Company.

TERMS OF REFERENCE

The main duties and responsibilities of the BSC shall include the following;

- Review strategic and annual plans prior to recommending to the Board for approval.
- Review performance of the Company and its business lines to ensure Management is focused towards achievement of plans approved and objectives set by the Board. The review shall cover support functions and ensure that cost efficiencies and productivity is achieved across the organisation.
- Evaluate capital and other expenditure which are not of a day to day operational nature within limits delegated by the Board.
- Advise and guide CEO and Corporate Management on corporate initiatives including IT systems, products, distribution channels, etc. prior to recommending to the Board for approval.

- Review, advise and make recommendations on policy papers, business plans and proposals impacting the operations of the Company prior to presentation to Board.
- Any other matter referred to the Committee by the Board.

The committee was dissolved in January 2020 and Senior Management Meeting was replaced with similar terms of reference chaired by Suresh Rajendra, Chief Financial Officer of the Financial services sector of John Keells Holdings PLC, all General Managers and Assistant General Managers of UA.

COMPOSITION OF THE COMMITTEE

The Board of Directors determine the Composition of BSC and will review same as and when required. Chairman of the BSC will be appointed by the Board.

The quorum shall comprise of at least two Non-Executive Directors.

REGULAR ATTENDEES BY INVITATION

CEO and all General Managers and Assistant General Managers

OTHER INVITEES

Key Management Personnel or person as the Board may from time to time consider desirable to assist the BSC in fulfilment of duties

SECRETARY

Chief Financial Officer of the Financial Services sector of John Keells Holdings PLC

MEETINGS

Name	Eligibility to attend / attended
Suresh Rajendra	8/8
Dilani Alagaratnam*	8/8
Harin Wijeratne	5/6

* Resigned w.e.f. 31.12.2019

8 meetings were held during the year.

- BSC shall meet monthly prior to the regular Board meeting for that month.
- The Chairman of the BSC may call additional meeting/s as and when deemed necessary.
- BSC may consider and approve any papers presented to it by circulation including circulation by electronic means

CORPORATE GOVERNANCE

REPORT OF THE BOARD NOMINATIONS COMMITTEE (NC)

The Nominations Committee (NC) of John Keells Holdings PLC (the Parent) acts as the NC of the Company.

TERMS OF REFERENCE

Define and establish the 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.

- Assess skills required on the Board given the needs of the businesses
- From time to time assess the extent to which the required skills are represented at the Board
- Prepare a clear description of the role and capabilities required for a particular appointment
- Identify and recommend suitable candidates for appointments to the Board
- Ensure, on appointment to Board, Non-Executive Directors receive a formal letter of appointment specifying clearly expectation in terms of time commitment, involvement outside of the formal Board meetings, participation in committees, amongst others

- Ensure that every appointee undergoes an induction to the Group

The following appointment process is followed for appointment of Directors to the Board of the Company including independent Directors.

A Two-tier system of recommendation by the Nomination Committee despite not being mandated by the Listing Rules and appointment by the Board is practiced. This Two-tier system ensures that no single person has unfettered powers in relation to appointment of Directors to the Board of the Company.

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

COMPOSITION OF THE COMMITTEE

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH) as at 31 December 2019.

- **Ashroff Omar (Chairman)**
Independent Non-Executive Director of John Keells Holdings PLC
- **Krishan Balendra**
Independent Executive Director/ Chairman and CEO of John Keells Holdings PLC
- **Premila Perera**
Independent Non-Executive Director of John Keells Holdings PLC
- **Hans Wijayasuriya**
Independent Non-Executive Director of John Keells Holdings PLC
- **Radhika Coomaraswamy ***
Independent Non-Executive Director of John Keells Holdings PLC

Two (2) meetings were held during the year 2019.

* Resigned w.e.f. 31.12.2019

REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE (HRCC)

The Human Resources and Compensation Committee (HRCC) of John Keells Holdings PLC (the Parent) acts as the HRCC of the Company.

TERMS OF REFERENCE

- Review and recommend overall remuneration philosophy, strategy, policies and practice and, performance based pay plans for the Group
- Determine and agree with the Board a framework for remuneration of Chairman and Executive Directors based on performance targets, benchmark principles, performance related pay schemes, industry trends and past remuneration
- Succession planning of Key Management Personnel
- Determining compensation of Non-Executive Directors will not be under the scope of this Committee

COMPOSITION OF THE COMMITTEE

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH) as at 31 December 2019.

- **Amal Cabraal (Chairman)**
Independent Non-Executive Director of John Keells Holdings PLC
- **Ashroff Omar**
Independent Non-Executive Director of John Keells Holdings PLC
- **Hans Wijayasuriya**
Independent Non-Executive Director of John Keells Holdings PLC

REGULAR ATTENDEES BY INVITATION

- **Krishan Balendra**
Executive Director / Chairman / CEO - John Keells Holdings PLC
(unless Chairman/ CEO or Executive Director remuneration is under discussion)

- **Gihan Cooray**
Executive Director / Deputy Chairman / Group Finance Director - John Keells Holdings PLC
(unless Executive Director Remuneration is under discussion.)
- **Dilani Alagaratnam ***
President, Human Resources and Legal - John Keells Holdings PLC

Three (3) meetings were held during the year 2019.

* Resigned w.e.f. 31.12.2019

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE (RPTRC)

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 UA is a member.

OBJECTIVE

To exercise oversight on behalf of the Board of UA in complying with the Code on Related Party Transactions (RPTs) 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:

- compliance with the Code;
- protection of shareholder interests; and
- maintenance of fairness and transparency.

The Committee reviewed and pre-approved all proposed non recurrent RPT's of the Company.

Further recurrent RPTs were reviewed annually by the Committee.

CONCLUSION

The activities and views of the Committee are communicated to the Board of Directors quarterly through verbal briefings and by tabling the minutes of the committee meetings

COMPOSITION OF THE COMMITTEE

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH) as at 31 December 2019.

- **Premila Perera (Chairperson)**
Independent Non-Executive Director – John Keells Holdings PLC Appointed 24.07.2014
- **Amal Cabraal**
Independent Non-Executive Director - John Keells Holdings PLC Appointed 01.04.2014
- **Nihal Fonseka**
Independent Non-Executive Director - John Keells Holdings PLC Appointed 01.04.2014
- **Krishan Balendra**
Executive Director / Chairman and CEO - John Keells Holdings PLC

Appointed 01.01.2019

REGULAR ATTENDEES BY INVITATION

- **Gihan Cooray**
Executive Director / Deputy Chairman / Group Finance Director - John Keells Holdings PLC
- **Mohan Thanthirige**
Group Financial Controller - John Keells Holdings PLC

SECRETARY

- **Hisham Nazeem**
Head of Group Business Process Review - John Keells Holdings PLC

MEETINGS

Name	Eligibility to attend/ attended
Premila Perera	4/4
Amal Cabraal	3/4
Nihal Fonseka	4/4
Krishan Balendra	4/4

Four (4) meetings were held during the year 2019.

REPORT OF THE PROJECT RISK ASSESSMENT COMMITTEE (PRAC)

Project Risk Assessment Committee of the John Keells Holdings PLC, the Parent Company of Union Assurance PLC, functions as the Project Risk Assessment Committee of the Company and its Subsidiaries. The Committee was appointed in July 2018.

PURPOSE

- Review and assess risks associated with large-scale investments and the mitigatory plans thereto, if mitigation is possible and identify risks that cannot be mitigated.
- Ensure stakeholder interests are aligned, as applicable, in making this investment decision.
- Where appropriate, obtain specialised expertise from external sources to evaluate risks, in consultation with the Group Finance Director.
- Recommend to the Board, necessary action required, to mitigate risks that are identified in the course of evaluating a project in order

to ensure that those risks are captured by the Group Risk Matrix for monitoring and mitigation.

COMPOSITION OF THE COMMITTEE

The Committee comprised the following Directors of the Parent Company, John Keells Holdings PLC (JKH) as at 31 December 2019.

- **Hans Wijayasuriya (Chairman)**
Independent Non-Executive Director of John Keells Holdings PLC
- **Premila Perera**
Independent Non-Executive Director of John Keells Holdings PLC
- **Krishan Balendra**
Executive Director/Chairman and CEO of John Keells Holdings PLC

- **Gihan Cooray**
Executive Director / Deputy Chairman / Group Finance Director - John Keells Holdings PLC

The mandate requires the Board to comprise a minimum of four Directors, including two Non-Executive Directors, the Group Chairman and Group Finance Director.

The Committee Chairman must be a Non-Executive Director.

MEETINGS

As per the Mandate, the Committee convenes only when there is a need to transact in business.

One (1) meeting were held during the year 2019.

CORPORATE GOVERNANCE

DIRECTORS' STATEMENT ON INTERNAL CONTROLS

The following statement fulfils the requirement to publish the Directors' statement on Internal Controls as per the Code of Best Practise on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Board of Directors is responsible for the adequacy and effectiveness of the internal controls system in place at UA. It is designed to manage the Company's key risk areas within an acceptable risk profile. The Board has established a continuous process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to operating environment or regulatory guidelines.

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 Messers. 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 Management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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 provided on page 110 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.

- During the year under review the Audit Committee reviewed 40 audit reports, 04 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 along with the management comments of the interim audit carried out by Messers. KPMG and action taken to rectify any issue before the year end. Recommendation made by the Internal Auditors as part of the end-to-end review of investment functions in 2018, has been implemented during the year including setting up of a Middle office function to ensure compliance of the front office investment functions.

- In addition to the above the BACC expanded the year end external audit scope to incorporate a post implementation review of the policy administration system and sales force admin system to ensure integrity of data in the financials.

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

Policies / Charters are developed covering all functional areas of UA and these are approved by the Board or Board-approved committees. Such policies and Charters are reviewed and approved periodically.

A summary of the key risks are 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 (BCP) was tested during the year under review and BCP was revamped with the support of an external consultant with the changing operating environment.

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


The 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.

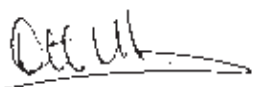
CONCLUSION

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 Companies Act, Regulation of Insurance Industry Act and subsequent amendments and the listing rules of the Colombo Stock Exchange (CSE).



Krishan Balendra
Chairman



Dumith Fernando
Director



Harin De Silva Wijeratne
Chairman
Board Audit and Compliance Committee

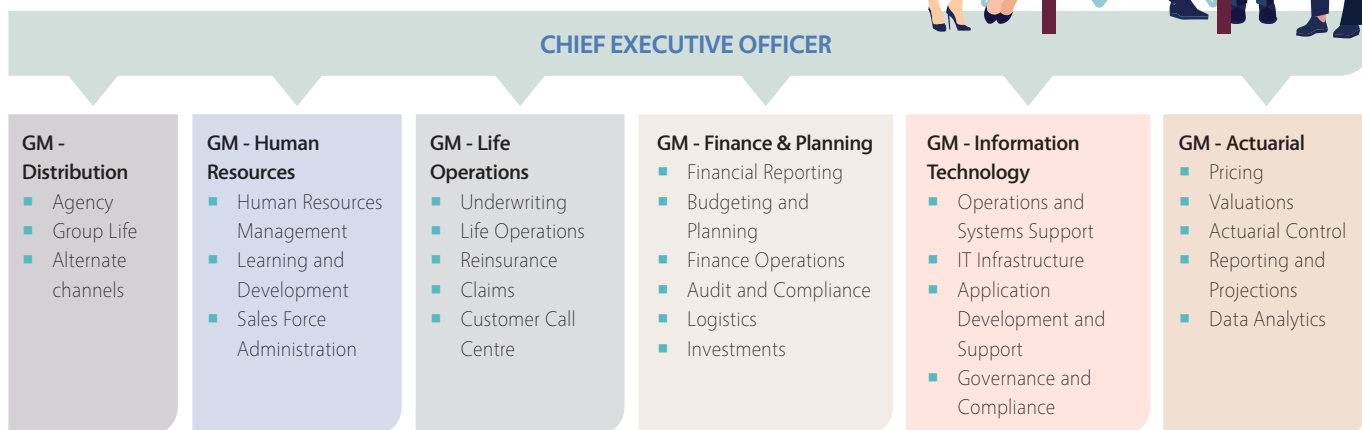
28 February 2020

CORPORATE GOVERNANCE

1.14 Executive Committee (ExCo)

ExCo – Key Focus Areas Include;

- Corporate performance against targets
- Implementation of strategic plan and progress made
- Competitor analysis and strategy
- Review of business units, key initiatives and industry developments
- Significant business developments, projects, risks and opportunities
- Review of operations of functional departments



Led by the CEO, the Executive Committee (ExCo) drives corporate strategy and operationalises Company policies. It is responsible for the day to day operational management of the business. The Committee met 08 times during the year under review. The Committees mandate also specifies functions covering financial, technical and human resource allocations.

In addition, the following committees comprising of Senior Management personnel have been set up to manage operations of the Company in an efficient, transparent and effective manner.

Resource Management Committee	Objectives & Functions	Composition
Capital Expenditure Committee	<ul style="list-style-type: none"> ■ 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"> ■ Improve overall productivity, efficiency and effectiveness across distribution and service functions ■ Improve quality of management information ■ Provide secured and uninterrupted IT facilities ■ Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources 	GM - Information Technology (Chair) All Senior Managers and Managers of the IT division
Supplies Committee	<ul style="list-style-type: none"> ■ Transparent supplier registration ■ Optimise purchases and ensure quality, reliability and value for money 	GM - Finance and Planning (Chair) GM - Distribution GM - HR AGM - Logistics
Staff Committee	<ul style="list-style-type: none"> ■ 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

Resource Management Committee	Objectives & Functions	Composition
Salvage Committee	<ul style="list-style-type: none"> Transparent salvage process and value for money 	GM - Finance and Planning (Chair) GM - Distribution GM - Information Technology AGM - Logistics
Complimentary Items Committee	<ul style="list-style-type: none"> Complimentary items are in expected quality and compliance with the brand criteria. Purchases as per Company procurement procedure 	GM - Life GM - Actuarial GM - Finance and Planning GM - Distribution AGM - Logistics

1.16 Company Secretary

All Directors have access to the advice and services of the Company Secretary, Keells Consultants (Private) Limited.

The shareholders may contact the Company Secretary, Keells Consultants (Private) Limited on 011-2306245 at any time, for any Company related information requirements.

Key responsibilities include;

- Guiding the Board and individual Directors in the proper discharge of their duties and responsibilities
- Acting as a central source of guidance on matters of ethics and governance
- Ensuring Board compliance with relevant rules and regulations
- Keeping and maintaining minutes, registers and similar records of the Company
- Induction of new Directors
- Assisting the Chairman and Chief Executive Officer in determining the annual Board plan
- Making necessary disclosures on Related Party Transactions required by laws and regulations
- Acting as a channel of communication with shareholders to ensure good relationship with shareholders

(B) INTEGRITY OF OPERATIONS

2.0 GUIDELINE, AUDIT AND ASSURANCE

Stakeholders rely on the integrity of underlying operations for the production of credible information to make decisions. At UA, Audit and Assurance practices ensures the integrity of operations. These include compliance with laws and regulations (explained under External Governance Structure – page 124) adoption of appropriate internal policies, implementation of systems of internal control, adherence to a code of conduct, management of conflicts of interest, internal audit checks and restrictive assurance by Independent External Auditors.

2.1 Charters and Policies

Combined with laws and regulations, our internally formulated charters and policies define how we do business.

Union Assurance Policy Framework include the following;

- Recruitment and selection
- Financial integrity
- Financial authority levels
- Outside employment
- Confidentiality of information
- Use of Company property including 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
- Anti-corruption

2.2 Systems, Controls & Assurance

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. Key areas of process control at UA, include the following;

- Compliance Assurance
- Employee participation in assurance
- Financial resource management
- Fraud risk assessment
- IT Governance - refer page 122

i. Compliance assurance

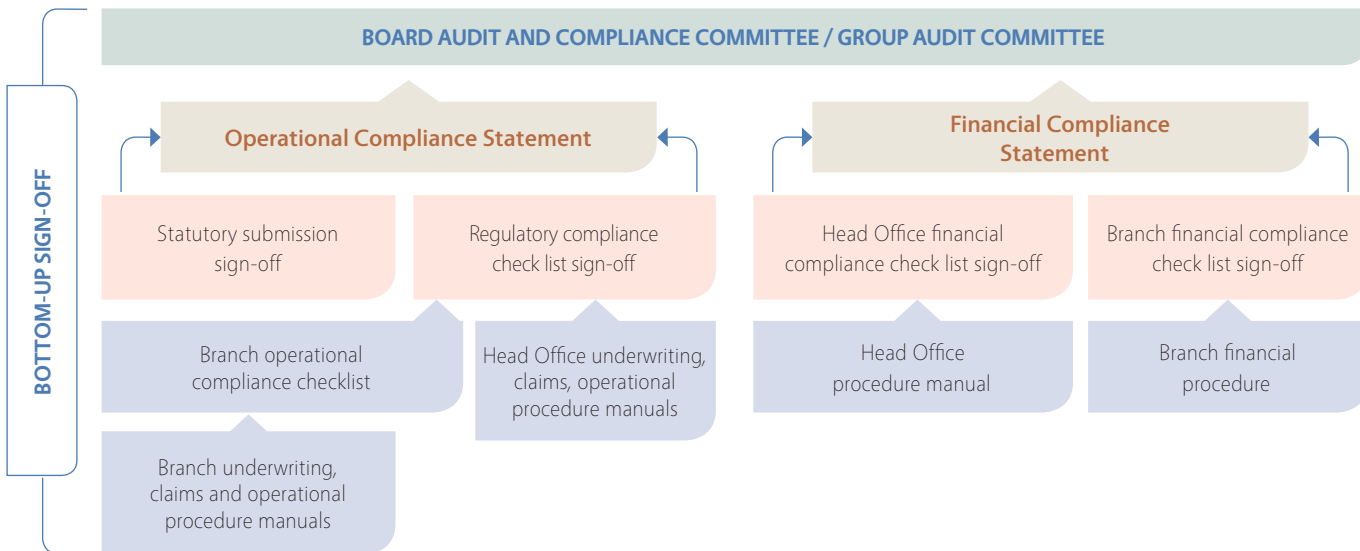
Compliance assurance is derived through a bottom-up sign-off process. Sign off checklists are based on internal policies and procedure manuals covering financial controls, regulatory compliance and operational compliance.

The financial and operational compliance statements are signed off and submitted to the BACC on a quarterly basis, and consequently reported to the JKH Group Audit and Compliance Committee. Regulatory sign-off is maintained on a monthly basis.

During the year under review Union Assurance automated the sign-off and submission of both operating and finance compliance reports.

CORPORATE GOVERNANCE

Bottom-up compliance sign-off process



ii. Employee participation in assurance

While an Open Door Policy is maintained, formal channels such as, exit interviews, employee surveys and Whistle Blower Policy provide opportunity to employees to report in good faith any genuine suspicions of wrong doing or other improprieties. The policies and practices provide for anonymity and protection of the reporting employee.

iii. Financial resource management

The Board has delegated certain financial authority to the CEO and General Managers through a comprehensively documented Manual of Financial Authority (MOFA).

iv. Fraud Risk Assessment

The Company has set up a committee to manage customer complaints channelled through the Customer Feedback System. 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.

v IT Governance

IT Governance is a subset discipline of Corporate Governance, focused on information and technology (IT) and its performance and risk management. It involves everyone across the organisation and plays a key role in maintaining a sustainable business model. For more details please refer page 122, IT Governance and Cyber Security.

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. The MOFA was revised in December 2019 with the changes in organisation structure and to strengthen the internal controls.



2.3 Code of Business Conduct & Ethics

The Board continuously emphasises on the importance of upholding ethical values by all staff members. Our comprehensive Code of Business Conduct and Ethics applies to all Directors, employees and sales Agents is published on the intranet to create greater awareness and ensure strict compliance.

2.4 Related Party Transactions and Conflicts of Interest

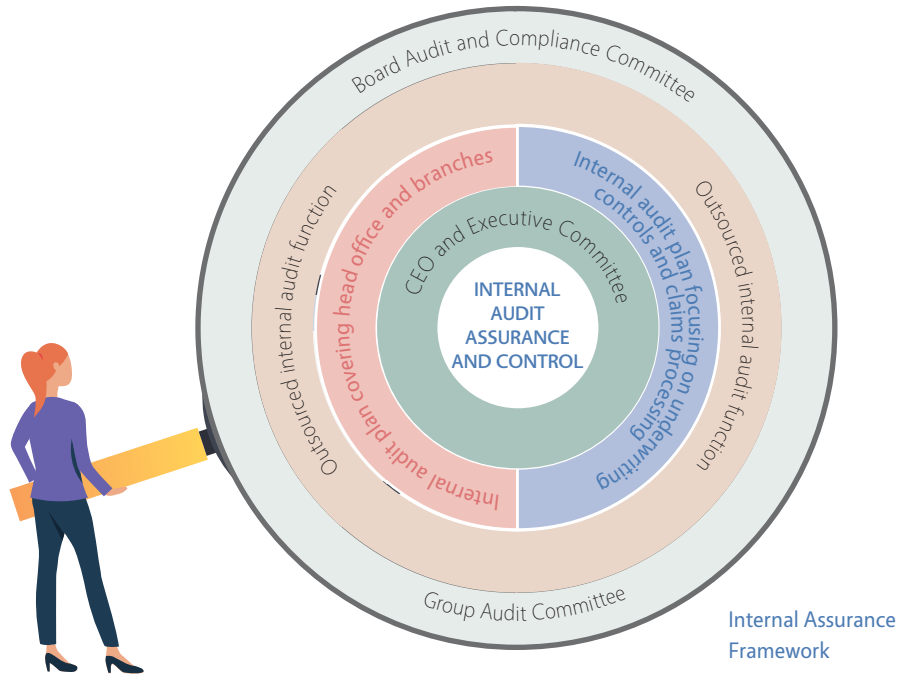
All Directors act in the best interest of the Company, avoiding any kind of conflict of interest. Directors declare their business interests at appointment, at the beginning of every financial year and in Quarterly Financial Statements. Details are maintained in a Register by the Company Secretary and tabled at the following Board meeting. The Register is available for inspection in terms of the Companies Act.

If a Director has a conflict of interest in a matter to be considered by the Board, and which the Board has determined to be material, such matters are disclosed and discussed at Board meetings where independent Non-Executive Directors who have no material interest in the transaction, are present. Such potential conflicts are subsequently reviewed by the Group Related Party Transactions Review Committee to ensure the integrity of the Board’s independence and that no related party benefits from favourable treatment.

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. Related Party Transactions Review Committee report is given on page 115.

2.5 Assurance by the Internal Auditors

The internal audit function of the Company has been outsourced to Messers. 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.

2.6 Assurance by the External Auditors

Messers. KPMG, the Company’s External Auditors performed an interim process 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 Statements are effective. This audit covered IT security and data assurance as well. 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.

(C) SUSTAINABLE BUSINESS MODEL

3.0 STRATEGY AND PERFORMANCE

UA’s continued success is underpinned by its unique business model characterised by factors including a passion for innovation, robust risk management system and inspired employees that actively exploits business opportunities while avoiding related threats. The Company integrates economic, social and environmental performance in creating stakeholder value.

3.1 Risk Management & internal Control

The Board is responsible to safeguard shareholder investments and assets of the Company and formulates and implements appropriate risk management processes and internal control systems.

The Board determines the risk appetite of the Company and has set in place a comprehensive risk identification, measurement and mitigation system. The system has been revamped from a top-down approach to a bottom-up approach. Department Heads conduct risk management workshops with their teams to identify the key strategic, operational risks affecting their functions, listing out mitigating action plans, responsibilities and target dates. Departmental risk grids are summarised and prioritised to create a high-level risk grid, reviewed by Board Audit and Compliance Committee (BACC) on a quarterly basis. A detailed overview of the process is outlined on pages 132 to 139 of this report under the Enterprise Risk Management section.

Through the BACC, the Board continued to assess the adequacy and effectiveness of the internal control system and is satisfied adequate controls and procedures are in place to provide reasonable assurance to the effect the Company’s assets are safeguarded. Refer pages 110 to 111 for the BACC report.

CORPORATE GOVERNANCE

3.2 Environment, Social and Governance Factors (ESG)

Environmental, Social and Governance are the central factors that set out the standard for operations at UA. We constantly measure and monitor the changes in our operating environment which will have an impact on the ESG factors to ensure they are properly managed. ESG factors are explained in detail under Capital Management Review. Refer Pages 48 to 95.

3.3 Succession Planning

The Company's structured succession planning process forms part of the annual performance appraisal cycle. A grid for critical positions marks the readiness of the second in command to take over within 1 year, 2 years and >3 years. Training plans for identified skills gap are designed based on this grid and addressed by providing the required people management, technical and / or soft skills training and development. The succession plan was updated 02 times during the year and 61 positions were filled internally during the year.

3.4 Business Continuity Planning

The Business Continuity Plan (BCP) is an essential element of UA'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. The Business Continuity Plan (BCP) was revamped and documented during the year with an external consultant to ensure that our Company is well prepared to respond to any unforeseen disaster situation, minimising any potential economic, social and environmental impact.

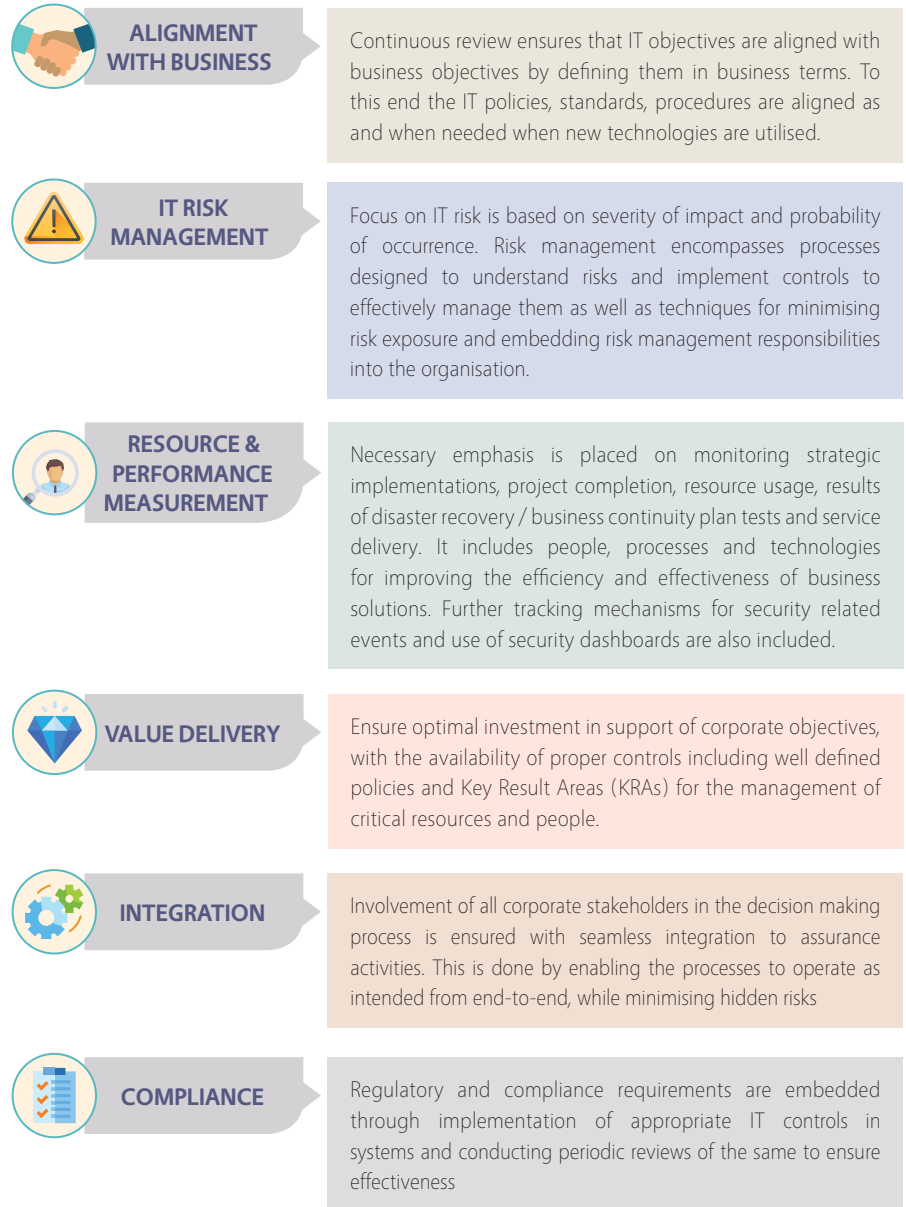
During the year the following were carried out in our BCP testing process;

- 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 05 support processes were assessed in the BCP test conducted.

3.5 IT Governance and Cyber Security

IT Governance plays a critical role in creating a sustainable business model by assuring integrity,

confidentiality and continuity of information management within the Company. The core areas of IT governance at UA are as follows;



Cyber Security

Within our IT Governance, managing Cyber Security Risk is of significant importance given the pervasive and ever-expanding threat of cyber crime.

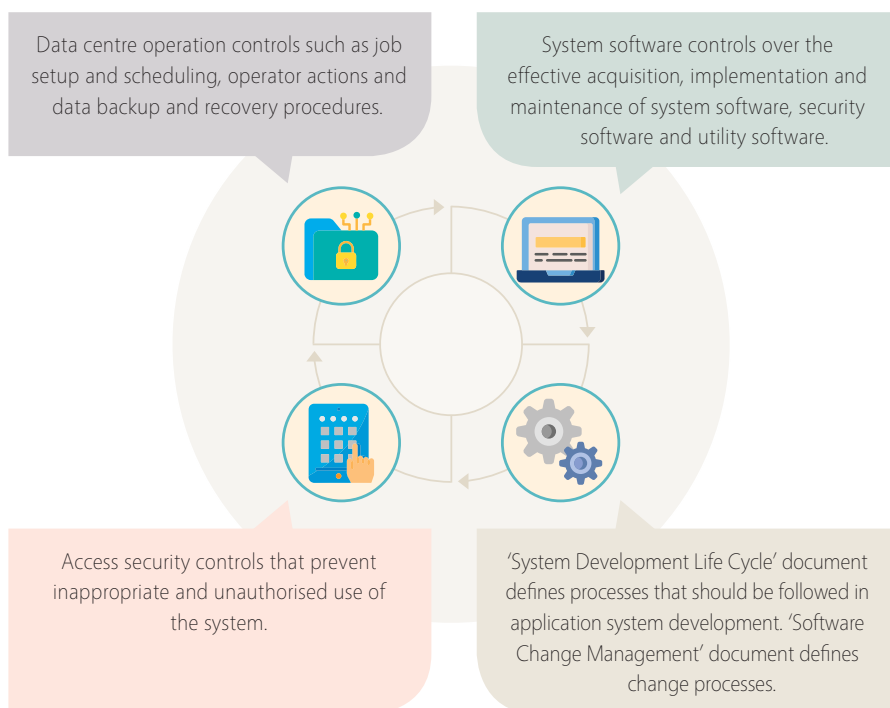
The Board places significant emphasis on ensuring that UA's soft and hard infrastructure is adequate to counter any potential breach. Data protection and cyber security are regularly addressed during the BACC.

UA is amongst the few Banking, Financial Services and Insurance 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 has implemented IBM's managed Security Operations Center (SOC) and security intelligence platform to further strengthen cyber resilience. Other

initiatives also included the data classification and rights managements initiatives for data and two-factor authentication for employee accounts as an extra layer of security that requires not only a user name and password but also input based on a device the employee has on them.

3.6 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.



3.7 Innovation

Operating in a business landscape characterized by digital technology that shapes customer experiences, challenging market conditions and increasing regulations. UA continues to adapt and innovate to remain ahead of competition. Please refer page 83 Intellectual Capital, for corporate initiatives on driving innovation.

3.8 Inspired employees

Our employees play a vital role in achieving the goals, objectives and long term strategies of the business. Pages 72 to 79 Human Capital on Capital Management Review section describes UA's systems and practices that inspire our employees to reach greater heights.

(D) BALANCING STAKEHOLDER INTERESTS

4.0 STAKEHOLDER RELATIONS

UA's governance framework ensures the Company pursues its strategic goals while balancing stakeholder interests.

4.1 Stakeholder Engagement

The Company has robust procedures in place to engage with various stakeholders. Adoption of charters for key stakeholders addresses the apparent conflicts between various stakeholder groups.

Feedback obtained from 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 well structured and comprehensive, providing valuable insights into stakeholder concerns and enabling us to provide appropriate responses while balancing multiple interests.



4.2 Communication Channels

Employee communications

- UA adopts a number of effective communications channels to ensure every employee is aware of its strategic direction, policies and procedures, high standards expected, and the corporate values each must display in their day-to-day interactions with external and internal customers.

Shareholder communications

UA used the following channels to disseminate timely information during the year;

- Shareholder meetings including the Annual General Meeting (AGM)
- Integrated Annual Report
- Financial and other notices as and when required through the Colombo Stock Exchange
- Corporate website www.unionassurance.com.
- Press notices

CORPORATE GOVERNANCE

Shareholders may also contact;

- Chief Executive Officer, Union Assurance Centre, 20, St. Michael’s Road, Colombo 3, Sri Lanka.
- The Chairman, Union Assurance PLC, 117, Sir Chittampalam A Gardiner Mawatha Colombo 02.
- Investor relations Hotline on 011-2990314 or email to investorrelations@unionassurance.com

4.3 The Annual General Meeting (AGM)

The Board uses the AGM to communicate with shareholders and encourages their participation. The AGM provides a forum for the Board to inform the shareholders of the Company’s business and how it has performed during the year. Investors have an opportunity to ask questions from the Directors and to use their votes responsibly. Notice of meeting and related documents are circulated 15 working days prior to the AGM. 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.

SHAREHOLDER VOTING - All shareholders are encouraged to participate at general meetings and cast their votes. Each matter is proposed as a separate resolution at the AGM. Proxy forms are sent with the Annual Report to shareholders who are unable to be physically present at the AGM to cast their vote.

4.4 Annual and Interim Reports

These reports contain sufficient information for investors and other stakeholders to carry out their own analysis and make informed judgements regarding the performance of the Company. The Board of Directors take reasonable

steps in ensuring that all Financial Statements are 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 discussion and analysis which explains to stakeholders the strategic, operational, investment, sustainability and risk related aspects of the Company, and the means by which value is created and is likely to influence future results.

4.5 Gender Parity

UA appreciates the positive impact on productivity and competitiveness in engaging a gender diverse workforce. The Company has adopted policies that ensure equal opportunity and a safe workplace and has implemented practices that support female employees to fulfill their career aspirations. The success of these initiatives is demonstrated in the increase in female representation to 52% of the workforce. Please refer the HR Capital report on page 78 for polices, practices and gender representative data. Board gender represents one female Director as at 31 December 2019. However, gender representation on the Executive committee is high at 43%.

Our HR policies and processes seek to provide equal opportunity and a safe environment, in the workplace.

- Non-Discrimination Policy
- Equality and Diversity Policy
- Human Rights Policy
- Anti-Harassment Policy
- Grievance Management Processes
- Code of Conduct & Ethics

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.

(E) COMPLIANCE

5.0 REGULAR FRAMEWORK

The Company is compliant with all relevant statutory and regulatory requirements. UA has in place checks and controls to ensure it complies with all laws, rules and regulations that govern the Company.

5.1 Compliance framework and self-regulation checklists

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. Similarly, a regulatory compliance checklist is signed off on a quarterly basis by the respective head of department.

5.2 Statutory and regulatory compliance

Requirement	Compliance
As required by the IRCSL, the Company submits compliance Certificate (A) and (B) to IRCSL on a quarterly basis signed off by the Chief Executive Officer (in his capacity as the Company’s Principal Officer (PO) and the CFO on behalf of the Board of Directors of the Company.	Compliance Certificate A - Certifies that Company has; <ul style="list-style-type: none"> ■ Complied with all provisions in the Regulation of Insurance Industry (RII) Act No.43 of 2000, rules, regulations, determinations, directions issued by IRCSL; Complied with all orders made by the Ministry of Finance and Planning under the RII Act, No.43 of 2000, ■ 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

Requirement	Compliance
	<p>Compliance Certificate B - Certifies that the Company has;</p> <ul style="list-style-type: none"> ■ Complied with all applicable 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 Programme for Insurers issued by IRCSL.
Compliance with Regulations governing Investments	The Life fund is adequately 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 the Capital Adequacy Ratio (CAR). CAR Reflects JA's Total Available Capital (TAC) as against Risk Capital required at a particular date. The CAR as of 31st December 2019 is 362% and 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. Refer Actuarial Report on Page 149.
Re-Insurance 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 136, all of our re-insurance arrangements are with companies that have been assigned at the minimum an 'A+' rating by an international rating agencies.
Capital Structure	As at 31 December 2019 the Company's stated capital of Rs. 1,000 Mn, exceeds the minimum share capital requirement set by the IRCSL for a life insurance Company of Rs. 500 Mn.

COMPLIANCE SUMMARY

CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS ISSUED BY INSURANCE REGULATORY COMMISSION OF SRI LANKA (IRC SL). SECTION 96 (A) OF THE REGULATION OF INSURANCE INDUSTRY ACT NO 43 OF 2000

	Requirement	Complied	Reference	Pages
i	A. Recommended to adhere to the Code of Best Practice on Corporate Governance, 2017 (the Code), issued by the Institute of Chartered Accountants of Sri Lanka,	Yes	Corporate Governance Report	129 to 131
ii	B.1. The Board must comprise a minimum of two Directors who are citizens of Sri Lanka and also residents of Sri Lanka	Yes	Board of Directors	98
iii	2. (a) The total period of service of a Director other than an Executive Director, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01 July 2019	Yes	Board of Directors	98
iv	(b) A Director who has completed nine years as at 01 July 2019, or who completes such term at any time prior to 30 June 2020, may continue for a further maximum period of 2 years commencing 01 July 2019	N/A	N/A	N/A
v	3. (a) the age of a person who serves as Director shall not exceed 70 years	Yes	Corporate Governance Report	104
vi	(b) (i) A Director who is over 75 years of age as at 01 July 2019, such Director may continue to serve as a Director for a further period that shall not extend beyond 30 June 2020, and shall be deemed to have vacated office on 30 June 2020	N/A	N/A	N/A
vii	(ii) A Director who is between 71 to 75 years of age as at 01 July 2019, such Director may continue to serve as a Director for a further period that shall not extend beyond 30 June 2021, and shall be deemed to have vacated office on 30 June 2021	N/A	N/A	N/A
viii	(iii) A Director who would reach the age of 70 years by 01 July 2019, such Director may continue to serve as a Director for a further period that shall not extend beyond 30 June 2022, and shall be deemed to have vacated office on 30 June 2022	N/A	N/A	N/A

CORPORATE GOVERNANCE

	Requirement	Complied	Reference	Pages
ix	4. The Board must adhere to Section 7.10 of the Listing Rules of the Colombo Stock Exchange (or any amendments made thereto), pertaining to Corporate Governance.	Yes	Corporate Governance Report	127 to 128
x	5. A person shall not hold office as a Director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the insurer. Of such 20 companies/entities/ institution, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995	Yes	Corporate Governance Report	107

STATEMENT OF COMPLIANCE UNDER SECTION 7.6 OF THE LISTING RULES OF THE COLOMBO STOCK EXCHANGE (CSE) ON ANNUAL REPORT DISCLOSURE

Requirement	Complied	Reference	Pages
Names of persons who during the financial year were Directors of the entity	Yes	Board of Directors	98
(ii) Principle activities of the entity and its subsidiaries during the year and any changes therein	Yes	Notes to the Financial Statements - Note 01	163
(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	Finance Capital	58
(iv) Public holding percentage	Yes	Finance Capital	57
(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	Finance Capital	57
(vi) Information pertaining to material foreseeable risk factors of the entity	Yes	Enterprise Risk Management	132 to 139
(vii) Details of material issues pertaining to employees and industrial relations of the entity	Yes	Human Capital	76
(viii) Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Yes	Notes to the Financial Statements - Note 28	202 to 206
(ix) Number of shares representing the entity's stated capital	Yes	Notes to the Financial Statements - Note 38	225
(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	Finance Capital	56 to 57
(xi) List of ratios and market price information	Yes	Finance Capital	54 to 56
(xii) Significant changes in the Company'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	Notes to the Financial Statements - Note 28	202 to 206
(xiii) Detail of fund raised either through a public issue, Rights Issue, and private placement during the year	N/A	N/A	N/A
(xiv) Employee Share Option Schemes and Employee Share Purchase Scheme	Yes	Notes to the Financial Statements - Note 42	227 to 228
(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	Corporate Governance Section	94, 114, 110 to 111
(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 There were no material transactions during the year with related parties	Yes	Notes to the Financial Statements - Note 49	236 to 240

STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE CONTINUING LISTING REQUIREMENTS OF THE COLOMBO STOCK EXCHANGE (CSE)

Requirement	Complied	Reference	Pages
7.10 COMPLIANCE WITH CORPORATE GOVERNANCE RULES			
7.10.1 Non-Executive Directors (NED)			
(a) The Board of Directors of a Listed Entity shall include at least, - two NEDs; or - such number of NEDs equivalent to one-third of the total number of Directors, whichever is higher.	Yes	Board Composition	104
(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	Board Composition	104
(c) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	N/A	N/A	N/A
7.10.2 Independent Directors			
(a) Two or one-third of NEDs, whichever is higher, should be independent.	Yes	Board Composition	104
(b) The Board shall require each NED to submit signed declaration of independence / non-independence annually	Yes	Corporate Governance Report	107
7.10.3 Disclosures Relating to Directors			
(a) Names of Independent Directors should be disclosed in the Annual Report	Yes	Board of Directors	98
(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	N/A	N/A
(c) A brief resume of each Director should be published in the annual report including the areas of expertise	Yes	Board of Directors	98
(d) A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public	Yes	Board of Directors	98
7.10.4 Criteria for Defining Independence			
(a to h) Requirements for meeting the criteria to be an Independent Director	Yes	Notes to the Financial Statements - Note 49.4	237
7.10.5 Human Resources and Compensation Committee (HRCC)			
A Listed Entity shall have a HRCC	Yes	HRCC Report	114
(a) The remuneration committee shall comprise of NEDs a majority of whom shall be independent	Yes	HRCC Report	114
(b) Functions of the HRCC shall be to recommend the remuneration of the CEO and the Executive Directors	Yes	HRCC Report	114
(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	HRCC Report Notes to the Financial Statements - Note 22	114 194
7.10.6 (A) Composition and role of the Audit Committee			
7.10.6 A listed Company shall have an Audit Committee	Yes	BACC Report	110 to 111
(a) The Audit Committee shall comprise non-executive directors a majority of whom shall be independent The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Yes	BACC Report Board of Directors	110 to 111 98

CORPORATE GOVERNANCE

Requirement	Complied	Reference	Pages
7.10.6 (B) Audit Committee - Functions			
(b) The functions of the Audit Committee shall include; Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements in accordance with Sri Lanka Accounting Standards, Overseeing the compliance with financial reporting and information requirements as per laws and regulations, Overseeing the process to ensuring the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards, Assessing of the independence and performance of the External auditors, and Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External auditors.	Yes	BACC Report	110 to 111
(c) The Annual Report shall set out; the names of the Directors who comprise the Audit Committee The Audit Committee shall make a determination of the independence of the External Auditors and disclose the basis for such determination. A report by the Audit Committee setting-out the manner of compliance of the functions set out in above, during the period to which the annual report relates.	Yes	BACC Report	110 to 111

STATEMENT OF COMPLIANCE UNDER SECTION 9.3.2 OF THE CONTINUING LISTING REQUIREMENTS OF THE COLOMBO STOCK EXCHANGE (CSE)

Requirement	Complied	Reference	Page
(a) Details pertaining to Non-Recurrent Related Party Transactions	Yes	Notes to the Financial Statements - Note 49	236 to 237
(b) Details pertaining to Recurrent Related Party Transactions	Yes		
(c) Report of the Related Party Transactions Review Committee	Yes	RPTRC Report	115
(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 Report	121

CONTENT OF THE ANNUAL REPORT AS PER SECTION 168 OF THE COMPANIES ACT NO. 7 OF 2007

	Rule	Complied	Reference	pages
168 (1) (a)	The nature of the business together with any change thereof	Yes	Notes to the Financial Statements - Note 01	163
168 (1) (b)	Signed Financial Statements of the Company	Yes	Financial statements	156 to 241
168 (1) (c)	Auditors' Report on Financial Statements	Yes	Independent Auditors' Report	151 to 154
168 (1) (d)	Accounting policies and any changes therein	Yes	Notes to the Financial Statements	163 to 241
168 (1) (e)	Particulars of the entries made in the Interests Register	Yes	Annual Report of the Board of Directors on the affairs of the Company	145

	Rule	Complied	Reference	pages
168 (1) (f)	Remuneration and other benefits paid to Directors of the Company	Yes	Notes to the Financial Statements - Note 22	194
168 (1) (g)	Corporate donations made by the Company	Yes	Annual Report of the Board of Directors on the affairs of the Company	145
168 (1) (h)	Information on Directorate of the Company at the end of the accounting period	Yes	Board of Directors	98
168 (1) (i)	Amounts paid/payable to the External Auditor as audit fees and fees for other services rendered	Yes	Notes to the Financial Statements - Note 22	194
168 (1) (j)	Auditors' relationship or any interest with the Company	Yes	BACC Report	110 to 111
168 (1) (k)	Acknowledgement of the contents of this Report and signatures on behalf of the Board	Yes	Annual Report of the Board of Directors on the affairs of the Company	143 to 147

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE (2017) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA) *

Code ref	Requirement	Complied	Reference	Pages
A. DIRECTORS				
A.1	Effective Board	Yes	Corporate Governance Report	104
A.1.1	Regular meetings	Yes	Corporate Governance Report	106
A.1.2	Role and responsibilities of the Board	Yes	Corporate Governance Report	105
A.1.3	Act in accordance with laws of the country. Obtain professional advice, when required.	Yes	Corporate Governance Report	107
A.1.4	Access to advice and services of Company Secretary	Yes	Corporate Governance Report	119
A.1.5	Independent judgement	Yes	Corporate Governance Report	107
A.1.6	Dedicate adequate time and effort to matters of the Board and the Company	Yes	Corporate Governance Report	106
A.1.7	One-third of the Directors can call for a resolution	Yes	Corporate Governance Report	107
A.1.8	Board induction and training	Yes	Corporate Governance Report	107
A.2	Division of responsibilities between Chairman and CEO	Yes	Corporate Governance Report	105
A.3	Chairman's role in preserving good Corporate Governance	Yes	Corporate Governance Report	105
A.4	Availability of financial acumen	Yes	Corporate Governance Report	104
A.5	Board balance	Yes	Corporate Governance Report	104
A.6	Supply of timely information	Yes	Corporate Governance Report	108
A.7	Appointments to the Board	Yes	Corporate Governance Report	106
A.8	Re-election	Yes	Corporate Governance Report	107
A.9	Appraisal of Board Performance	Yes	Corporate Governance Report	108
A.10	Disclosure of Information in Respect of Directors	Yes	Board of Directors Corporate Governance Report	98 107
A.11	Appraisal of the Chief Executive Officer (CEO)	Yes	Corporate Governance Report	108

CORPORATE GOVERNANCE

Code ref	Requirement	Complied	Reference	Pages
B.				
B.1	Remuneration Procedure	Yes	HRCC Report	114
B.2	The Level and Make up of Remuneration	Yes	Corporate Governance Report Notes to the Financial Statements - Note 22	108 194
B.3	Disclosure of Remuneration	Yes	Notes to the Financial Statements - Note 22	194
C.				
C.1	Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings	Yes	Notice of Meeting Proxy Form	270 271 to 272
C.2	Communication with Shareholder	Yes	Corporate Governance Report	123
C.3	Major and Material Transactions	Yes	During the year, there were no major or material transactions, that required disclosure. Notes to the Financial Statements - Note 49	236 to 240
D.				
D.1	Financial and Business Reporting Management Discussion and Analysis. Annual Report of the Board of Directors Statement of Compliance Statement of Directors' Responsibility Statement of Going Concern of the Company is set out in the Statement of Directors' Responsibility Directors' Statement on Internal Control over Financial Reporting Independent Auditors' Report Managing Director's and Chief Financial Officer's Statement of Responsibility Related Party Transactions disclosure of the Statement of Compliance, Note 49 in the Financial Statements Process in place is described in the Report of the Related Party Transaction Review Committee.	Yes		28 to 92 143 to 147 125 to 131 150 164 116 151 to 154 148 236 to 240 1 15
D.2	Risk Management and Internal Control	Yes	Enterprise Risk Management BACC Report Directors Report on Internal Controls	132 to 139 110 to 111 116 to 117
D.3	Audit Committee	Yes	BACC Report	110 to 111
D.4	Related Party Transaction Review Committee	Yes	RPTRC Report	115
D.5	Code of Business Conduct and Ethics	Yes	Corporate Governance Report	124
D.6	Corporate Governance Disclosure	Yes	Corporate Governance Report	98 to 131

Code ref	Requirement	Complied	Reference	Pages
E. INSTITUTIONAL INVESTORS				
E.1	Shareholder Voting	Yes	Corporate Governance Report	124
E.2	Evaluation of Governance Disclosure Institutional investors are kept apprised of the Company's governance practices through the Annual Report and new initiatives are highlighted at regular meetings to ensure that due weight-age is given to good Corporate Governance	Yes	Stakeholders Relationship	32
F.				
F.1	Investing / Divesting Decisions	Yes	Stakeholder Engagement Communication Channels Annual General Meeting	30 to 33 30 to 33 270
F.2	Shareholder Voting	Yes	Corporate Governance Report	124
G.				
G	Internet Of Things And Cyber security	Yes	Corporate Governance Report	122
H.				
H.1	Environment, Social and Governance (ESG) Reporting	Yes	Management Discussion and Analysis Corporate Governance Report Materiality	07 122 34 to 36

* Complied to the extent of business exigency.

Enterprise Risk Management

Enterprise Risk Management (ERM) is fundamental to our strategy and how we do business. UA has a sound Risk Management Framework that ensures risks are managed in a consistent way across the Company with appropriate oversight and accountability.

RISK MANAGEMENT HIGHLIGHTS 2019

- Implementation of Middle Office Function of the Investment activities
- Maintenance of ISO 27001:2013 certification
- Introduction of departmental risk grids and automating the Company risk grid
- Update of Business Continuity Plan to accommodate changes in the operating environment
- Revisiting the Manual of Financial Authority (MOFA) and revamping same to be inline with the dynamic organisational changes
- Appoint external consultant to advise on I-E assessment
- Strategic partnership entered to manage the equity portfolio of the Company

RISK POLICY

UA's Risk Policy specifies the Company's risk tolerance, risk limits and authorities, reporting requirements, procedures to approve any exceptions & procedures for referring risk issues to Board Audit and Compliance Committee (BACC) and the Board of Directors.

RISK CULTURE

UA promotes a strong risk culture, encourages risk awareness, understanding of controls by way of clear communication and training. Every employee is responsible for managing risks in his / her working environment and is accountable for the implementation and oversight of risk policies.

RISK MANAGEMENT & INTERNAL CONTROL

The Board considers risk management and internal controls as integral to the management of UA and its business processes. 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. Management, as the first line of defence, is responsible for identifying, evaluating and addressing significant risks, and designing, implementing and maintaining internal controls.



VISION

To enhance the value of UA by embedding disciplined risk taking in its culture, ensuring risk-reward trade-offs are transparent, understood and risks taken are appropriately rewarded.



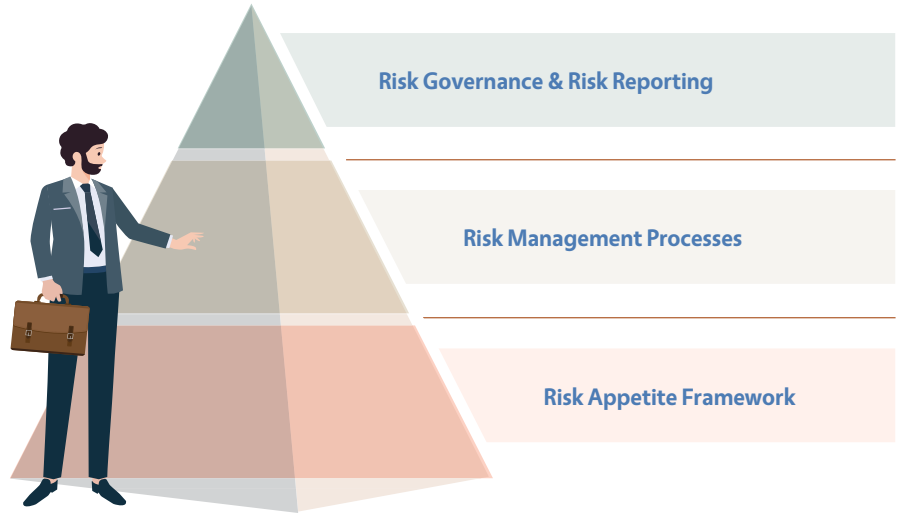
OBJECTIVES

- Protect the capital base by continuous monitoring to ensure that risks are not taken beyond the Company's risk tolerance levels
- Transferring, minimising and mitigating risks
- Enhance value creation, contributing to an optimal risk-return profile by providing the basis for efficient capital deployment
- Support decision making process by providing consistent, reliable and timely risk information
- Protect UA's reputation and brand by promoting a sound culture of risk awareness and informed risk taking.
- Integrating risk management with strategy development



ENTERPRISE RISK MANAGEMENT FRAMEWORK

Our ERM framework is underpinned by a strong risk management culture and control environment. Rigorous and consistent risk management is embedded across the Company through our systems of governance, risk management processes and risk appetite framework. We have managed our risk within our approved risk appetite and the Company is well capitalised and able to handle current and emerging stress scenarios.



Risk Governance and Risk Reporting

THE BOARD AND ITS SUB-COMMITTEE

The Board has ultimate responsibility for risk management, including approval of strategy and setting risk appetite. Responsibility to design, implement and monitor the risk management plan has been delegated to the CEO supported by Senior Management, and is annually evaluated. Board reviews risk grid reports quarterly and receives additional updates where required.

1st line of Defence

Business Line Management

Primary risk and control Responsibility

- Promotes risk culture
- Complies with risk appetite
- Owner of risk management processes.
- Responsible for day-to-day risk management within risk tolerances as per delegated authority
- Development, periodic review, updating and reporting of departmental risk grids

2nd line of Defence

CEO + Corporate Management Team

Oversight

- Develops policies and standards
- Sets Roles and Responsibilities
- Develops risk management processes and controls
- Monitors and reports on risk
- Guided by the BACC and Board

3rd line of Defence

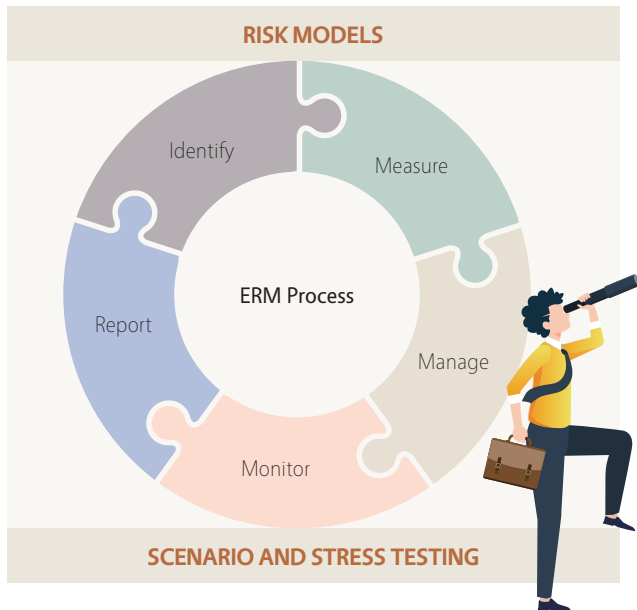
Internal and External Audit

Independent Assurance

- Provides independent and objective challenge to the levels of assurance provided by business operations and oversight
- Validates processes in the risk management framework
- External Audit gives assurance on the Financial Statements

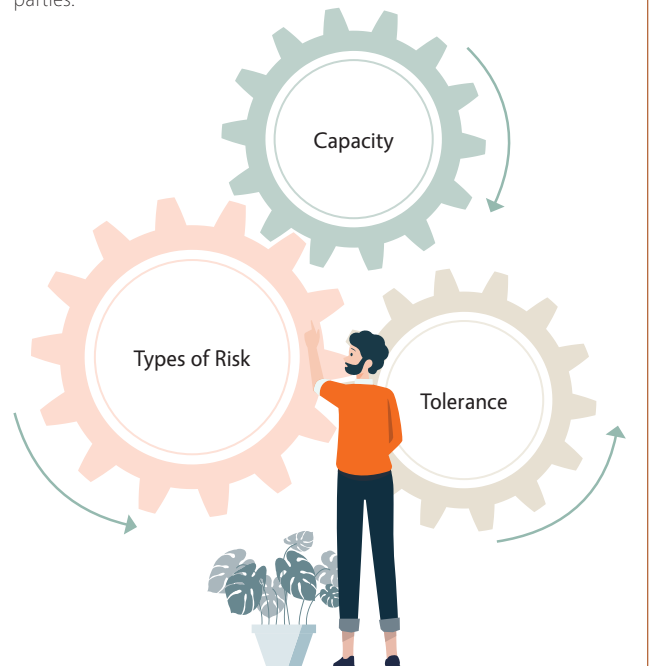
RISK MANAGEMENT PROCESS

Our Risk Management process including risk models, stress and scenario testing enables UA to identify, measure, manage, monitor and report risks to ensure the Company remains within the approved risk appetite. These processes facilitate dynamic risk-based decision-making and effective day-to-day risk management.



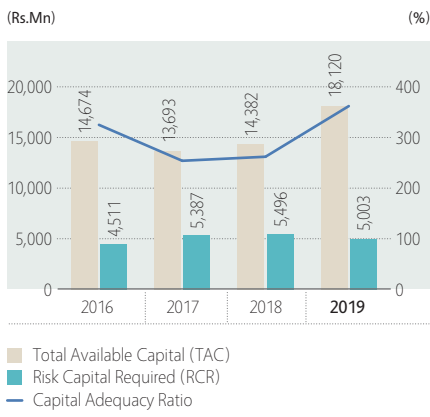
RISK APPETITE FRAMEWORK

This refers to the aggregate level and type of risk that UA is willing to accept to meet strategic objectives. It includes risks UA accepts but seeks to minimize, risks the Company seeks to avoid or transfer to third parties.



KEY RISK INDICATORS

Capital Adequacy Ratio (CAR)

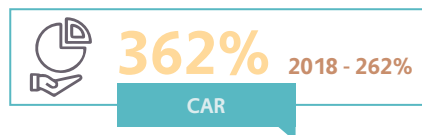


Insurance Regulatory Commission of Sri Lanka (IRCSL) stipulates a minimum Total Available Capital of Rs. 500 Mn. UA maintained a healthy CAR in excess of 120% with a significant margin on a consistent basis.

The table below 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.

Objectives	Base Case Rs. "000"	One percent point increase in yield curve	One percent point decrease in yield curve
Total Available Capital (TAC)	18,120,323	18,775,955	17,362,447
Formula Risk-based Capital Required (RCR)	5,003,128	5,412,615	4,631,624
Surrender Value Capital Charge (SVCC)	255,663	823,746	33,560
Risk Based Capital requirement (RCR)	5,003,128	5,412,615	4,631,624
Risk-based Capital Adequacy Ratio (CAR)	362%	347%	375%

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



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.

Lapse Risk

As reflected below, lapse risk represents the Company's largest life insurance specific risk-exposure.

Scenario:

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

Objectives	Base Case Rs. "000"	Three Percent points decrease in Yield Curve
TAC	18,120,323	18,358,676
FRCR	5,003,128	5,145,769
SVCC	255,663	512,216
RCR	5,003,128	5,145,769
CAR	362%	357%

Determination 1

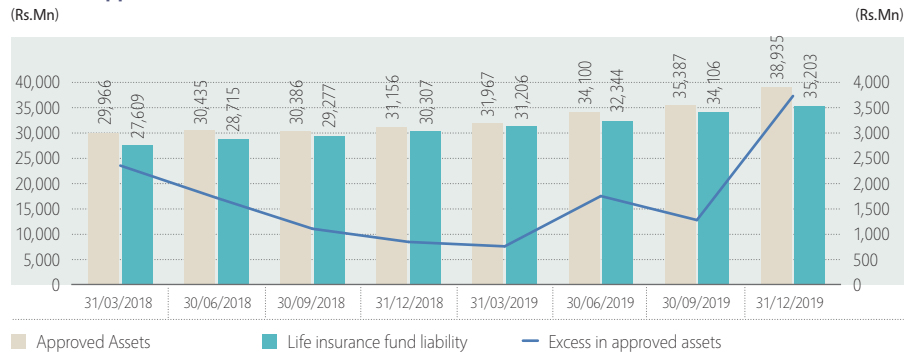
Excess in Admissible Assets

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.

As indicated in the below graphs UA has maintained a significant excess in approved assets over the quarters.

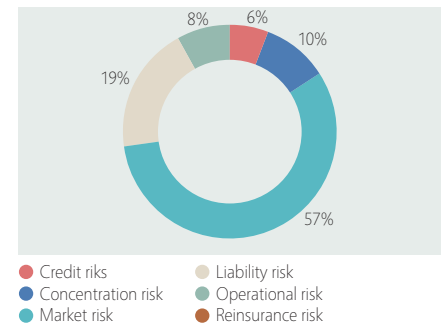
Excess in Approved Assets



Risk Capital Required by Risk Type (Risk Based Capital)

The chart below shows UA's risk capital required by type of risk as of 31 December 2019 and 31 December 2018 respectively. As of 31 December 2019, the largest proportion of UA risk capital requirement arose from market risk which comprised 57% of the total. Liability risk was the second largest, comprising 19%.

Risk Capital Required By Type of Risk (%)



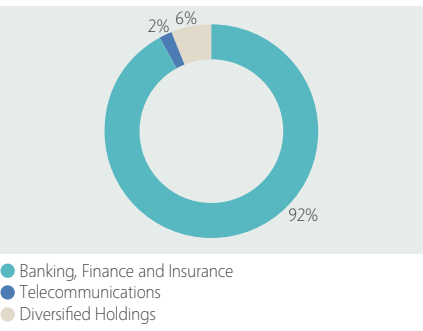
ENTERPRISE RISK MANAGEMENT

KEY RISK SUMMARY

Key Risk	Mitigants to Risk																														
INSURANCE RISK																															
<p>Liability/Life Insurance Risk</p> <p>Inherent uncertainty regarding occurrence, amount or timing of insurance liabilities. Exposure is transferred to UA through the underwriting process</p>	<ul style="list-style-type: none"> 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 																														
<p>Natural Catastrophe Risk</p> <p>Impact from natural catastrophes such as spread of contagious diseases</p>	Retention of sufficient excess of loss limits per annum and per event																														
<p>Concentration Risk</p> <p>Risk of exposure to increased losses arising from inadequately diversified portfolios of assets or obligations.</p>	<p>Concentration risk is managed by maintaining a diversified portfolio of assets</p> <div style="display: flex; justify-content: space-around;"> <div style="width: 45%;"> <p>Corporate Debt Securities (%)</p> <table border="1"> <caption>Corporate Debt Securities (%)</caption> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>Banking, Finance and Insurance</td><td>92%</td></tr> <tr><td>Diversified Holdings</td><td>6%</td></tr> <tr><td>Telecommunications</td><td>2%</td></tr> </table> </div> <div style="width: 45%;"> <p>Quoted Equity (%)</p> <table border="1"> <caption>Quoted Equity (%)</caption> <tr><th>Category</th><th>Percentage</th></tr> <tr><td>Banking, Finance and Insurance</td><td>66%</td></tr> <tr><td>Manufacturing</td><td>16%</td></tr> <tr><td>Diversified Holdings</td><td>12%</td></tr> <tr><td>Construction and Engineering</td><td>4%</td></tr> <tr><td>Telecommunications</td><td>2%</td></tr> </table> </div> </div> <ul style="list-style-type: none"> 92% 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. 66% of UA quoted equities represent the banking, finance and insurance sector. UA predominantly invested in equities of the these sectors considering credit risk and stability. 	Category	Percentage	Banking, Finance and Insurance	92%	Diversified Holdings	6%	Telecommunications	2%	Category	Percentage	Banking, Finance and Insurance	66%	Manufacturing	16%	Diversified Holdings	12%	Construction and Engineering	4%	Telecommunications	2%										
Category	Percentage																														
Banking, Finance and Insurance	92%																														
Diversified Holdings	6%																														
Telecommunications	2%																														
Category	Percentage																														
Banking, Finance and Insurance	66%																														
Manufacturing	16%																														
Diversified Holdings	12%																														
Construction and Engineering	4%																														
Telecommunications	2%																														
<p>Underwriting Risk</p> <p>Risk of insured losses being higher than expectations.</p>	In measuring loss provisions, we follow a cautious approach and assess uncertainties conservatively. In every quarter, we also compare notified losses with our loss expectancy, in order to sustain an adequate level of reserves.																														
<p>Re-Insurance Risk</p> <p>Inability for UA to obtain insurance from the reinsurer at the right time and at an appropriate cost</p>	<p>We select reinsurers with an 'A' or above credit Rating from International rating agencies.</p> <table border="1"> <thead> <tr> <th>Reinsurer</th> <th>Financial Strength Rating</th> <th>Credit Rating</th> <th>Rating Agency</th> </tr> </thead> <tbody> <tr> <td> Munich RE</td> <td>AA</td> <td>AA</td> <td>Fitch</td> </tr> <tr> <td> hannover re</td> <td>AA-</td> <td>AA-</td> <td>Standard & Poor's</td> </tr> <tr> <td> PartnerRe</td> <td>A+</td> <td>A+</td> <td>Fitch</td> </tr> <tr> <td> RGA</td> <td>A+</td> <td>AA-</td> <td>Standard & Poor's</td> </tr> </tbody> </table> <p>The cession rate</p> <p>The cession rate for reinsurers was 4.5% 31 December 2019 (6.4% - 31 December 18)</p> <p>Cession Rate (%)</p> <table border="1"> <caption>Cession Rate (%)</caption> <tr><th>Year</th><th>Cession Rate (%)</th></tr> <tr><td>2016</td><td>5.1</td></tr> <tr><td>2017</td><td>4.9</td></tr> <tr><td>2018</td><td>6.4</td></tr> <tr><td>2019</td><td>4.5</td></tr> </table>	Reinsurer	Financial Strength Rating	Credit Rating	Rating Agency	Munich RE	AA	AA	Fitch	hannover re	AA-	AA-	Standard & Poor's	PartnerRe	A+	A+	Fitch	RGA	A+	AA-	Standard & Poor's	Year	Cession Rate (%)	2016	5.1	2017	4.9	2018	6.4	2019	4.5
Reinsurer	Financial Strength Rating	Credit Rating	Rating Agency																												
Munich RE	AA	AA	Fitch																												
hannover re	AA-	AA-	Standard & Poor's																												
PartnerRe	A+	A+	Fitch																												
RGA	A+	AA-	Standard & Poor's																												
Year	Cession Rate (%)																														
2016	5.1																														
2017	4.9																														
2018	6.4																														
2019	4.5																														

Key Risk	Mitigants to Risk																																																																
	<p>UA structures and aligns its reinsurance programmes 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.</p> <p>We continued to upgrade the knowledge of our underwriters through training including overseas training via re-insurers.</p> <p>Other than medical underwriting, rest was automated via Straight Through Processing (STP). Company maintained an impressive STP rate of 51% during the period under review.</p>																																																																
ASSET LIABILITY MANAGEMENT/MARKET / CREDIT RISK																																																																	
<p>Credit Risk</p> <p>Loss or potential loss from counterparties failing to fulfill their financial obligations</p> <ul style="list-style-type: none"> ■ Investment Portfolio ■ Reinsurance Assets ■ Receivables 	<ul style="list-style-type: none"> ■ 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. ■ Use of ratings assigned by external rating agencies to assess counterparty credit worthiness ■ Active use of collateral to support credit risk ■ Prudent Credit Policy which limits investments to high grade corporate credit in line with the Investment policy and above regulatory minimum criteria. ■ We 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 <p>Credit risk concentration</p> <p>There is no unapproved material exposure in excess of the Company's limits for counterparty aggregation as of year-end.</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p>Investment Portfolio</p> <p>(%)</p> <table border="1"> <caption>Investment Portfolio (%)</caption> <thead> <tr> <th>Rating</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Risk Free</td> <td>80%</td> </tr> <tr> <td>AAA (Fitch)</td> <td>1%</td> </tr> <tr> <td>AA+ (Fitch)</td> <td>4%</td> </tr> <tr> <td>AA (Fitch)</td> <td>10%</td> </tr> <tr> <td>BBB+ (Fitch)</td> <td>5%</td> </tr> <tr> <td>Unrated</td> <td>0%</td> </tr> </tbody> </table> </div> <div style="width: 48%;"> <p>Cash & Bank</p> <p>(%)</p> <table border="1"> <caption>Cash & Bank (%)</caption> <thead> <tr> <th>Rating</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Cash in hand</td> <td>41%</td> </tr> <tr> <td>AAA</td> <td>32%</td> </tr> <tr> <td>AA+</td> <td>6%</td> </tr> <tr> <td>AA</td> <td>13%</td> </tr> <tr> <td>AA-</td> <td>4%</td> </tr> <tr> <td>A+</td> <td>2%</td> </tr> <tr> <td>A</td> <td>1%</td> </tr> <tr> <td>A-</td> <td>1%</td> </tr> <tr> <td>BBB-</td> <td>0%</td> </tr> </tbody> </table> </div> </div> <p>80% of the investment portfolio of UA is on risk free securities</p> <div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p>Policyholders Loans</p> <table border="1"> <thead> <tr> <th>Age Analysis</th> <th>31.12.2019 Rs. Mn</th> <th>31.12.2018 Rs. Mn</th> </tr> </thead> <tbody> <tr> <td>Past due but not impaired</td> <td>935</td> <td>86</td> </tr> <tr> <td>61- 90 days</td> <td>140</td> <td>47</td> </tr> <tr> <td>91-180 days</td> <td>132</td> <td>112</td> </tr> <tr> <td>181 days +</td> <td>348</td> <td>974</td> </tr> <tr> <td>Total - Maximum exposure to credit risk</td> <td>1,556</td> <td>1,219</td> </tr> </tbody> </table> </div> <div style="width: 48%;"> <p>Premium Receivable</p> <table border="1"> <thead> <tr> <th>Age Analysis</th> <th>31.12.2019 Rs. Mn</th> <th>31.12.2018 Rs. Mn</th> </tr> </thead> <tbody> <tr> <td>0-30 days</td> <td>344</td> <td>332</td> </tr> <tr> <td>Over 30 days</td> <td>Nil</td> <td>Nil</td> </tr> <tr> <td>Total - Maximum exposure to credit risk</td> <td>344</td> <td>332</td> </tr> </tbody> </table> </div> </div>	Rating	Percentage	Risk Free	80%	AAA (Fitch)	1%	AA+ (Fitch)	4%	AA (Fitch)	10%	BBB+ (Fitch)	5%	Unrated	0%	Rating	Percentage	Cash in hand	41%	AAA	32%	AA+	6%	AA	13%	AA-	4%	A+	2%	A	1%	A-	1%	BBB-	0%	Age Analysis	31.12.2019 Rs. Mn	31.12.2018 Rs. Mn	Past due but not impaired	935	86	61- 90 days	140	47	91-180 days	132	112	181 days +	348	974	Total - Maximum exposure to credit risk	1,556	1,219	Age Analysis	31.12.2019 Rs. Mn	31.12.2018 Rs. Mn	0-30 days	344	332	Over 30 days	Nil	Nil	Total - Maximum exposure to credit risk	344	332
Rating	Percentage																																																																
Risk Free	80%																																																																
AAA (Fitch)	1%																																																																
AA+ (Fitch)	4%																																																																
AA (Fitch)	10%																																																																
BBB+ (Fitch)	5%																																																																
Unrated	0%																																																																
Rating	Percentage																																																																
Cash in hand	41%																																																																
AAA	32%																																																																
AA+	6%																																																																
AA	13%																																																																
AA-	4%																																																																
A+	2%																																																																
A	1%																																																																
A-	1%																																																																
BBB-	0%																																																																
Age Analysis	31.12.2019 Rs. Mn	31.12.2018 Rs. Mn																																																															
Past due but not impaired	935	86																																																															
61- 90 days	140	47																																																															
91-180 days	132	112																																																															
181 days +	348	974																																																															
Total - Maximum exposure to credit risk	1,556	1,219																																																															
Age Analysis	31.12.2019 Rs. Mn	31.12.2018 Rs. Mn																																																															
0-30 days	344	332																																																															
Over 30 days	Nil	Nil																																																															
Total - Maximum exposure to credit risk	344	332																																																															

ENTERPRISE RISK MANAGEMENT

Key Risk	Mitigants to Risk								
<p>Market Risk</p> <p>Risk associated with UA's financial position where the value or cash flow depends on financial markets.</p> <p>Risk factors include:</p> <ul style="list-style-type: none"> ■ Equity market prices - price fluctuations on equity securities may affect the Company's liquidity, reported income, surplus and regulatory capital position. ■ Property market prices ■ Interest rates - risk of loss resulting from changes in interest rates, including changes in the shape of yield curves; of instruments such as debt securities, reserves for insurance contracts, employee benefit plans, loans and receivables. 	<ul style="list-style-type: none"> ■ Market risk is managed on an economic total balance sheet basis of assets relative to liabilities, to achieve maximum risk-adjusted excess return on assets while considering UA's risk tolerance and local regulatory constraints. ■ Setting limits on concentration in investments in single issuers and certain asset classes. ■ Monitoring and review by the Investment Committee of the Company's strategic asset allocation, tactical boundaries and Company asset / liability exposure. Please refer Investment Committee report on page XX for further information. ■ Actively managing the equity portfolio to ensure realised gains are capitalised and to protect the equity base from any possible mark to market losses. ■ Monitoring interest rate risk on a monthly basis by analysing the movement in the interest rate-sensitive asset duration, allocation to interest-rate sensitive assets, sensitivity of interest rate movements on the solvency margin, leverage derivatives such as forward interest rate bookings to mitigate interest rate risk. ■ Managing 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. <p>Corporate Debt Securities</p> <p>(%)</p>  <table border="1"> <caption>Corporate Debt Securities Distribution</caption> <thead> <tr> <th>Category</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Banking, Finance and Insurance</td> <td>92%</td> </tr> <tr> <td>Telecommunications</td> <td>2%</td> </tr> <tr> <td>Diversified Holdings</td> <td>6%</td> </tr> </tbody> </table> <p>Investments in the banking, finance and insurance industry are significant due to better credit quality and stability.</p>	Category	Percentage	Banking, Finance and Insurance	92%	Telecommunications	2%	Diversified Holdings	6%
Category	Percentage								
Banking, Finance and Insurance	92%								
Telecommunications	2%								
Diversified Holdings	6%								
<p>Liquidity Risk</p> <p>Risk occurs when the Company, though solvent, either does not have sufficient financial resources available to meet its obligations as they fall due or can secure them only at excessive cost.</p>	<ul style="list-style-type: none"> ■ Regular forecasting of detailed liquidity requirements based on business' input. ■ Maintaining sufficient cash and cash equivalents and high-quality liquid investment portfolios as part of UA's liquidity management, to meet outflows under expected and stressed conditions. ■ Monitoring investment portfolio to maintain an appropriate level of liquidity by placing limits on assets not readily realizable. <p>UA maturity profile of investments is given on page 177 of this report</p>								
OPERATIONAL RISK									
<p>Core Operational Risk</p> <p>Risk of loss resulting from inadequate or failed internal processes, people, systems or from external events such as outsourcing, catastrophes, legislation, or fraud.</p>	<ul style="list-style-type: none"> ■ Comprehensive framework in place with a common approach to identify, assess, quantify, mitigate, monitor and report operational risks. Within this framework, the Company: <ul style="list-style-type: none"> ◆ Documents and reviews loss events exceeding a threshold determined by UA's Risk Policy. Remedial action is taken to avoid recurrence of such loss events. ◆ Conducts risk assessments where operational risks above a certain threshold identified from internal control assessments, audit findings, loss events documented and tracked. 								

Key Risk	Mitigants to Risk
<p>Data Security Risk Cyber risks and threats to data security</p>	<ul style="list-style-type: none"> ■ Protection of data held with business partners through contractual arrangements and controls built into 'cloud governance' procedures, in compliance with regulatory requirements and UA's Information Security Policies. ■ Establishment of a Cyber Security Policy in line with the JKH Group policy ■ Implementation of IBM's managed Security Operations Centre (SOC) and security intelligence platforms
<p>Fraud Risk When a claimant attempts to obtain a benefit or advantage they are not entitled to.</p>	<ul style="list-style-type: none"> ■ 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. ■ Forestpin, an analytical and risk alert tool is used for claim and customer complaint settlement processes to identify outliers in a timely manner. Forestpin alerts, covers payment, claim and customer complaint settlement processes. Forestpin alert tool was extended to branch receipting functions during the year under review
STRATEGIC RISK	
<p>Reputational Risk Risk that negative publicity regarding Company's business practices will lead to a loss of confidence amongst stakeholders</p>	<p>Complying with applicable laws and regulations, and by following the core values, principles and code of conduct of the Company, which promotes integrity and good business practices.</p>
<p>Governance Risk Risk of not adhering to the Company's governance framework and this results in negative impact to progress and achievements of the Company</p>	<p>As discussed under Corporate Governance section Board Sub Committees and Company Executive Committee have been set up to ensure good governance</p>
<p>Strategic Risk Risk that UA is unable to achieve its strategic targets which arise from</p> <ul style="list-style-type: none"> ■ Inadequate assessment of strategic plans ■ Ineffective implementation of strategic plans, and ■ Unexpected changes to assumptions underlying strategic plans 	<p>UA defines 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 2019, the Executive Committee assessed the key strategic risk scenarios, looking at 2019 and beyond. UA assessed risks in executing the Company's transformation programmes for agency, Bancassurance and operations, delivering on its customer strategy, information security and cyber risks.</p> <p>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.</p>

Thinking *about your prosperity*

Over the years, we have cultivated our products and services, sharpening our skills to deliver optimum value and stable returns, as evidenced by the information presented in the section that follows.

Financial *Information*



143	Annual Report of the Board of Directors on the Affairs of the Company
149	Actuary's Report
150	Statement of Director's Responsibility
151	Independent Auditors' Report
155	Table of Contents
156	Income Statement

157	Statement of Profit or Loss and Other Comprehensive Income
158	Statement of Financial Position
159	Statement of Changes in Equity
161	Statement of Cash Flows
163	Notes to the Financial Statements

FINANCIAL CALENDAR

	2019	2020
33 Annual General Meeting to be held on	N/A	31-Mar-20
32 Annual General Meeting held on	29-Mar-19	N/A
The first and final dividends for the year 2018 paid on	27-Mar-19	N/A
Audited financial statements of proceeding year authorized on	27-Feb-19	08-Feb-20
Interim financial statements will be published as per rule 7.4 of the Colombo Stock Exchange		
Interim results for the three months ended 31 March (Unaudited)	13-May-19	15-May-20
Interim results for the three months ended 30 June (Unaudited)	6-Aug-19	15-Aug-20
Interim results for the three months ended 31 September (Unaudited)	13-Nov-19	15-Nov-20
Interim results for the three months ended 31 December (Unaudited)	28-Feb-20	28-Feb-21

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 2019.

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 20 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 2019 was Rs. 11,648 million (2018 – Rs. 11,244 million).

FINANCIAL RESULTS AND APPROPRIATIONS

The net profit after tax of the Company was Rs.1,158 million for the year (2018 - Rs.3,244 million).

A synopsis of the performance is presented below;

For the year ended 31st December	2019	2018
Union Assurance PLC	Rs.'000	Rs.'000
Profit after tax	1,158,030	3,243,842
Balance brought forward from previous year	7,625,794	5,438,052
Profit available for appropriations	8,783,824	8,681,894
Appropriations		
Dividend paid for previous year	(1,178,571)	(1,060,715)
Transfer from revaluation reserve	4,615	4,615
Un-appropriated profit carried forward	7,609,868	7,625,794

FINANCIAL STATEMENTS AND AUDITORS' REPORT

The financial statements for the year ended 31st December 2019 have been prepared in accordance with the 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 156 to 241 and the Auditors' Report on the financial statements is provided on pages 151 to 154 of this Annual Report.

ACCOUNTING POLICIES

Details of accounting policies are presented on Pages 163 to 241 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 except for SLFRS 16 - leases standard the Company adopted with effect from 1 January 2019. For all periods up to and including the year ended 31st December 2019, the Company prepared its financial statements in accordance with the 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 ended 31 December 2019, out of retained earnings (2018 – Rs. 20). The Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 56 of the Companies Act and has obtained a certificate from the auditors prior to declaring the dividend. The dividend is paid out of retained earnings of the Company.

PROVISION FOR TAXATION

The Company is liable to income tax at 28% (2018 - 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 23 to the financial statements on page 195.

PROPERTY, PLANT AND EQUIPMENT

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 98 million. The carrying value of property, plant and equipment as at 31st December 2019 was Rs. 2,500 million. The details of property, plant and equipment are shown in Note 28 to the financial statements on page 202.

INTANGIBLE ASSETS

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 37 million. The carrying value of intangible assets was Rs. 1,307 million as at the reporting date. The details of intangible assets are shown in Note 27 to the financial statements on page 200.

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 2019 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 28 to the financial statements on page 202.

INVESTMENTS

Details of investments held by the Company are disclosed in Note 32 to the financial statements on page 215.

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

STATED CAPITAL AND RESERVES

In compliance with the Companies Act, 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 2019 was Rs. 1,000 million (2018 - Rs. 1,000 million) and the total capital and reserves was Rs. 14,663 million (2018 - Rs. 13,672 million).

As explained in Note 41 on page 226, based on the directions issued by IRCSL dated 20 March 2018 and subsequent approval, the 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 54 to 58 of this report.

SHARE HOLDINGS

There were 1,406 registered shareholders, holding ordinary voting shares as at 31st December 2019 (2018 - 1,476). The distribution of shareholding including the percentage held by the public is given on page 58 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 2019 is given on page 58 of this report, together with comparative shareholding as at 31st December 2018.

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 98 to 131.

DIRECTORS' DECLARATION

The Directors declare that;

- a) The Company has not engaged in any activity, which contravenes laws and regulations
- b) The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested
- c) The Company has made all endeavours to ensure the equitable treatment of shareholders
- d) The business is a going concern
- e) A review of the internal controls covering, financial, operational and compliance controls and risk management has been conducted, and the Directors have obtained reasonable assurance of their effectiveness and successful adherence therewith
- f) The Company, being listed on the Colombo Stock Exchange (CSE), is compliant with the rules on corporate governance under the listing rules of the CSE with regard to the composition of the Board and its sub committees
- g) The Company is in compliance with the Code of Best Practice on Corporate Governance (2017) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

BOARD AUDIT AND COMPLIANCE COMMITTEE

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 110. The

Chief Executive Officer (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 110 to 111 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 132.

THE BOARD OF DIRECTORS

As at 31st December 2019 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 page 98.

RESIGNATION AND APPOINTMENT OF DIRECTORS

Mr. A.D. Pereira resigned from the Board of Directors of the Company with effect from 31st October 2019. Ms. D.C. Alagaratnam resigned from the Board of Directors of the Company with effect from 31st December 2019 upon her retirement as an employee of John Keells Holdings PLC.

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 an 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, Mr. S Rajendra and Mr. H. A. J. De Silva Wijeyeratne retire by rotation and are eligible for re - election. A brief profile of the said Directors are given on page 98.

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 105.

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 110 to 115.

DIRECTORS' INTERESTS REGISTER

The Company, in compliance with the requirements of the Companies Act 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 49 on page 236 to the financial statements, under related party transactions.

b) Directors' Interests in Shares

The Directors' individual shareholdings in the Company is provided on page 57 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 22 of the financial statements.

1. The Board approved payment to the Executive Director of Union Assurance PLC, Mr. A D Pereira, a remuneration comprising of:

- An increment from 1st April 2019 based on the individual performance rating obtained by the Executive Director in terms of the performance management system of the John Keells Group;
- A Short term variable incentive based on individual performance, organization performance and role responsibility based on the results of the financial year 2018; and
- A Long Term Incentive Plan 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 of Union Assurance PLC in keeping with the John Keells Group remuneration policy.

2. Mr. K N J Balendra was appointed as Chairman / Non-Executive Director and Mr. S A Appleyard was appointed as Non-Executive Independent 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.

3. The Board approved the payment of an additional fee to the Non-Executive Independent Directors of Union Assurance PLC, Mr. D. H. Fernando and Mr. H. A. J. De Silva Wijeyeratne appointed to the Audit Committee and the Board Supervisory Committee, with effect from 1st August 2019.

DIRECTORS' MEETINGS

Details of Board meetings and Board subcommittee meetings are presented on page 106 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 CA Sri Lanka, Companies Act, 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 CSE.

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 49 to the financial statements and have complied with CSE 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 and Exchange Commission (SEC) 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.

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

The CSR initiatives are detailed in the Social and Relationship Capital section on pages 60 to 69.

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 pages 125 to 131 for the statement of compliances.

RISK BASED CAPITAL REQUIREMENT (RBC)

With effect from 1 January 2016, all insurance companies were required to maintain a capital amount as computed under the risk based capital framework introduced by the 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 pages 134 to 135 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 endeavors 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 ability/disability. Some of the processes and procedures adopted in this regard are mentioned in the Human Capital Report on pages 70 to 79. The number of persons employed by the Company as at 31st December 2019 was 567 (2018 - 614).

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 pages 86 to 91. 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 2019, the other payments of the Company amounted to Rs. 2,932 million (2018 - Rs. 2,608 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 52 to the financial statements, relating to contingent liabilities.

CAPITAL COMMITMENTS

No significant capital commitments exist as at 31st December 2019 other than those disclosed in Note 50 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 51 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 CA Sri Lanka 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 2019 and 2018 is presented below.

Rs. '000	2019	2018
Audit and audit related fees	8,382	4,335
Non audit fees	3,059	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 authorizing the Directors to fix their remuneration will be proposed at the next Annual General Meeting.

AUDITORS' REPORT

Auditors' Report on the financial statements is given on page 151 of this annual report.

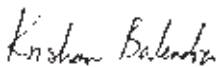
APPROVAL OF FINANCIAL STATEMENTS

The audited financial statements were approved by the Board of Directors on 28 February 2020. The appropriate number of copies of this report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

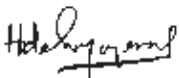
ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3, on Tuesday, 31st March 2020 at 9.00 a.m. The notice of the meeting relating to the thirty third Annual General Meeting is given on page 270.

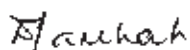
This Annual Report is signed for and on behalf of the Board of Directors by:



K.N.J Balendra
Chairman



H.A.J. De Silva Wijeyeratne
Director



Keells Consultants (Private) Limited
Secretaries

28 February 2020

CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements of Union Assurance PLC as at 31st December 2019 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 2019, together with the comparative data as at and for the year ended 31st December 2018, 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 except SLFRS 16 leases standard the Company adopted with effect from 1 January 2019.

Significant accounting policies and estimates that involve a high degree of judgement 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 significant 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 (IRC SL) requirements;

- All provisions in the RII Act No. 43 of 2000, and subsequent amendments there to, and all rules, regulations, determinations, directions issued by IRC SL; complied with all orders made by the Ministry of Finance and Planning under the RII Act, No. 43 of 2000

- Terms and conditions pertaining to reinsurance placements issued by IRC SL in terms of section 31(1) of the RII Act, No. 43 of 2000.
- All applicable circulars issued by IRC SL
- 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 IRC SL



Jude Gomes
Chief Executive Officer



Asha Perera
Chief Financial Officer

28 February 2020

ACTUARY'S REPORT

WillisTowersWatson 

Private and Confidential

28 February 2020

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 2019

In accordance with the engagement letter dated 2 April 2019, Willis Towers Watson India Private Limited ("Willis Towers Watson", "we", "our" or "us"), has carried out an actuarial review of the valuation of long-term insurance liabilities of Union Assurance PLC's Long-Term Insurance Business as at 31 December 2019.

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 2019, 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 LKR32,420 million. The value of assets held in respect of conventional life business is LKR35,176 million. The surplus in respect of the conventional life business after making an allowance for a shareholder transfer of LKR1,000 million is LKR2,757 million. The surplus in respect of the conventional business before shareholder transfer is LKR3,757 million.
4. The total long-term insurance provisions within the life fund for the non-unit liabilities in respect of unit-linked business is LKR2 million. The value of assets (other than assets backing unit-linked liabilities) held in respect of this business is LKR27 million. The surplus in respect of the unit-linked business before shareholder transfer is LKR25 million. Shareholder transfer in respect of Unit Linked business is nil as at 31 December 2019.
5. The risk-based capital required under the Regulation of Insurance Industry Act No. 43 of 2000 is LKR5,003 million, and the Company's CAR (after allowing for the LKR1,000 million shareholder transfer) is 362%, 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 IRCSL [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 2019 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

Willis Towers Watson India Private Limited
Registered Office:
Unitech Business Park, 2nd floor
Tower-B, South City 1, 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 151 to 154. 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;

- income statement 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 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 judgements 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.

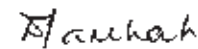
Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors has confirmed that the Company, based on the information available, satisfies the solvency test immediately after the distribution, in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 20 per share out of retained earnings for the year ended 31 December 2019.

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 52 to the financial statements, relating to contingent liabilities.

By order of the Board



Keells Consultants (Private) Limited
Secretaries

28 February 2020

INDEPENDENT AUDITORS' REPORT



KPMG
 (Chartered Accountants)
 32A, Sir Mohamed Macan Markar Mawatha,
 P. O. Box 186,
 Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
 +94 - 11 244 6058
Internet : 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 2019, and the income statement, statement of profit or 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 156 to 241 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 2019, 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 and the Company and Investee 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 judgement, 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 44 (page 229) and Note 45 (page 234) to these financial statements.

The Insurance Contract Liabilities and Insurance Contract Liabilities – Unit Linked as at 31 December 2019 amounted to Rs.35,490 Mn and Rs.1,246 Mn respectively. Insurance Contract Liabilities and Insurance Contract Liabilities – Unit Linked represent the single liability of the Company.

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 judgements over key assumptions, would have material impact on the valuation of insurance contract liabilities.

The valuation of insurance contract 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 contract liabilities. The key assumptions that drive the reserving calculations include loss ratios, mortality and morbidity assumptions, and 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:

- Evaluating the governance around the Company's reserving process including the scrutiny applied by the Company level actuarial reviews.
- Assessing the competence, capabilities and objectivity of the independent appointed actuary of the Company and the Company's staff involved in the policy holder's liability valuation process.
- Assessing the key controls adopted (including IT related controls) by the Company in providing accurate and complete data to the independent appointed actuary for the purpose of the policy holders liability valuation.
- Assessing the Company's methodology for calculating the policyholder liabilities to be in line with guidelines of Insurance Regulatory Commission of Sri Lanka (Risk Based Capital Rules 2015).
- Reconciling the movements in policyholder liabilities during the year with the movements in the financial results reported in separate funds.

KPMG is a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG's International Cooperative ("KPMG International"), a Swiss entity

MR Mahilar FCA P.V.S. Perera FCA C.P. Jayatilaka FCA
 T.J.S. Rajakari FCA W.W.J.C. Perera FCA Ms S. Joseph FCA
 Ms S.M.B. Jayasekera ACA W.K.D.C. Abeyathilake FCA S.T.D.L. Perera FCA
 G.A.U. Kaluaratna FCA R.M.D.B. Rajapase FCA Ms B.K.D.T.N. Rodrigo FCA
 R.H. Rajan FCA M.H.M. Seneviratne ACA Ms C.F.K.N. Perera ACA
 A.M.R.P. Abanayake ACA
Principals - S.R.I. Perera FCA(II), U.B. Attanayake Law, I.S. Gunewardene ACA

INDEPENDENT AUDITORS' REPORT



<p>The appropriate margin added to the actuarial best estimate of insurance contract liabilities, to provide for the risk of adverse development in the claims involves judgement made 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"> ■ We used our own actuarial specialist to assist us in performing the following audit procedures: <ul style="list-style-type: none"> ◆ Assessing the accuracy and completeness of data used for estimates; ◆ Assessing the key assumptions and reserving methodologies driving the value of the insurance liabilities by; <ul style="list-style-type: none"> ◆ Comparing the assumptions to expectations based on, current trends and our own industry knowledge and experience ◆ Evaluating the level of prudence applied and compared this to prior periods; ◆ Applying our industry knowledge and experience to benchmark the Company's reserving methodologies assumptions, and estimates of losses, and ◆ Reviewing sensitivity analyses over key judgments and assumptions ◆ Independently re-projected the reserve balances for certain classes of business. ■ Assessing the adequacy of the Company's disclosure in relation to insurance liabilities.
--	--

IT SYSTEMS AND CONTROLS OVER FINANCIAL REPORTING

<p>Risks Description</p> <p>The Company operates number of different IT systems across the business units. The Company has completed the implementation of the new core system (eBaO) which commenced in 2018.</p> <p>The Company's key financial accounting and reporting processes are highly dependent on the automated controls over the Company's information systems. As such that there exist a risk that gaps in the IT control environment, including automated accounting procedures, IT dependent manual controls and controls preventing unauthorized access and changes to IT systems and data are critical to the recording financial information and could result in the financial accounting and reporting records being materially misstated. The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Company's IT controls</p>	<p>Our responses</p> <p>We used our own IT specialists to perform audit procedures to assess IT systems and controls over financial reporting, which included the following:</p> <p>General IT controls design , observation and operation</p> <ul style="list-style-type: none"> ■ Assessing the governance and higher-level controls in place across the IT Environment, including the approach to policy design, review and awareness, and IT Risk Management practices. ■ Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access and system change management, program development and computer operations <p>User access controls operation</p> <ul style="list-style-type: none"> ■ Assessing the management's evaluation of access rights granted to applicants relevant to financial accounting and reporting systems and tested resolution of a sample of exceptions. ■ Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights. <p>Application controls</p> <ul style="list-style-type: none"> ■ IT review was carried out on the eBaO system to evaluate the new system controls ■ On sample basis, re-performed selected automated computations and compared our results with those from the system and the general Ledger.
--	---



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 thereon.

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 judgement 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 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.

INDEPENDENT AUDITORS' REPORT



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.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is FCA 2294.

Chartered Accountants

A handwritten signature in black ink, appearing to be 'D. W. P.', written over a horizontal line.

Colombo, Sri Lanka
28 February 2020

TABLE OF CONTENTS

	Page		Page
Primary Financial Statements		Statement of Financial Position	
Income Statement	156	Assets	
Statement of Profit or Loss and Other Comprehensive Income	157	26 Financial Assets and Liabilities	197
Statement of Financial Position	158	27 Intangible Assets	200
Statement of Changes in Equity	159	28 Property, Plant and Equipment	202
Statement of Cash Flows	161	29 Right of use asset (Leases)	206
		30 Deferred Tax	209
		31 Investment in Equity Accounted Investee	211
		32 Financial Investments	215
		33 Loans to Life Policyholders	222
		34 Reinsurance Receivable	222
		35 Premiums Receivable	223
		36 Receivables and Other Assets	224
		37 Cash and Cash Equivalents	225
		Equity	
Notes to the Financial Statements		38 Stated Capital	225
1 Corporate Information	163	39 Available for Sale Reserve	226
2 Basis of Accounting	164	40 Revaluation Reserve	226
3 Significant Accounting Judgements, Estimates and Assumptions	164	41 Restricted Regulatory Reserve	226
4 Standards Issued but Not Yet Effective	165	42 Other Reserves	227
5 Changes in Significant Accounting Policies	168	43 Retained Earnings	228
6 Summary of Significant Accounting Policies	169		
7 Operating Segments	170	Liability	
8 Financial Risk Management	172	44 Insurance Contract Liabilities	229
9 Fair Value Measurement and Related Fair Value Disclosures	185	45 Insurance Contract Liabilities - Unit Linked	234
		46 Employee Benefits Liabilities	234
		47 Reinsurance Payables	236
		48 Other Liabilities	236
		Other Disclosures	
Income Statement		49 Related Party Disclosures	236
10 Gross Written Premium (GWP)	188	50 Commitments	240
11 Premium Ceded to Reinsurers	189	51 Events After the Reporting Date	240
12 Net Investment Income	189	52 Provisions and Contingencies	240
13 Net Realised Gains	191	53 Comparative Information	241
14 Net Fair Value Losses	191	54 Directors' Responsibility	241
15 Other Income	191		
16 Net Insurance Benefits and Claims Paid	192		
17 Net Change in Insurance Claims Outstanding	192		
18 Change in Contract Liabilities - Life Fund	193		
19 Underwriting and Net Acquisition Costs (Net of Reinsurance)	193		
20 Other Operating, Administrative and Selling Expenses	193		
21 Finance Cost	194		
22 Profit Before Tax	194		
23 Income Tax Expense	195		
24 Earnings per Share	196		
25 Dividends per Share	196		

INCOME STATEMENT

For the year ended 31 December			2019	2018	Change
	Note	Page	Rs. '000	Rs. '000	%
Gross written premium	10	188	11,647,756	11,243,915	4
Premium ceded to reinsurers	11	189	(525,782)	(716,441)	(27)
Net written premium			11,121,974	10,527,474	6
Other revenue					
Net investment income	12	189	4,364,844	4,638,140	(6)
Net realised gains	13	191	24,313	123,474	(80)
Net fair value losses	14	191	(297,847)	(803,075)	(63)
Other income	15	191	48,644	42,960	13
Total other revenue			4,139,954	4,001,499	3
Total net revenue			15,261,928	14,528,973	5
Benefits, claims and expenses					
Net insurance benefits and claims paid	16	192	(3,668,351)	(3,350,600)	9
Net change in insurance claims outstanding	17	192	164,467	442,761	(63)
Change in contract liabilities - Life Fund	18	193	(4,983,273)	(3,905,191)	28
Underwriting and net acquisition costs (net of reinsurance)	19	193	(1,857,396)	(2,055,051)	(10)
Other operating, administrative and selling expenses	20	193	(3,013,755)	(3,523,372)	(14)
Depreciation and amortisation	27/28/29	200/202/206	(299,894)	(154,935)	94
Total benefits, claims and expenses			(13,658,202)	(12,546,388)	9
Profit from operations			1,603,726	1,982,585	(19)
Share of results of equity accounted investee, net of tax	31	211	104,736	149,807	(30)
Profit before tax	22	194	1,708,462	2,132,392	(20)
Income tax reversal / (expenses)	23	195	(550,432)	1,111,450	(150)
Profit for the year			1,158,030	3,243,842	(64)
Earnings per share					
Basic (Rs.)	24	196	19.65	55.05	(64)
Diluted (Rs.)	24	196	19.65	55.05	(64)

The notes to the financial statements as set out on pages 163 to 241 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

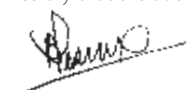
For the year ended 31 December			2019	2018	Change
	Note	Page	Rs. '000	Rs. '000	%
Profit for the year			1,158,030	3,243,842	(64)
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Net gains on revaluation of land and buildings	28.1	204	403,283	-	
Share of net change in actuarial gain / (loss) on defined benefit plan of equity accounted investee, net of tax	31.1(a)	214	(2,397)	433	
Actuarial gain / (loss) on defined benefit plan	42.2	227	(15,969)	6,643	
Related tax			-	3,555	
			384,917	10,631	3,521
Items that are or may be reclassified to profit or loss					
Fair value reserve (available for sale financial assets)					
Net change in fair value of available for sale financial assets	39	226	290,225	(54,762)	
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	31.1(a)	214	13,234	(15,583)	
Net change in fair value of available for sale financial assets transferred to the income statement			(6,207)	(11,729)	
Related tax			-	-	
			297,252	(82,074)	462
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	39	226	275,545	(416,275)	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement			42,057	35,479	
Related tax	39	226	-	(35,959)	
			317,602	(416,755)	176
			614,854	(498,829)	223
Other comprehensive income, net of tax			999,771	(488,198)	305
Total comprehensive income for the year, net of tax			2,157,801	2,755,644	(22)

The notes to the financial statements as set out on pages 163 to 241 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2019	2018
			Rs. '000	Rs. '000
Assets				
Intangible assets	27	200	1,306,922	1,392,191
Property, plant and equipment	28	202	2,500,305	2,082,990
Right of use assets	29	206	296,799	-
Deferred tax assets	30	209	528,614	1,079,046
Investment in equity accounted investee	31	211	1,245,951	1,130,379
Financial investments	32	215	44,881,195	39,138,073
Loans to life policyholders	33	222	1,555,759	1,218,949
Reinsurance receivable	34	222	502,975	371,126
Premiums receivable	35	223	344,785	331,539
Receivables and other assets	36	224	1,452,885	1,675,601
Cash in hand and at bank	37	225	632,962	696,835
Total assets			55,249,152	49,116,729
Equity and liabilities				
Equity				
Stated capital	38	225	1,000,000	1,000,000
Available for sale reserve	39	226	529,468	(85,386)
Revaluation reserve	40	226	2,089,404	1,690,736
Restricted regulatory reserve	41	226	3,381,934	3,381,934
Other reserves	42	227	52,228	58,610
Retained earnings	43	228	7,609,868	7,625,794
Total equity			14,662,902	13,671,688
Liabilities				
Insurance contract liabilities	44	229	35,489,751	30,599,881
Insurance contract liabilities - Unit Linked	45	234	1,246,075	1,501,271
Employee benefit liabilities	46	234	162,957	115,516
Reinsurance payables	47	236	812,930	669,314
Other liabilities	48	236	2,706,109	2,314,884
Bank overdraft	37	225	168,428	244,175
Total liabilities			40,586,250	35,445,041
Total equity and liabilities			55,249,152	49,116,729

The notes to the financial statements as set out on pages 163 to 241 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

Colombo
28 February 2020

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		
Balance as at 1 January 2018		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
Other comprehensive income for the year, net of tax								
Net change in fair value of available for sale financial assets, net of tax	39	-	-	-	-	(66,491)	-	(66,491)
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	39	-	-	-	-	(380,796)	-	(380,796)
Actuarial gain on defined benefit plan	42.2	-	-	-	-	-	6,643	6,643
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	39	-	-	-	-	(15,583)	-	(15,583)
Share of net change in actuarial gain on defined benefit plan of equity accounted investee, net of tax	42.2	-	-	-	-	-	433	433
Tax on other comprehensive income	40 / 39 / 42.2	-	-	7,042	-	(35,959)	(3,487)	(32,404)
Total other comprehensive income		-	-	7,042	-	(498,829)	3,589	(488,198)
Total comprehensive income for the year		-	-	7,042	-	(498,829)	3,589	2,755,644
Transactions with owners, transfers, recorded directly in equity								
Contributions and distributions								
First and final dividend 2017	25.2	-	-	-	-	-	(1,060,715)	(1,060,715)
Share based payments	42.3(a)	-	-	-	-	-	12,045	12,045
Transfer from revaluation reserve to retained earnings	28.11	-	-	(4,615)	-	-	4,615	-
Total contributions and distributions		-	-	(4,615)	-	-	12,045	(1,048,670)
Balance as at 31 December 2018		1,000,000	3,381,934	1,690,736	16,752	(85,386) 41,858	7,625,794	13,671,688

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			
Balance as at 1 January 2019		1,000,000	3,381,934	1,690,736	16,752	(85,386)	41,858	7,625,794	13,671,688
Profit for the year		-	-	-	-	-	-	1,158,030	1,158,030
Other comprehensive income for the year, net of tax									
Net change in fair value of available for sale financial assets net of t	39	-	-	-	-	284,018	-	-	284,018
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	39	-	-	-	-	317,602	-	-	317,602
Revaluation gain on land and buildings	28.9	-	-	403,283	-	-	-	-	403,283
Actuarial loss on defined benefit plan	42.2	-	-	-	-	-	(15,969)	-	(15,969)
Share of net change in fair value of available for sale financial assets of equity accounted investee, net of tax	39	-	-	-	-	13,234	-	-	13,234
Share of net change in actuarial loss on defined benefit plan of equity accounted investee, net of tax	42.2	-	-	-	-	-	(2,397)	-	(2,397)
Tax on other comprehensive income	40 / 39 / 42.2	-	-	-	-	-	-	-	-
Total other comprehensive income		-	-	403,283	-	614,854	(18,366)	-	999,771
Total comprehensive income for the year		-	-	403,283	-	614,854	(18,366)	1,158,030	2,157,801
Transactions with owners, transfers, recorded directly in equity									
Contributions and distributions									
First and final dividend 2018	25.2	-	-	-	-	-	-	(1,178,571)	(1,178,571)
Share based payments	42.3(a)	-	-	-	-	-	11,984	-	11,984
Transfer from revaluation reserve to retained earnings	28.11	-	-	(4,615)	-	-	-	4,615	-
Total contributions and distributions		-	-	(4,615)	-	-	11,984	(1,173,956)	(1,166,587)
Balance as at 31 December 2019		1,000,000	3,381,934	2,089,404	16,752	529,468	35,476	7,609,868	14,662,902

The notes to the financial statements as set out on pages 163 to 241 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December			2019	2018
	Note	Page	Rs. '000	Rs. '000
Cash flows from operations				
Insurance premiums received			11,634,510	11,180,888
Reinsurance premiums paid			(207,177)	(392,273)
Insurance benefits and claims paid	16	192	(3,760,837)	(3,509,084)
Reinsurance claim received	16	192	92,486	158,484
Payments to intermediaries to acquire insurance contracts			(1,953,383)	(2,498,772)
Cash paid to and on behalf of employees			(1,228,363)	(1,031,559)
Interest received			4,163,440	3,559,184
Dividends received			86,559	95,803
Other operating cash flows			(2,128,390)	(2,366,805)
Cash generated from operating activities	Note A	162	6,698,845	5,195,866
Employee benefits paid	46.3	235	(34,902)	(25,705)
Net cash flow from operating activities			6,663,943	5,170,161
Cash flows used in investing activities				
Acquisition of investments			(12,407,970)	(26,186,414)
Maturity proceeds of investments			5,664,253	20,315,433
Proceeds from sale of investments			1,507,192	2,712,014
Acquisition of property, plant and equipment			(97,601)	(153,751)
Acquisition of intangible assets			(36,971)	(866,840)
Proceeds from sale of property, plant and equipment			583	1,298
Net cash used in investing activities			(5,370,514)	(4,178,260)
Net cash inflow before financing activities			1,293,429	991,901
Cash flows used in financing activities				
Dividends paid to equity holders of the company			(1,171,447)	(956,495)
Settlement of lease liabilities			(110,108)	-
Obligation to repurchase securities			1,386,080	1,998,230
Settlement of obligation to repurchase securities			(1,386,080)	(1,998,230)
Net cash used in financing activities			(1,281,555)	(956,495)
Net increase in cash and cash equivalents			11,874	35,406
Cash and cash equivalents at the beginning of the year	Note B	162	452,660	417,254
Cash and cash equivalents at the end of the year			464,534	452,660

The notes to the financial statements as set out on pages 163 to 241 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December			2019	2018
	Note	Page	Rs. '000	Rs. '000
NOTE A.				
Reconciliation of profit before taxation with cash from operating activities				
Profit before tax			1,708,462	2,132,392
Non - cash items included in profit before tax				
Depreciation and amortisation	27.1 / 28.1 / 29.1	201/204/ 208	299,894	154,935
Provision for employee benefits	46.3	235	63,832	22,557
Provision for doubtful debts	36.1 (a) / 36.2 (a)	224	35,622	2,847
Net realised gains	13	191	(24,313)	(123,474)
Net fair value losses	14	191	297,847	803,075
Gain on sale of property, plant and equipment	15	191	(572)	(759)
Amortisation of financial investments			(156,336)	(144,150)
Impairment of Notional tax receivable			200,000	
Amortisation of lease liabilities			84,668	-
Scrip dividend income			(62,705)	(57,151)
Share of results of equity accounted investee	31.1	214	(104,736)	(149,807)
Interest expense on obligation to repurchase securities			5,574	3,179
Share based payment expenses	42.3(a)	228	11,985	12,045
Profit before working capital changes			2,359,222	2,655,689
Net change in operational assets				
Net change in reinsurance assets / liabilities			11,767	220,459
Net change in premiums receivable			(13,246)	(63,028)
Net change in receivables and other assets			(688,940)	(1,152,379)
Net change in operational liabilities				
Net change in life insurance contract liabilities			4,634,675	3,029,930
Net change in other liabilities			395,367	505,195
Cash generated from operating activities			6,698,845	5,195,866
NOTE B.				
Cash and cash equivalents at the end of the year				
Cash in hand and at bank			632,962	696,835
Bank overdraft			(168,428)	(244,175)
Cash and cash equivalents			464,534	452,660

For the purpose of the cash flow statement, cash and cash equivalent consist of cash in hand & at bank, net of outstanding bank overdraft as shown above. The notes to the financial statements as set out on pages 163 to 241 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

Fairfirst Insurance Limited is in the Non - Life insurance business and there were no significant changes in the nature of the principal activity of the associate during the year. Union Assurance PLC owns 22% stake of the Fairfirst Insurance Limited (2018 - 22%). The registered office and principal place of business of the Company is located at Access Towers 11 (14th floor), 278/4, Union Place Colombo 02, Sri Lanka.

Number of Employees

The staff strength of the Company as at 31 December 2019 is 567 (2018 - 614).

Financial Statements

The financial statements for the year ended 31 December 2019, 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 2019 were authorised for issue by the Directors on 28 February 2020.

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 in the annual report.

Statement of Compliance

The financial statements have been prepared in accordance with the 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 156 and 157)
- a Statement of Financial Position providing information on the financial position of the Company as at the year end; (Refer page 158)
- a Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Company; (Refer pages 159 and 160)
- a Statement of Cash Flows providing information to the users, on the ability of the Company to generate cash and cash equivalents and utilisation of those cash flows in the business; (Refer pages 161 and 162)
- Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 163 to 241)

The Company has opted to defer full application of SLFRS 9 - Financial Instruments, until the earlier of 2021 or adopting the SLFRS 17 - Insurance Contracts, exercising the temporary exemption provided to an insurer. (Refer Note 4.2).

NOTES TO THE FINANCIAL STATEMENTS

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	Page
Financial assets			
Non - derivative financial assets at fair value through profit or loss	Fair value	9	185
Available for sale financial assets	Fair value	9	185
Financial assets - Unit linked	Fair value	9	185
Non-Financial assets/ liabilities			
Freehold land and buildings	Fair value	28.7	205
Insurance contract liabilities	Actuarially valued in line with the guidelines issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL)	44	229
Net defined benefit liabilities	Actuarially valued and recognised at present value	46	234

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 together 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 258 to 264, 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.

- 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	Page
Classification of financial assets	26	197
Classification of insurance, reinsurance and investment contracts: assessing whether the contract transfers significant insurance risk and whether an insurance contract contains direct participation features.	44	229
Equity accounted investee : whether the Company has significant influence over an investee	31	211
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.	44	229

- 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	Page
Impairment of financial assets	26	197
Determination of the fair value of financial instruments and investments and owner occupied properties with significant unobservable inputs	28	202
Measurement of defined benefit obligations: key actuarial assumptions	46	234
Recognition and measurement of provisions and contingencies: key assumptions on the likelihood and magnitude of an outflow of resources	52	240
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	30 / 12	209/189
Impairment of non financial assets: key assumptions underlying recoverable amounts	6	169
Measuring insurance and reinsurance contracts: key assumptions	44	229
Liability Adequacy Test	44	229
Measurement of GWP accrual adjustment	10	188
Revaluation of land and buildings	28	202

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards have been issued and are effective for annual periods beginning after 1 January 2020, early application was permitted with transitional rules.

Accordingly, these standards have not been applied to these financial statements.

4.1 SLFRS 9 - Financial Instruments

The standard became mandatorily effective for the annual periods beginning on or after 1 January 2018.

The Company met the eligibility criteria for temporary exemption under the Amendments to SLFRS 4 from applying SLFRS 9 in 2018 and has accordingly deferred the adoption of SLFRS 9 until SLFRS 17, 'Insurance Contracts' is adopted upon its mandatory effective date. The Company is eligible as its activities are predominantly to issue insurance contracts based on the criteria as set out in the amendments to SLFRS 4.

Disclosures on Qualifying for the Temporary Exemptions

Based on the proposed SLFRS 17 - Insurance Contracts, the Company is permitted to apply the temporary exemption as the Company meets the following eligibility criteria:

- 1 The Company has not applied SLFRS 9 before; and
- 2 The Company's activities are predominantly connected with insurance as the ratio of its liabilities connected with insurance, including investment contracts measured at fair value through profit or loss, compared with total liabilities which is greater than 90%. Accordingly, the Company qualifies as a pure insurance company.

As at 31 December	2019	2018
	Rs. '000	Rs. '000
Insurance contract liabilities	35,489,751	30,599,881
Insurance contract liabilities - Unit Linked	1,246,075	1,501,271
Reinsurance payables	812,930	669,314
Liabilities connected with insurance	37,548,756	32,770,466
Total liabilities	40,586,250	35,445,041
Predominance ratio	93%	92%

NOTES TO THE FINANCIAL STATEMENTS

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 since this best reflects the way the business is managed and information flow to the management.

i. Classification - Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects characteristics of cashflows of assets and the business model in which assets are managed.

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	20,159,798	21,334,214	Amortised cost
Bank Deposit	L&R	A-/ A+/ AA-/ AA+	2,968,261	2,968,261	Amortised cost
Reverse repurchase agreements	L&R	N/A	2,022,237	2,022,237	Amortised cost
Debenture	HTM/ L&R	Please refer Note 32.3(a) & 32.4(a)	8,425,665	8,742,118	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	3,008,991	3,008,991	FVTPL
Debentures	FVTPL	140,535	140,535	FVTPL
Bank Deposit	FVTPL	16,292	16,292	FVTPL
Reverse repurchase agreements	FVTPL	112,386	112,386	FVTPL
Treasury Bonds	AFS	7,848,043	7,848,043	FVTOCI
Treasury Bills	FVTPL	26,649	26,649	FVTPL
Unit Trusts	FVTPL	152,338	152,338	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 under FVTOCI or amortised cost and measured at fair value / amortised cost depending on the particular circumstance.

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;

- The equity investment securities that are classified as fair value through profit or loss under LKAS 39 will be remained under FVTPL and measured at fair value under SLFRS 9.

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.

iii. Hedge Accounting

Hedge accounting requirements which are more closely aligned with the risk management activities of the Company. No significant change is currently anticipated from hedge accounting, but this remains under review.

4.2 SLFRS 17 - Insurance Contracts

As recommended by the Accounting Standards Committee, the Institute of Chartered Accountants of Sri Lanka has decided to adopt SLFRS 17 Insurance Contracts with effective from annual reporting periods beginning on or after 1 January 2021.

However, International Accounting Standard Board (IASB) has tentatively decided to defer the effective date of IFRS 17 to period beginning on or after 1 January 2022.

SLFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. SLFRS 17 replaces this with a new measurement model for all insurance contracts.

SLFRS 17 requires liabilities for insurance contracts to be recognised as the present value of future cash flows, incorporating an explicit risk adjustment, which is updated at each reporting date to reflect current conditions, and a contractual service margin (CSM) that is equal and opposite to any day-one gain arising on initial recognition. Losses are recognised directly into the income statement. For measurement purposes, contracts are grouped together into contracts of similar risk, profitability profile and issue year, with further divisions for contracts that are managed separately.

Profit for insurance contracts under SLFRS 17 is represented by the recognition of the services provided to policyholders in the period (release of the CSM), release from non-economic risk (release of risk adjustment) and investment profit.

The CSM is released as profit over the coverage period of the insurance contract, reflecting the delivery of services to the policyholder. For certain contracts with participating features (where a substantial share of the fair value of the related investments and other underlying items is paid to policyholders) the CSM reflects the variable fee to shareholders. For these contracts, the CSM is adjusted to reflect the changes in economic experience and assumptions. For all other contracts the CSM is only adjusted for non-economic assumptions.

SLFRS 17 introduces a new measure of insurance revenue, based on the delivery of services to policyholders and excluding any premiums related to the investment elements of policies, which will

be significantly different from existing premium revenue measures, currently reported in the income statement. In order to transition to SLFRS 17, the amount of deferred profit, being the CSM at transition date, needs to be determined.

SLFRS 17 requires, this CSM to be calculated as if the standard had applied retrospectively. If this is not practical, an entity is required to choose either a simplified retrospective approach or determine the CSM by reference to the fair value of the liabilities at the transition date. The approach for determining the CSM will have a significant impact on both shareholders' equity and on the amount of profits on in-force business in future reporting periods.

SLFRS 17 Implementation Programme

SLFRS 17 is expected to have a significant impact, as the requirements of the new standard are complex and requires a fundamental change to accounting for insurance contracts as well as the application of significant judgement and new estimation techniques. The effect of changes required to the Company's accounting policies as a result of implementing these standards are currently uncertain, but these changes can be expected to, among other things, alter the timing of profit recognition. Given the implementation of this standard is likely to involve significant enhancements to IT, actuarial and finance systems of the Company, it will also have an impact on the Company's expenses.

The Company has an implementation programme underway to implement SLFRS 17 and SLFRS 9. The scope of the programme consists of setting accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing appropriate data and implementing actuarial and finance system changes.

The Steering Committee, chaired by both Chief Financial Officer and General Manager Actuarial provides oversight and strategic direction to the implementation programme along with the involvement of external consultants.

The Company remains on track to providing SLFRS 17 financial statements in line with the requirements for interim reporting at its effective date, which is currently expected to be 2021 or 2022.

4.3 Other new accounting pronouncements

The following amended standards are not expected to have a significant impact on the Company's financial statements.

- Amendments to References to Conceptual Framework in SLFRS Standards.
- Definition of a Business (Amendments to SLFRS 3).
- Amendments to References to Conceptual Framework in SLFRS Standards.
- Definition of a Business (Amendments to SLFRS 3).

NOTES TO THE FINANCIAL STATEMENTS

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

5.1 SLFRS 16 - Leases

The Company has initially applied SLFRS 16 Leases with effect from January 1, 2019.

The Company applied SLFRS 16 using the modified retrospective approach, under which Right-of-Use of underlying asset (ROU asset) and lease liability were recognised at equal amounts as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

5.1 (a) Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 29 (Lease accounting policy).

On transition to SLFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

5.1 (b) As a lessee

As a lessee, the Company leases many assets including property and equipment. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under SLFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under LKAS 17

Previously, the Company classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing

rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

Leases classified as finance leases under LKAS 17

There were no leases classified as finance lease under LKAS 17 as at 01 January 2019.

5.1(c) As a lessor

The Company leases out its own property. The Company has classified these leases as operating leases.

The Company is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

The Company has applied SLFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

5.1 (d) Impact on financial statements on transition

On transition to SLFRS 16, the Company recognised additional right-of-use assets at an amount equal to additional lease liabilities. The impact on transition is summarised below.

As at 01 January	Note	2019
		Rs. '000
Right-of-use assets – property, plant and equipment	29.1	323,866
Lease liabilities		323,866

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 11.61%.

As at 01 January	2019
	Rs. '000
Operating lease commitments at 31 December 2018 as disclosed under LKAS 17 in the Company's financial statements	406,549
Discounted using the incremental borrowing rate at 1 January 2019	323,866
Finance lease liabilities recognised as at 31 December 2018	-
Recognition exemption for leases of low-value assets	-
Recognition exemption for leases with less than 12 months of lease term at transition	-
Extension options reasonably certain to be exercised	-
Lease liabilities recognised at 1 January 2019	323,866

5.2 IFRIC 23

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions and company determined that it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements of the Company.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these financial statements. The accounting policies are presented along with the respective notes.

Set out below is an index of the significant policies;

Note	Significant Accounting Policies	Page
6.1	Impairment of non financial assets	170
6.2	Foreign currency	170
7	Operating segments	170
8	Financial risk management	172
9	Fair value measurement and related fair value disclosures	185
10	Gross written premium	188
11	Premium ceded to reinsurers	189
12	Net investment income	189
13	Net realised gains	191
14	Net fair value losses	191
15	Other income	191
16	Net insurance benefits and claims paid	192
17	Net change in insurance claims outstanding	192
18	Change in contract liabilities	193
19	Underwriting and net acquisition costs	193
20	Other operating, administrative and selling expenses	193
21	Finance cost	194
22	Profit before tax	194
23	Income tax reversal / (expenses)	195
24	Earnings per share	196
25	Dividends per share	196
26	Financial assets and liabilities	197
27	Intangible assets	200
28	Property, plant and equipment	202
29	Right of use assets (Leases)	206
31	Investment in equity accounted investee	211
32	Financial investments	215
33	Loans to life policyholders	222
34	Reinsurance receivable	222
35	Premiums receivable	223
36	Receivables and other assets	224
37	Cash in hand and at bank	225
38	Stated capital	225
44	Insurance contract liabilities	229
45	Insurance contract liabilities - unit linked	234
46	Employee benefits liabilities	234
47	Reinsurance payables	236
48	Other liabilities	236
49	Related party disclosures	236
50	Commitments	240
51	Events after the reporting date	240
52	Provisions and contingencies	240

NOTES TO THE FINANCIAL STATEMENTS

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.

6.1 Impairment of Non Financial Assets

The carrying amounts of the Company's non financial assets (other than insurance and reinsurance contract assets, deferred tax assets and employee benefit assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

6.2 Foreign currency

6.2 (a) Foreign currency transactions

Transactions in foreign currencies are converted into the functional currency of the Company at the exchange rates prevailing at the time the transactions are effected.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is

the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. The gain or loss arising on transactions of non-monetary items is treated in line with the recognition of gain or loss on fair value of the item.

6.2 (b) Foreign operations

The Company does not have any foreign operations that is a subsidiary, associate, joint venture or a branch. Therefore, there is no exchange differences recognised in other comprehensive income.

7 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.

Accounting policy

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with any of the Company's other components, whose operating results are regularly reviewed by the Company's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Company's Chief Executive Officer (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the shareholders), head office expenses and tax assets and liabilities.

7.1 Basis for segmentation

The Company has the following two strategic segments, which are its reportable segments.

The following summary describes the operations of each reportable segment

Reportable Segment	Description
Policyholder Fund	JA maintains five separate policy holder funds according to the following product types: Participating, Non-participating, Universal life, Unit linked, and Non-unit linked. The combination of above five funds is collectively known as the "life insurance fund". Transactions of each product type are entered in the account maintained for that business. Assets belonging to each fund, are maintained separately and the policyholder liabilities in each category are matched with suitable assets (by amount and duration). The investments in each fund complies with the regulatory requirements specified under Determination 1.
Shareholder Fund	Assets belonging to the shareholders are maintained separately in the "shareholder fund". Income and expenses arising from shareholders account are accounted under the shareholders fund. Every year, the surplus arising from policyholder funds are transferred to the shareholder fund based on the actuary's recommendation. Currently, the Company holds the one-off surplus that arose from changing the policy liability valuation as a restricted reserve within the shareholders fund.

7.2 Information about Reportable Segments

Information related to each reportable segment is set out below. Segment profit / loss before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industry.

Summary of Segment Performance

For the Year ended 31 December Rs. '000	2019			2018		
	Policyholder Fund	Shareholder Fund	Total	Policyholder Fund	Shareholder Fund	Total
Segment revenue						
Gross Written Premium	11,647,756	-	11,647,756	11,243,915	-	11,243,915
Net Written Premium	11,121,974	-	11,121,974	10,527,474	-	10,527,474
Total Investment Income and Other Revenue	3,442,850	697,104	4,139,954	3,265,567	1,029,784	4,295,351
Total Net Revenue	14,564,824	697,104	15,261,928	13,793,041	1,029,784	14,822,825
Total Claims and Expenses	(8,581,550)	(93,378)	(8,674,928)	(8,787,850)	(147,199)	(8,935,049)
Change in Contract Liabilities	(4,983,274)	-	(4,983,274)	(3,905,191)	-	(3,905,191)
Share of results of equity accounted investee, net of tax	-	104,736	104,736	-	149,807	149,807
Segment Profit Before Tax	1,000,000	708,462	1,708,462	1,100,000	1,032,392	2,132,392
Income Tax Expenses	(280,000)	(270,432)	(550,432)	(308,000)	1,419,450	1,111,450
Segment Profit After Tax	720,000	438,030	1,158,030	792,000	2,451,842	3,243,842

NOTES TO THE FINANCIAL STATEMENTS

All revenues are from external customers. There is no revenue from transactions between operating segments.

As at 31 December Rs. '000	2019			2018		
	Policyholder Fund	Shareholder Fund	Total	Policyholder Fund	Shareholder Fund	Total
Segment Assets	43,317,153	11,931,999	55,249,152	37,612,642	11,504,087	49,116,729
Segment Equity	1,874,352	12,788,550	14,662,902	1,174,051	12,497,637	13,671,688
Segment Liabilities	41,442,801	(856,551)	40,586,250	36,438,591	(993,550)	35,445,041

Segmental cash flows have not been presented since the Company manages its cash flows at company level.

7.3 Major Customer

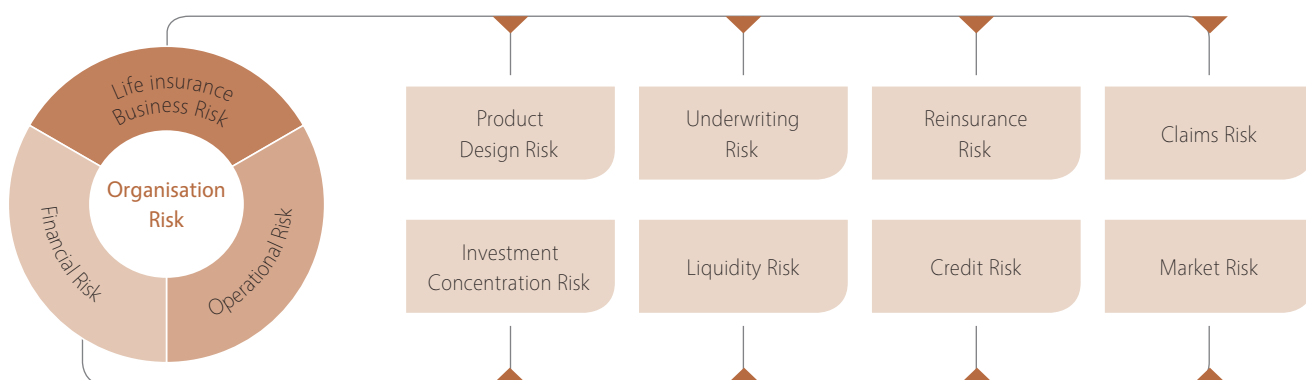
The company doesn't have any major customers.

7.4 Geographic information

The Company function in one geographic location. Accordingly, geographic information is not presented in the financial statements.

8 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.



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 corporate management team. 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.

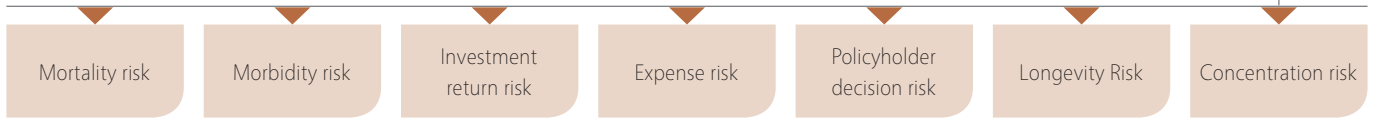
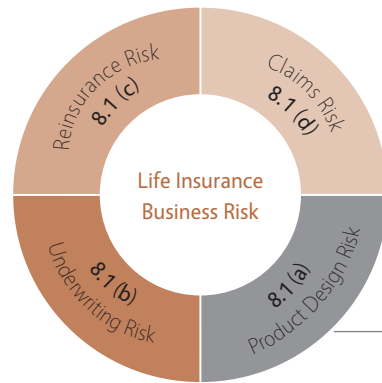
Details of our risk management framework, objectives and regulatory framework is provided under Corporate Governance and Enterprise Risk Management section.

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. The company needs 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 (RBC).

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.

8.1 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 132 to 139.

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.

NOTES TO THE FINANCIAL STATEMENTS

8.1 (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.

Overall Risk Mitigation Approach in Traditional Life Insurance

Product	Key risks	Risk mitigation
Traditional participating	<ul style="list-style-type: none"> ■ Market risk: Investment return on underlying items falling below guaranteed minimum rates ■ Policyholder behaviour risk 	<ul style="list-style-type: none"> ■ Management discretion to determine amount and timing of policyholder bonuses (within limits) ■ Surrender penalties
Non Participating	<ul style="list-style-type: none"> ■ Market risk: Insufficient fees to cover cost of guarantees and expenses ■ Policyholder behaviour risk 	<ul style="list-style-type: none"> ■ Derivative hedging programme ■ Surrender penalties
Universal life	<ul style="list-style-type: none"> ■ Interest rate risk: Differences in duration and yield of assets and liabilities ■ Investment credit risk 	<ul style="list-style-type: none"> ■ Matching of asset and liability cash flows ■ Investing in investment grade assets
Unit linked product	<ul style="list-style-type: none"> ■ Market risk: Insufficient fees to cover expenses ■ Policyholder behaviour risk 	<ul style="list-style-type: none"> ■ Surrender penalties

Unit Linked Products

Unit linked products have been designed in order to reduce much of the market and credit risks associated with traditional products. It is a type of insurance vehicle in which the policyholder purchases units at their net asset values and also makes contributions toward another investment vehicle. Unit linked insurance plans allow for the coverage of an insurance policy.

Under unit linked contracts, risks are largely passed on to the policyholder, although a portion of the Company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease.

Unit linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are minimised by explicit mortality and morbidity charges.

Participating Fund vs Non-Participating Fund

The following table shows the concentration of the Participating and Non Participating funds position of the Company.

As at 31 December	2019		2018	
Type of contract	Rs. '000	%	Rs. '000	%
Participating	9,442,525	27	10,107,525	33
Non Participating	26,005,509	73	20,449,795	67
Total traditional	35,448,034	100	30,557,320	100
Non unit fund of linked insurance	41,717		42,561	
Total value of insurance liabilities	35,489,751		30,599,881	

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 2019 or 2018, based on the results of the liability adequacy test.

As at 31 December	Change	Impact on liabilities %		Impact on liabilities Rs. '000	
Assumption	%	2019	2018	2019	2018
Mortality	+10	0.31	0.20	86,540	47,982
	-10	(0.08)	(0.20)	(23,602)	(48,273)
Discount rate	+1	(2.01)	(1.29)	(567,914)	(315,744)
	-1	2.35	1.37	664,002	334,457

8.1 (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.

8.1 (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.

NOTES TO THE FINANCIAL STATEMENTS

The Company reinsures approximately 5% - 6% of gross written premium.

For the year ended 31 December	2019		2018	
	Rs. '000	%	Rs. '000	%
Gross Written premium	11,647,756		11,243,915	
Reinsurance	(525,782)	5	(716,441)	6
Net Written Premium	11,121,974		10,527,474	

The Company has recovered approximately 2% of gross claims from reinsurers during the period under review.

For the year ended 31 December	2019		2018	
	Rs. '000	%	Rs. '000	%
Gross claims paid	3,760,836		3,509,084	
Claims recovered from reinsurers	(92,485)	2	(158,484)	5
Net claims	3,668,351		3,350,600	

8.1 (d) Claim Risk

The possibility of adverse variance in claim pattern of the product which is not expected at the product development stage.

Risk Response

- Obtaining adequate reinsurance cover.
- Adequate information is gathered to confirm the event occurred prior to processing the claim.
- In-house actuarial department closely monitors claim reserves.

8.2 Financial Risk

Financial risk is the probability of loss inherent in financing methods which may impair the ability to provide adequate returns. The Company is exposed to a range of financial risks through financial assets and financial liabilities.

Financial risks can be categorised as follows;



8.2 (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.
- Outsourced management of the equity portfolio to a third party fund management company to leverage expert knowledge in investment decisions and optimise portfolio return and risk.

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	2019		2018	
	Rs. '000	%	Rs. '000	%
Government securities and related institutions	30,030,078	69	28,456,819	75
Corporate debt securities	8,425,665	19	6,295,304	17
Fixed deposits	2,968,261	7	757,417	2
Unit Trusts	152,338	-	-	-
Investment in quoted equity	2,059,968	5	2,129,129	6
Total	43,636,310	100.0	37,638,669	100

Government Securities and Related Institutions

This includes investments made in treasury bills, treasury bonds, and reverse repurchase agreements.

Corporate Debt Securities

The Company has predominantly invested in Banking, finance and insurance sectors for which the Company believes, the credit risk and market risk is low.

As at 31 December	2019		2018	
	Rs. '000	%	Rs. '000	%
Banking, Finance and Insurance	7,755,472	92	5,580,976	89
Diversified Holdings	465,123	6	509,253	8
Telecommunication	205,070	2	205,075	3
Total	8,425,665	100	6,295,304	100

Fixed Deposits

This includes investments made in fixed deposits issued by licensed commercial banks and licensed finance companies.

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	2019		2018	
	Sector	Rs. '000	%	Rs. '000
Banking, Finance and Insurance	1,364,151	66	1,611,644	77
Diversified Holdings	252,689	12	260,307	12
Manufacturing	330,715	16	197,931	9
Construction and Engineering	64,653	4	41,817	2
Telecommunication	36,771	2	-	-
Motors	1,100	-	7,578	-
Hotels and Travels	9,889	-	9,852	-
Total	2,059,968	100	2,129,129	100

8.2 (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.

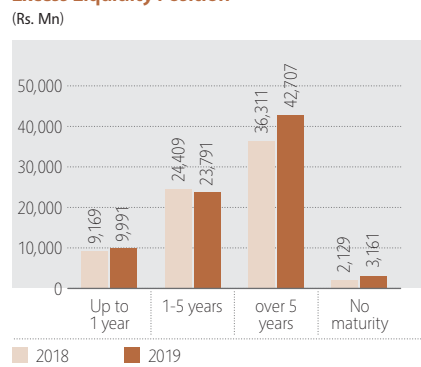
Risk Response

- 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 when 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.

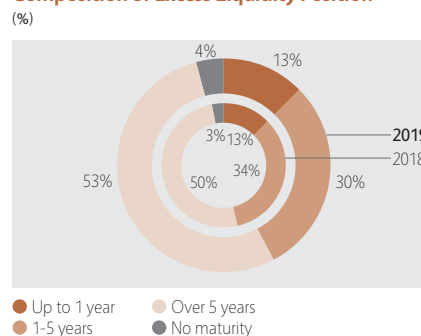
Excess liquidity position of the Company excluding insurance contract liabilities is given below; (based on undiscounted cashflows)

As at 31 December	2019		2018	
	Rs. '000	%	Rs. '000	%
Up to one year	9,990,784	13	9,169,329	13
1 - 5 Years	23,791,387	30	24,409,476	34
Over 5 years	42,706,569	53	36,310,870	50
No maturity	3,161,329	4	2,129,129	3
	79,650,069	100	72,018,804	100

Excess Liquidity Position



Composition of Excess Liquidity Position



For reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Unit linked liabilities are repayable or transferable on demand and are included as 'current' repayments.

The table below summarises the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

NOTES TO THE FINANCIAL STATEMENTS

As at December 2019 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
Financial assets						
Held to maturity	20,376,303	-	2,667,552	9,496,107	34,610,464	46,774,123
Loans and receivables	13,199,658	-	5,414,978	9,181,168	3,116,587	17,712,733
Available for sale	7,848,043	-	1,735,872	4,936,507	4,979,517	11,651,896
Fair value through profit or loss	2,212,306	3,161,329	172,382	177,606	-	3,511,317
Other financial assets	563,376	-	141,564	452,274	123,234	717,072
Loans to life policyholders	1,555,759	-	620,453	803,421	131,885	1,555,759
Reinsurance receivable	502,975	-	275,256	227,719	-	502,975
Premiums receivable	344,785	-	344,785	-	-	344,785
Cash in hand and at bank	632,962	-	632,962	-	-	632,962
Total undiscounted assets	47,236,167	3,161,329	12,005,804	25,274,802	42,961,687	83,403,622
Financial liabilities						
Reinsurance payables	812,930	-	622,458	190,472	-	812,930
Other financial liabilities	1,368,700	-	1,368,700	-	-	1,368,700
Bank overdraft	168,428	-	168,428	-	-	168,428
Total undiscounted liabilities	2,350,058	-	2,159,586	190,472	-	2,350,058
Total excess liquidity	44,886,109	3,161,329	9,846,218	25,084,330	42,961,687	81,053,564

As at December 2018 Rs. '000	Carrying amount	No fixed tenure	Up to one year	1 - 5 years	Over 5 years	Total
Financial assets						
Held to maturity	19,261,339	-	4,063,284	10,478,131	29,082,121	43,623,536
Loans and receivables	7,644,568	-	3,009,028	5,714,115	2,032,952	10,756,095
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
Total undiscounted assets	40,865,948	2,129,129	11,014,840	24,409,476	36,310,870	73,864,315
Financial liabilities						
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
Total undiscounted liabilities	1,845,511	-	1,845,511	-	-	1,845,511
Total excess liquidity	39,020,437	2,129,129	9,169,329	24,409,476	36,310,870	72,018,804

The table below sets out the availability of the company's financial assets to support future funding.

As at 31 December	2019			2018			
	Unencumbered Rs. '000	Restricted as collateral	Available as collateral	Total	Restricted as collateral	Available as collateral	Total
Held to maturity		17,402,472	2,973,831	20,376,303	15,517,649	3,743,690	19,261,339
Loans and receivables		11,201,196	1,998,462	13,199,658	7,572,228	72,340	7,644,568
Available for sale		4,132,224	3,715,819	7,848,043	4,306,043	4,297,590	8,603,633
Fair value through profit or loss		3,406,412	50,779	3,457,191	3,628,533	-	3,628,533
Loans to life policyholders		1,555,759	-	1,555,759	1,218,949	-	1,218,949
Reinsurance receivable		502,975	-	502,975	371,126	-	371,126
Premiums receivable		344,785	-	344,785	331,539	-	331,539
Other financial assets		256,462	306,914	563,376	324,642	284,188	608,830
Cash in hand and at bank		624,552	8,410	632,962	682,430	14,405	696,835
Total		39,426,837	9,054,215	48,481,052	33,953,139	8,412,213	42,365,352

Assets restricted as collateral represents the assets owned by the policyholders of the Company.

Financial assets available as collateral represents the assets owned by the shareholders of the Company. There were no financial assets available as collateral during the year ended 31 December 2019.

8.2 (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	2019		2018	
	Risk element	Rs. '000	%	Rs. '000
Financial investments	41,424,004	92	35,509,540	92
Loans to life policyholders and others	2,059,617	5	1,716,121	4
Amounts due from related parties	-	-	22,290	-
Reinsurance receivable	502,975	1	371,126	1
Premiums receivable	344,785	1	331,539	1
Cash in hand and at bank	632,962	1	696,835	2
Total	44,964,343	100	38,647,451	100

Credit risk related to financial investments

The Company is exposed to credit risk from counterparties where the Company holds securities issued by those entities.

Risk Response

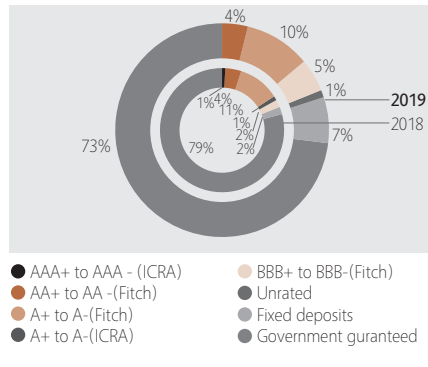
- The Company's investment policy prohibits non-graded investments, unless specifically authorised.
- Appropriate actions are implemented when the Company identifies investments that are expected to be downgraded.
- The Company identifies and selectively reduces unsecured and subordinated credit exposure issued by third 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 2019 Rs. '000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Total	%
Maximum exposure to credit risk, carrying amount	20,376,303	13,199,658	7,848,043	-	41,424,004	
Government securities and related institutions						
Treasury Bonds	20,159,798	-	7,848,043	-	28,007,841	68
Treasury Bills	-	-	-	-	-	-
Reverse Repo	-	2,022,237	-	-	2,022,237	5
Corporate debt securities						
				-		
AAA+ to AAA - ICRA	-	154,921	-	-	154,921	-
AA+ to AA - Fitch	-	1,785,900	-	-	1,785,900	4
A+ to A - Fitch	216,505	3,799,798	-	-	4,016,303	10
A+ to A- ICRA	-	157,390	-	-	157,390	-
BBB+ to BBB- Fitch	-	2,101,326	-	-	2,101,326	5
Unrated	-	209,825	-	-	209,825	1
Fixed deposits						
Deposit with Licensed Commercial Banks	-	2,968,261	-	-	2,968,261	7
Total	20,376,303	13,199,658	7,848,043	-	41,424,004	100
Past due but not impaired	Nil	Nil	Nil	Nil	Nil	
Impaired	Nil	Nil	Nil	Nil	Nil	

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	%
Maximum exposure to credit risk, carrying amount	19,261,339	7,644,568	8,603,633	-	35,509,540	
Government securities and related institutions						
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
Corporate debt securities						
				-		
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
Unrated						
Fixed deposits						
Deposit with Licensed Commercial Banks	-	757,417	-	-	757,417	2
Total	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	

Exposure To Credit Risk Rating Class Wise (%)

Collateral of Debt Securities

Reverse repo investments which fall under government securities is backed by Treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the reporting date, the Company held Treasury bonds and Treasury bills worth Rs 2,234 million as collateral for reverse repo investments amounting to Rs. 2,022 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	2019	2018
	Rs'000	Rs'000
Neither past due nor impaired		
Past due but not impaired	935,307	85,905
61- 90 days	140,394	46,939
91-180 days	131,823	111,820
181 days +	348,235	974,285
Total	1,555,759	1,218,949
Impaired	Nil	Nil
Total - Maximum exposure to credit risk	1,555,759	1,218,949

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. 1,556 million (2018 - Rs. 1,219 million) and its related surrender value is Rs. 2,544 million (2018 - Rs. 1,998 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.

As at 31 December	2019		2018	
	Rs. '000	%	Rs. '000	%
Reinsurance receivables on outstanding claims	132,847	26	177,180	48
Reinsurance receivables on settled claims	370,128	74	193,946	52
Total reinsurance receivables / Maximum exposure to credit risk	502,975	100	371,126	100

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2019, 100% (2018 - 100%) of our reinsurance receivables was due from reinsurers with a rating of AA- or above. There were no collateral against reinsurance receivables as at reporting date.

As at 31 December			2019		2018	
Reinsurers	Rating Agency	Rating	Reinsurance receivables	%	Reinsurance receivables	%
Munich	Fitch	AA	482,725	96	332,036	89
Hannover	Standard & Poor's	AA-	19,496	4	37,731	10
RGA	Fitch	AA-	754	-	1,359	1
Total			502,975	100	371,126	100

Credit Risk Related to Premiums Receivable

Premiums receivable consist of premiums receivable from intermediaries that create the risk of financial losses due to non settlement of dues or taking substantial time to settle dues.

Risk Response

- Only designated institutions are employed as intermediary parties
- Agreements have been signed with the intermediaries committing them to settle dues within a specified time period.

Maximum exposure to credit risk related to premium receivables as at 31 December 2019 is Rs. 345 million (2018 - Rs. 332 million).

As at 31 December	2019	2018
	Rs'000	Rs'000
Neither past due nor impaired		
0 - 30 days	344,785	331,539
Pass due but not impaired	Nil	Nil
Total - Maximum exposure to credit risk	344,785	331,539

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. 43% of funds are deposited in banking institutions backed by government of Sri Lanka.

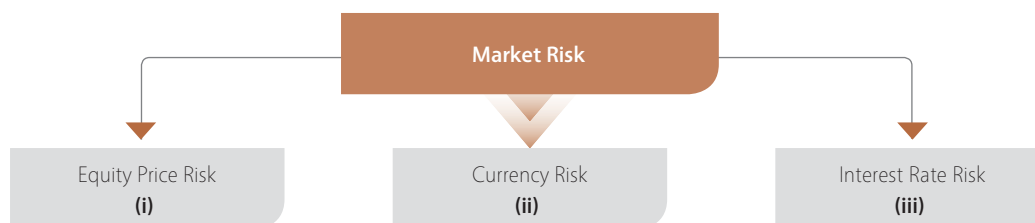
As at 31 December	2019		2018	
Bank	Amount Rs. '000	%	Amount Rs. '000	%
Bank of Ceylon	228,862	36	343,675	50
Commercial Bank of Ceylon PLC	8,042	1	9,123	1
Deutsche Bank AG	25,099	4	21,235	3
DFCC Bank PLC	638	-	1,111	-
HDFC Bank of Sri Lanka	7	-	5,285	1
Hatton National Bank PLC	10,007	2	17,695	3
National Development Bank PLC	10,011	2	16,830	2
National Savings Bank	6,636	1	7,577	1
Nations Trust Bank PLC	79,865	13	58,939	8
People's Bank	21,796	3	28,639	4
Sampath Bank PLC	13,220	2	24,707	4
Standard Chartered Bank	7,935	1	8,586	1
Seylan Bank PLC	11,145	2	25,376	4
Union Bank of Colombo PLC	206,543	33	124,737	18
Total cash at banks	629,806	100	693,515	100
Cash in hand	3,156		3,320	
Total cash in hand	3,156		3,320	
Total cash in hand and at bank	632,962		696,835	

The Company held cash in hand and at bank of Rs. 633 million as at 31 December 2019 (2018 - Rs. 697 million). The cash at bank are held with banks and financial institutional counterparties, which are rated BB+ or better as at 31 December 2019.

As at 31 December	2019		2018	
	Amount Rs. '000	%	Amount Rs. '000	%
AAA	7,935	1	16,163	2
AA+	257,293	41	372,314	53
AA	8,042	1	9,123	1
AA-	10,646	2	18,806	3
A+	23,230	4	41,537	6
A	79,865	12	58,939	8
A-	36,244	6	46,611	7
BBB-	206,544	33	5,285	1
BB+	7	-	124,737	18
Cash in hand	3,156	-	3,320	1
Total	632,962	100	696,835	100

8.2 (d) Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company has assessed the market risk under three main categories;



i Equity Price Risk

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity portfolio investments.

Risk Response

- Equity investment decisions are based on fundamentals rather than on speculation.

- Decisions are based on in depth macroeconomic and industry analysis as well as research reports on company performance.
- A model to review the market prices of certain asset classes has been developed and is referred to the Investment Committee on a monthly basis.
- Outsourced management of the equity portfolio to a third party to leverage on expert knowledge and optimise return and risk.

As at 31 December 2019, the Company has invested 5% (2018 - 6%) in equity as shown in the table below.

As at 31 December	2019		2018	
	Value Rs. '000	% of allocation	Value	% of allocation
Banking, Finance and Insurance	1,364,150	3	1,611,644	4
Diversified Holdings	252,689	1	260,307	1
Manufacturing	330,715	1	197,931	1
Construction and Engineering	64,653	-	41,817	-
Motors	1,100	-	7,578	-
Hotels and Travels	9,889	-		
Telecommunication	36,772	-	9,852	-
Total value of equity	2,059,968	5	2,129,129	6
Total value of investments	43,636,310		37,638,669	

NOTES TO THE FINANCIAL STATEMENTS

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	2019		2018	
Rs.'000	Impact on fund inflow	Impact on equity	Impact on fund inflow	Impact on equity
10% increase in equity prices	205,997	205,997	212,913	212,913
10% decrease in equity prices	(205,997)	(205,997)	(212,913)	(212,913)

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, professional services providers and software vendors who operates outside the country.

Risk Response

- Company does not carry foreign currency dominated assets or liabilities and any 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	2019			2018		
Instruments Rs.'000	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing
Government securities	30,030,078	-	-	28,456,819	-	-
Corporate debts	8,425,665	-	-	6,295,304	-	-
Fixed deposits	2,968,261	-	-	757,417	-	-
Unit Trust	-	-	152,338	-	-	-
Equity instruments	-	-	2,059,968	-	-	2,129,129
Total	41,424,004	-	2,212,306	35,509,540	-	2,129,129

Sensitivity analysis

The following table shows the estimated impact on profitability and equity by fluctuation of interest rates on fixed rate available for sale.

As at 31 December	2019		2018	
Rs. '000	Impact on life fund	Impact on equity	Impact on life fund	Impact on equity
+ 100 basis points	(253,658)	17,335	(273,358)	18,496
- 100 basis points	270,189	(17,223)	291,590	(18,406)

8.3 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 it 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.

8.4 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 it's 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).

Summary Quantitative Data

As at 31 December	2019	2018
	Rs'000	Rs'000
Total Available Capital (TAC)	18,120,323	14,382,478
Formula Risk Based Capital Required (FRCR)	5,003,128	5,495,855
Surrender Value Capital Charge (SVCC)	255,663	164,406
Risk based Capital requirement (RCR)	5,003,128	5,495,855
Risk based Capital Adequacy Ratio (CAR)	362%	262%

9 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 28
Financial instruments (Including those carried at amortised cost)	Note 32

'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.

NOTES TO THE FINANCIAL STATEMENTS

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
Government Securities		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Investment in Shares		
Investment in Listed Shares	Closing Market prices	Level 1
Corporate Debt		
Listed	Published Market Prices	Level 1 / Level 2*
Fixed and Term Deposits		
Discounted Cash Flow (DCF) Method		
Deposit over one year	Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade / downgrade of the credit rating of the institution.	Level 2

* Listed corporate debts which have been traded during the period have been classified under Level 1 and others under level 2.

Use of Judgements and Estimates

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible.

Where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

9.1 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 investment 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.

9.2 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	Note	Fair value hierarchy							
		2019				2018			
Rs'000		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL									
Financial assets held for trading:									
Equity securities	32.6	2,059,968	-	-	2,059,968	2,129,129	-	-	2,129,129
Unit Trusts	32.6	152,338	-	-	152,338	-	-	-	-
Designated at FVTPL									
Investments for the benefit of Life insurance policyholders who bear the investment risk									
Equity securities	32.6	949,024	-	-	949,024	1,167,900	-	-	1,167,900
Debt securities	32.6	-	140,534	-	140,534	-	90,987	-	90,987
Government securities	32.6	26,649	112,386	-	139,035	127,675	112,842	-	240,517
Fixed deposits	32.6	-	16,292	-	16,292	-	-	-	-
		3,187,979	269,212	-	3,457,191	3,424,704	203,829	-	3,628,533
AFS financial assets:									
Treasury bonds	32.5	7,848,043	-	-	7,848,043	8,573,954	-	-	8,573,954
Treasury bills	32.5	-	-	-	-	29,679	-	-	29,679
		7,848,043	-	-	7,848,043	8,603,633	-	-	8,603,633
Total of fair values of financial assets carried at fair value		11,036,022	269,212	-	11,305,234	12,028,337	203,829	-	12,232,166

9.3 Transfer between levels

There were no transfers in 2019. (2018 Nil)

9.4 Financial assets and liabilities not measured at fair 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	2019	2018
	Rs'000	Rs'000
Financial Assets		
Reinsurance receivable	502,975	371,126
Premiums receivable	344,785	331,539
Receivables and other assets	563,376	608,830
Loans to life policyholders*	1,555,759	1,218,949
Cash in hand and at bank	632,962	696,835
Financial Liabilities		
Reinsurance payables	812,930	669,314
Other financial liabilities	1,368,700	932,022
Bank overdraft	168,428	244,175

*The fair value of policyholder loans are equals to its carrying value as those are given at competitive market rates.

NOTES TO THE FINANCIAL STATEMENTS

9.5 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 carried at amortised cost in to their levels in fair value hierarchy.

As at 31 December	Fair value hierarchy										
	Rs'000	Note	2019				2018				
Amortised cost			Level 1	Level 2	Level 3	Amortised cost	Level 1	Level 2	Level 3	Total	
HTM financial assets											
Quoted debentures	32.3	216,505	-	243,644	-	243,644	216,551	-	237,909	-	237,909
Treasury bonds	32.3	20,159,798	21,334,214	-	-	21,334,214	19,044,788	18,212,403	-	-	18,212,403
		20,376,303	21,334,214	243,644	-	21,577,858	19,261,339	18,212,403	237,909	-	18,450,312
L & R financial assets											
Bank deposits	32.4	2,968,261	-	2,968,261	-	2,968,261	757,417	-	757,417	-	757,417
Quoted debentures	32.4	8,209,160	3,079,224	5,409,316	-	8,488,540	6,078,753	2,074,776	3,880,219	-	5,954,995
Reverse repurchase agreements	32.4	2,022,237	-	2,022,237	-	2,022,237	808,398	-	808,398	-	808,398
		13,199,658	3,079,224	10,399,814	-	13,479,038	7,644,568	2,074,776	5,446,034	-	7,520,810
Total of fair values of financial investments not measured at fair value		33,575,961	24,413,438	10,643,458	-	35,056,896	26,905,907	20,287,179	5,683,943	-	25,971,122

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.

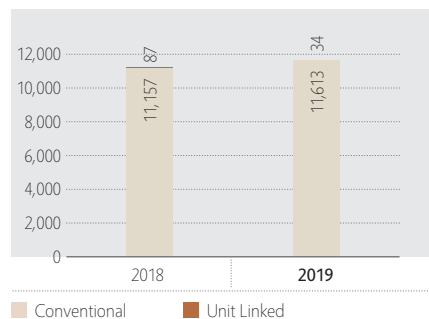
Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Conventional	11,613,265	11,157,255
Unit linked	34,491	86,660
Total gross written premium	11,647,756	11,243,915

For the year ended 31 December	2019			2018			
	Rs. '000	Conventional	Unit linked	Total	Conventional	Unit linked	Total
Individual policies							
First year premium		2,728,293	-	2,728,293	2,902,900	986	2,903,886
Renewal premium		8,230,258	34,491	8,264,749	7,381,536	85,674	7,467,210
Single premium		542,032	-	542,032	751,472	-	751,472
		11,500,583	34,491	11,535,074	11,035,908	86,660	11,122,568
Corporate policies							
New business premium		27,167	-	27,167	24,658	-	24,658
Renewal premium		85,515	-	85,515	96,689	-	96,689
		112,682	-	112,682	121,347	-	121,347
Total gross written premium		11,613,265	34,491	11,647,756	11,157,255	86,660	11,243,915

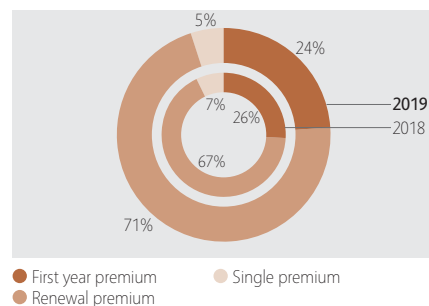
Gross Written Premium

(Rs. Mn)



Composition of GWP

(%)



11 PREMIUM CEDED TO REINSURERS

Accounting Policy

Reinsurance premiums on life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the premiums are decided on the rates agreed with reinsurers and accounted on an accrual basis.

For the year ended 31 December	2019 Rs'000	2018 Rs'000
Conventional	524,581	715,626
Unit linked	1,201	815
Total premium ceded to reinsurers	525,782	716,441

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.

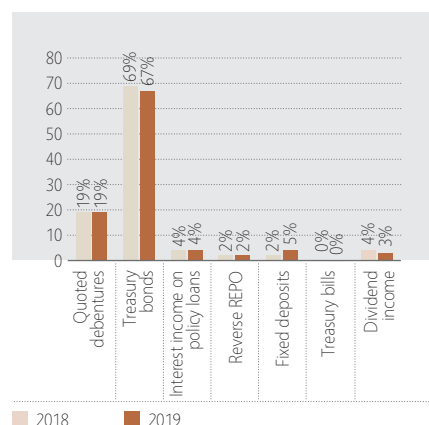
Investment related expenses consist of costs relating to investment such as custodial fee, bank guarantee fee and brokerage fee, etc. These expenses are recognised on an accrual basis.

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	2019 Rs'000	2018 Rs'000
Investment income from;			
Held to maturity financial assets	12.1	2,232,452	2,035,775
Loans and receivables	12.2	1,347,526	1,046,144
Available for sale financial assets	12.3	870,085	817,107
Financial assets at fair value through profit or loss	12.4	183,873	195,349
Notional tax income	12.6	(200,000)	608,003
Investment related expenses		(69,092)	(64,238)
Total net investment income		4,364,844	4,638,140

Composition of Investment Income

(%)



NOTES TO THE FINANCIAL STATEMENTS

12.1 Investment Income from Held to Maturity Financial Assets

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Interest income		
Quoted debentures	33,453	36,212
Treasury bonds	2,198,999	1,999,563
	2,232,452	2,035,775

12.2 Investment Income from Loans and Receivables

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Interest income		
Interest income on policy loans	197,438	154,559
Reverse repurchase agreements	67,227	48,633
Fixed deposits	200,103	76,854
Interest income on loans given to staff	41,503	32,371
Quoted debentures	834,419	723,547
Savings account interest	6,836	10,180
	1,347,526	1,046,144

12.3 Investment Income from Available for Sale Financial Assets

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Interest income		
Treasury bonds	868,249	804,998
Treasury bills	1,836	12,109
	870,085	817,107

12.4 Investment Income from Fair Value Through Profit or Loss

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Interest income		
Treasury bills	6,243	8,876
Treasury bonds	1,301	3,755
Quoted debentures	13,087	13,089
Reverse repurchase agreements	10,164	13,784
Fixed deposits	1,292	958
	32,087	40,462
Dividend income		
Held for trading - Conventional	107,346	102,592
Held for trading - Unit linked	44,440	52,295
	151,786	154,887
	183,873	195,349

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, Company recognized Rs. 608 million notional tax credits as at 31 December 2018 based on internal taxable profit projection. Impairment loss of Rs. 200 million was recognized during the year based on projections for the year ended 31 December 2020.

The unrecognised notional tax credit available for set off against the future tax liability of the Company is as follows;

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Unutilised Notional tax credits as at 1 January	1,071,133	1,598,960
Notional tax credits during the year	-	80,176
Notional tax recognized as (income) / expense during the year (Note 12.6)	200,000	(608,003)
Unutilised Notional tax credits as at 31 December	1,271,133	1,071,133

12.6 Notional Tax Recognized as Income / (Expense) During the Year

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Participating fund	-	71,304
Non participating fund	-	470,000
Shareholder fund	(200,000)	66,699
	(200,000)	608,003

13 NET REALISED GAINS

Accounting Policy

Realised gains and losses recorded in the income statement on investments include gains and losses on sale of 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	2019	2018
	Rs'000	Rs'000
Realised gains	38,716	147,297
Realised losses	(14,403)	(23,823)
Total net realised gains	24,313	123,474

For the year ended 31 December Rs'000	2019			2018		
	Realised gains	Realised losses	Net realised gains / (losses)	Realised gains	Realised losses	Net realised gains / (losses)
Available for sale financial assets						
Treasury bonds	6,207	-	6,207	14,771	(3,688)	11,083
Fair value through profit or loss financial assets	6,207	-	6,207	14,771	(3,688)	11,083
Realised gain on derivative financial instrument	-	-	-	65,080	-	65,080
Quoted equity securities	32,509	(14,403)	18,106	67,446	(20,135)	47,311
	32,509	(14,403)	18,106	132,526	(20,135)	112,391
	38,716	(14,403)	24,313	147,297	(23,823)	123,474

14 NET FAIR VALUE LOSSES

Accounting Policy

Fair value gains and losses recorded in the income statement on investments include fair value gains / losses on financial assets at FVTPL.

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Fair value through profit or loss financial assets		
Quoted equity securities	(302,437)	(799,906)
Unit Trusts	2,338	-
Treasury bonds	264	(82)
Treasury bills	241	(1,054)
Debentures	1,747	(2,033)
Total net fair value gains / (losses)	(297,847)	(803,075)

15 OTHER INCOME

Accounting Policy

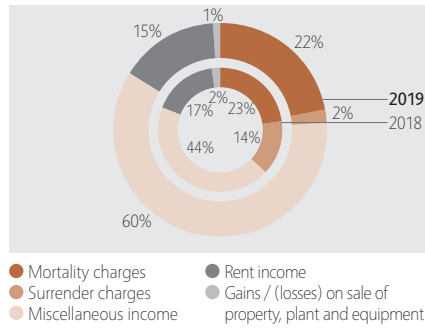
Other income comprises disposal gains / losses on property, plant and equipment, mortality charges, surrender charges, rent income and miscellaneous income.

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Mortality charges	10,585	9,691
Surrender charges	789	6,268
Miscellaneous income	29,159	19,015
Rent income	7,539	7,227
Gains on sale of property, plant and equipment	572	759
Total other income	48,644	42,960

NOTES TO THE FINANCIAL STATEMENTS

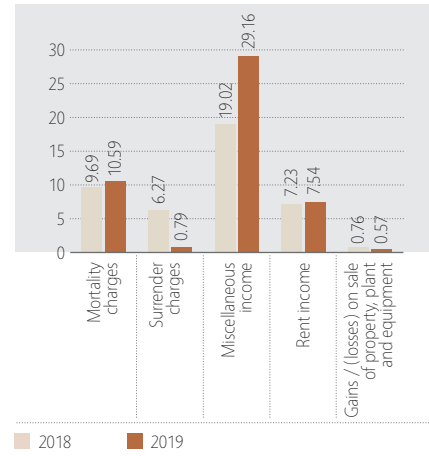
Composition of Other Income

(%)



Other Income

(Rs. Mn)



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	2019			2018		
	Gross claims paid	Claims recovered from reinsurers	Net claims paid	Gross claims paid	Claims recovered from reinsurers	Net claims paid
Death, disability and hospitalisation	506,308	(92,486)	413,822	531,427	(158,484)	372,943
Surrenders	1,095,836	-	1,095,836	863,101	-	863,101
Annuity payments	354,606	-	354,606	169,319	-	169,319
Policy maturities	1,804,087	-	1,804,087	1,945,237	-	1,945,237
Total net life insurance claims and benefits	3,760,837	(92,486)	3,668,351	3,509,084	(158,484)	3,350,600

17 NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

Accounting Policy

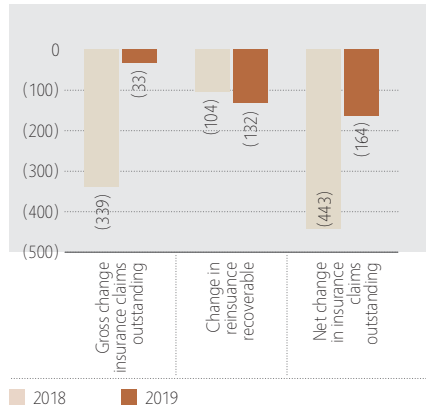
Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

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	2019			2018		
	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
Death, disability and hospitalisation	(4,421)	(131,849)	(136,270)	(54,599)	(103,709)	(158,308)
Surrenders	(13,710)	-	(13,710)	5,943	-	5,943
Policy maturities	(14,487)	-	(14,487)	(290,396)	-	(290,396)
Total net change in insurance claims outstanding	(32,618)	(131,849)	(164,467)	(339,052)	(103,709)	(442,761)

Changes in Insurance Claims Outstanding

(Rs. Mn)



17.1 Net Insurance Benefits and Claims Expense

	For the year ended		
	31 December	2019	2018
	Note	Rs'000	Rs'000
Net insurance benefits and claims paid	16	3,668,351	3,350,600
Net change in insurance claims outstanding	17	(164,467)	(442,761)
Total net insurance benefits and claims expense		3,503,884	2,907,839

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	Note	2019			2018		
		Gross	Reinsurance	Net	Gross	Reinsurance	Net
Premiums written	10 / 11	11,647,756	(525,782)	11,121,974	11,243,915	(716,441)	10,527,474
Insurance benefits and claims incurred	17.1	(3,728,219)	224,335	(3,503,884)	(3,170,033)	262,194	(2,907,839)
Underwriting and net acquisition costs (including reinsurance)	19	(1,939,899)	82,503	(1,857,396)	(2,091,468)	36,417	(2,055,051)
Other operating, selling and administrative expenses attributable to policyholders		(3,220,270)	-	(3,220,270)	(3,857,364)	-	(3,857,364)
Investment and other income attributable to policyholders		3,442,849	-	3,442,849	3,265,567	-	3,265,567
Income tax reversal		-	-	-	32,404	-	32,404
Surplus from life insurance fund transferred to Life shareholder's fund		(1,000,000)	-	(1,000,000)	(1,100,000)	-	(1,100,000)
Change in contract liabilities - Life Fund		5,202,217	(218,944)	4,983,273	4,323,021	(417,830)	3,905,191

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	2019		2018
	Rs'000	Rs'000	Rs'000
Acquisition cost	1,939,899	2,091,468	
Reinsurance commission (including profit commission)	(82,503)	(36,417)	
Total underwriting and net acquisition costs	1,857,396	2,055,051	

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	2019		2018
		Rs'000	Rs'000	Rs'000
Employee benefits expenses	20.1	1,023,067	870,588	
Administration and establishment expenses		1,189,075	1,147,831	
Finance cost	21.1	114,314	63,299	
Selling expenses		687,299	1,441,654	
Total other operating, administrative and selling expenses		3,013,755	3,523,372	

NOTES TO THE FINANCIAL STATEMENTS

20.1 Employee Benefits Expenses

Refer Note 46 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		2019	2018
	Note	Rs'000	Rs'000
Short Term Employee Benefits			
Staff remuneration		817,346	672,276
Defined contribution plan cost - EPF	46.1	68,403	57,763
Defined contribution plan cost - ETF	46.1	17,101	14,441
Staff welfare		35,859	40,570
Training expenses		28,991	34,327
Other costs		15,889	16,609
		983,589	835,986
Long Term Employee Benefits			
Defined benefit plan cost	46.3	27,493	22,557
Share based payment expense	42.3(a)	11,984	12,045
		39,478	34,602
Total employee benefits expenses		1,023,067	870,588

21 FINANCE COSTS

Interest cost is recognised using the effective interest rate method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

21.1 Finance Cost

For the year ended		
31 December	2019	2018
	Rs'000	Rs'000
Interest expenses	84,670	32,471
Bank Charges	29,644	30,828
	114,314	63,299

22 PROFIT BEFORE TAX

Accounting policy

Operating profit is the result generated from the continuing principal revenue-producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes share of profit of equity-accounted investees and income taxes.

Profit before tax is stated after charging all expenses including the following;

For the year ended			
31 December		2019	2018
	Note	Rs'000	Rs'000
Directors fee and emoluments		50,987	51,481
Auditors remuneration			
Statutory audit and audit related services		8,382	13,498
Non audit related services		3,059	2,660
Legal fees		5,158	1,927
Depreciation of property plant and equipment	28.1	83,113	70,938
Amortisation of intangible assets	27.1	122,240	83,997
Depreciation of right of use assets	29.1	94,541	-
Amortisation of lease rentals paid in advance		12,922	101,618
Defined contribution plan			
- EPF	20.1	68,403	57,763
- ETF	20.1	17,101	14,441
Defined benefit plan cost	20.1	27,493	22,557
Other long term employee benefits	46.4(b)	36,339	-
Staff expenses	20.1	1,023,067	870,588
Research and development costs		-	-
CSR expenses		6,400	16,845
Gain on sale of property, plant and equipment	15	572	759
Provision for impairment of			
-Staff loans	36.1(a)	3,887	-
-Agent loans	36.2(a)	31,735	2,847
-Notional tax credits	12.5	200,000	-

23 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.

23.1 Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Company is liable for income tax on the gains and profits from the Life Insurance Business 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%; and
- 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%)

23.2 Tax Exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of 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.

23.3 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

23.4 Crop Insurance Levy

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.

23.5 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.

23.6 Withholding Tax on Dividends Distributed by the Company

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the related dividend payment is recognised.

23.7 Amount Recognised in the Profit or Loss

	For the year ended		
	31 December	2019	2018
	Note	Rs'000	Rs'000
Current tax expense			
Current tax expense for the year		-	-
		-	-
Deferred tax expense			
Reversal of deferred tax assets	30.1	(550,432)	-
Origination of deferred tax assets		-	1,013,102
Reversal of deferred tax liabilities	30.1	-	98,348
Income tax reversal / (expenses) recognised in the profit or loss		(550,432)	1,111,450

Income tax expenses excludes the Company's share of income tax (expenses) / reversal of equity accounted investee of Rs. 30 million (2018 - Rs. 34 million), which has been included in share of profit of equity accounted investee, net of tax.

NOTES TO THE FINANCIAL STATEMENTS

23.8 Amount Recognised in Other Comprehensive Income (OCI)

For the year ended 31 December		2019	2018
	Note	Rs'000	Rs'000
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property plant and equipment	28.1	-	7,042
Reassessment of defined benefit obligations	42.2	-	(3,487)
Items that may be reclassified subsequently to profit or loss			
Available for sale investment securities	39	-	(35,959)
Deferred tax (expense) recognised in OCI		-	(32,404)

23.9 Reconciliation of Effective Tax Rate

A reconciliation between tax expense and the product of accounting profit.

For the year ended 31 December		2019	2018
		Rs'000	Rs'000
Profit before tax from continuing operations		1,708,462	2,132,392
Tax using the company's domestic tax rate	28%	478,369	597,070
Share of profit of equity accounted investee reported net of tax	-2%	(29,326)	(41,946)
Net aggregate disallowable expenses and tax exempt income	6%	101,667	(62,461)
Utilization of tax losses	-32%	(550,710)	(492,663)
Total income tax (expense) / reversal		-	-

24 EARNINGS PER SHARE

Accounting Policy

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after tax of the Company by the weighted average number of ordinary shares outstanding during the 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.

24.1 Basic Earnings per Share

For the year ended		
31 December	2019	2018
Profit after tax (Rs. '000)	1,158,030	3,243,842
Weighted average number of ordinary shares ('000)	58,929	58,929
Basic Earnings Per Share (Rs.)	19.65	55.05

24.2 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 24.1.

25 DIVIDENDS PER SHARE

Accounting Policy

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the financial statements.

The Board of Directors of the Company has approved a first and final dividend of Rs. 20 per share (2018-Rs.20 per share) for the financial year ended 31 December 2019 out of retained earnings.

For the year ended		
31 December	2019	2018
Dividend declared (Rs. '000)	1,178,571	1,178,571
Number of ordinary shares ('000)	58,929	58,929
Dividend per share (Rs.)	20.00	20.00

25.1 Compliance with Section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 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 18 February 2020 have been audited by Messrs. KPMG.

25.2 Dividend Paid During the Year

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
First and final dividend for 2018 - Rs.20 per share (2017 - Rs. 18 per share)	1,178,571	1,060,715

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.

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 maybe sold in response to the need for liquidity or in response to changes in the market conditions.

26 FINANCIAL ASSETS AND LIABILITIES

26.1 Non Derivative Financial Assets

Accounting Policy

Initial Recognition and Measurement

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not measured at fair value through profit or loss, it is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

Income and expenses are presented on a net basis only when permitted under SLFRSs / LKASs, or for gains and losses arising from a group of similar transactions such as the Company's trading activity.

NOTES TO THE FINANCIAL STATEMENTS

Subsequent Measurement

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.

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.

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.

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.

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	-	-	-	✓*
Unit Trusts	-	-	-	✓
Corporate debts	✓	-	✓	✓*
Term deposits	-	-	✓	✓*
Policy loans	-	-	✓	-
Staff and advisor loans	-	-	✓	-
Reinsurance receivables	-	-	✓	-
Premiums receivable	-	-	✓	-
Other receivables	-	-	✓	-
Cash in hand and at bank	-	-	✓	-

* 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.

26.2 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 less 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.

26.3 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

26.4 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

26.5 Reclassification of Financial Assets and Liabilities

The Company reclassifies non derivative financial assets out of the held for trading category and into the AFS, L&R, or HTM categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the AFS category and into the L&R category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset with a fixed maturity reclassified out of the 'AFS' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

26.6 Derivatives Held for Risk Management Purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Other Non Trading Derivatives

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

26.7 Financial Assets and Liabilities by Category.

As at 31 December	Note	L&R	
		2019	2018
Rs'000			
Financial Assets			
Financial investments	32.2	13,199,658	7,644,568
Loans to life policyholders	33	1,555,759	1,218,949
Reinsurance receivable	34	502,975	371,126
Premiums receivable	35	344,785	331,539
Receivables and other assets	36	563,376	608,830
Cash in hand and at bank	37	632,962	696,835
Total financial assets		16,799,515	10,871,847
Financial Liabilities			
Reinsurance payables	47	-	-
Other financial liabilities	48	-	-
Bank overdraft	37	-	-
Total financial liabilities		-	-

27 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.

FVTPL		AFS		HTM		Other financial liabilities		Total	
2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
3,457,191	3,628,533	7,848,043	8,603,633	20,376,303	19,261,339	-	-	44,881,195	39,138,073
-	-	-	-	-	-	-	-	1,555,759	1,218,949
-	-	-	-	-	-	-	-	502,975	371,126
-	-	-	-	-	-	-	-	344,785	331,539
-	-	-	-	-	-	-	-	563,376	608,830
-	-	-	-	-	-	-	-	632,962	696,835
3,457,191	3,628,533	7,848,043	8,603,633	20,376,303	19,261,339	-	-	48,481,052	42,365,352
-	-	-	-	-	-	812,930	669,314	812,930	669,314
-	-	-	-	-	-	1,078,709	932,022	1,078,709	932,022
-	-	-	-	-	-	168,428	244,175	168,428	244,175
-	-	-	-	-	-	2,060,067	1,845,511	2,060,067	1,845,511

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.

27.1 Reconciliation of Carrying Amounts of Intangible Assets

As at 31 December	2019			Total	2018
	Software Licensed	Software Purchased	Contractual relationships		
Rs'000					Total
Cost					
Balance as at 1 January	39,063	860,749	791,238	1,691,050	427,679
Acquisitions during the year - separately acquired	-	36,971	-	36,971	1,263,371
Balance as at 31 December	39,063	897,720	791,238	1,728,021	1,691,050
Accumulated amortisation and impairment losses					
Balance as at 1 January	38,928	230,565	29,366	298,859	214,862
Amortisation	83	85,769	36,388	122,240	83,997
Balance as at 31 December	39,011	316,334	65,754	421,099	298,859
Carrying value					
As at 31 December 2019	52	581,386	725,484	1,306,922	-
As at 31 December 2018	135	630,184	761,872	-	1,392,191

NOTES TO THE FINANCIAL STATEMENTS

27.2 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2019. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date.

27.3 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.

27.4 Intangible Assets pledged as Security

None of the Intangible assets have been pledged as security as at the reporting date.

27.5 Acquisition of Intangible Assets During the Year

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 37 million (2018 - Rs. 1,263 million). Cash payments amounting to Rs. 37 million (2018 - Rs. 867 million) were made for purchase software during the year.

27.6 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.

27.7 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. 191 million (2018 - Rs. 181 million).

28 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 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 revaluation reserve.

An annual transfer from the 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:

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.

Borrowing Cost

Borrowing Cost that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of the asset as per the Sri Lanka Accounting Standard – LKAS 23 Borrowing Costs. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognized in the Profit or Loss in the period in which they occur.

NOTES TO THE FINANCIAL STATEMENTS

28.1 Reconciliation of Carrying Amounts of Property, Plant and Equipment

As at 31 December	Freehold Land	Freehold Buildings	Plant machinery, Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	2019	2018
Rs. '000							Total	Total
Cost / Revaluation								
Balance as at 1 January	1,571,000	304,312	162,837	245,657	522,297	80	2,806,183	2,677,549
Additions during the year	-	4,022	10,765	53,452	29,287	-	97,526	153,751
Revaluation	322,750	80,533	-	-	-	-	403,283	-
Transfer of accumulated depreciation on assets revalued	-	(17,390)	-	-	-	-	(17,390)	-
Disposals during the year	-	-	(3,341)	(7,393)	(5)	-	(10,739)	(25,117)
Balance as at 31 December	1,893,750	371,477	170,261	291,716	551,579	80	3,278,863	2,806,183
Accumulated depreciation and impairment losses								
Balance as at 1 January	-	8,695	132,723	156,748	424,947	80	723,193	676,833
Depreciation for the year	-	8,695	9,486	25,191	39,741	-	83,113	70,938
Transfer of accumulated depreciation on assets revalued	-	(17,390)	-	-	-	-	(17,390)	-
Accumulated depreciation on disposals during the year	-	-	(3,310)	(7,043)	(5)	-	(10,358)	(24,578)
Balance as at 31 December	-	-	138,899	174,896	464,683	80	778,558	723,193
Carrying value								
As at 31 December 2019	1,893,750	371,477	31,362	116,820	86,896	-	2,500,305	
As at 31 December 2018	1,571,000	295,617	30,114	88,909	97,350	-		2,082,990

28.2 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.

28.3 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. 98 million (2018 - Rs. 154 million). Cash payments amounting to Rs. 98 million (2018 - Rs. 154 million) were made during the year for purchase of property plant and equipment.

28.4 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. 11 million (2018 - Rs. 25 million). Cash amounting to Rs. 0.6 million (2018 - Rs. 1.3 million) was 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.

28.5 Capitalisation of Borrowing Costs

There was no capitalised borrowing cost relating to the acquisition of property, plant and equipment during the year (2018 - Nil).

28.6 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.

28.7 The Details of Freehold Land and Buildings Which are Stated at Valuation

Company property	No of buildings	Extent Perches (Land)	Square feet (Building)	Method of valuation	Date of valuation	Valuer	Revalued amount		Carrying value after revaluation	Carrying value %
							Land	Building		
							Rs'000	Rs'000	Rs'000	
Land and building situated at No. 20, St. Michael's Road, Colombo 3	1	93.4	57,916	Market Comparable method	31 December 2019	Mr. P. B. Kalugalagedera (AIA) and Associates	1,681,200	267,626	1,948,826	86
Land and building situated at No. 6, Rajapihilla Road, Kurunegala	1	32.3	27,904	Market Comparable method	31 December 2019	Chartered valuation surveyor	212,550	103,851	316,401	14
							1,893,750	371,477	2,265,227	100

28.8 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 2019.

Location and address of Property	No of buildings	Method of valuation	Significant unobservable inputs	Range of Estimates for unobservable inputs	Inter - Relationship between key unobservable inputs and fair value measurement
The estimated fair value would increase / (decrease) if:					
Kollupitiya No. 20, St. Michael's Road, Colombo 3	1	Market comparable method	Land - Price per perch	Rs. 18,000,000 - Rs. 20,000,000	Price per perch for land increases, decreases
			Building - Price per square foot	Rs. 12,000 - Rs. 17,000	Price per square foot for building increases, decreases
Kurunegala No. 6, Rajapihilla Road, Kurunegala	1	Market comparable method	Land - Price per perch	Rs. 7,000,000 - Rs. 8,000,000	Price per perch for land increases, decreases
			Building - Price per square foot	Rs. 8,000 - Rs. 10,000	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.

28.9 Revaluation Surplus

Rs'000	2019		
	Land	Buildings	Total
Revalued amount	1,893,750	371,477	2,265,227
Carrying value (prior to revaluation)	(1,571,000)	(290,944)	(1,861,944)
Revaluation surplus for the year ended 31 December	322,750	80,533	403,283

NOTES TO THE FINANCIAL STATEMENTS

28.10 If Land and Buildings were stated at Historical Cost, the Amounts would have been as follows;

As at 31 December	2019	2018
	Rs'000	Rs'000
Cost	251,124	251,124
Accumulated depreciation	(89,631)	(85,617)
Carrying value	161,493	165,507

28.11 The Effect of Revaluation of Freehold Buildings on the Statement of Income during the year was as follows;

As at 31 December	2019	2018
	Rs'000	Rs'000
Depreciation charge per annum after revaluation	8,629	8,629
Depreciation charge per annum prior to revaluation	(4,014)	(4,014)
Decrease in profit in subsequent period	4,615	4,615

28.12 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 2019. 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.

28.13 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	2019	2018
	Rs'000	Rs'000
Computer equipment	361,715	333,302
Office equipment	120,433	125,808
Furniture and fittings	141,168	154,240
Motor Vehicle	80	80
Total	623,396	613,430

28.14 Property, Plant and Equipment pledged as Security

None of the property, plant or equipment have been pledged as security as at the reporting date.

28.15 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.

28.16 Temporarily Idle Property, Plant and Equipments

There are no temporarily idle property, plant or equipment as at the reporting date.

28.17 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.

29 RIGHT OF USE ASSETS (LEASES)

Accounting policy

The Company has applied SLFRS 16 using the modified retrospective approach (2b) and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

POLICY APPLICABLE FROM 1 JANUARY 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets separately and lease liabilities in other liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies SLFRS 15 to allocate the consideration in the contract.

The Company applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from SLFRS 16.

NOTES TO THE FINANCIAL STATEMENTS

POLICY APPLICABLE PRIOR TO 1 JANUARY 2019

Determining whether an Arrangement Contains a Lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

Leased Assets

Leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Contingent rents, if any, are recognised as revenue in the period in which they are earned.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

29.1 Leases as lessee (SLFRS 16)

The Company has lease contracts for branches, typically made in between 1 to 7 years of lease term and have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Company leases motor vehicles under a number of leases, which were classified as Operating leases under LKAS 17 as at 31 December 2018.

Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

As at 31 December 2019	Property, Plant and Equipment		Total Rs. '000
	Building Rs. '000	Motor Vehicles Rs. '000	
Balance at 1 January	283,715	40,115	323,866
Prepaid rent	24,611	-	24,611
Additions to right-of-use assets during the year	45,843	531	46,374
Depreciation for the year	(77,110)	(17,431)	(94,541)
Disposals of right-of-use assets during the year	(3,511)	-	(3,511)
Change in fair value	-	-	-
Balance at 31 December	273,584	23,215	296,799

Amounts recognised in profit or loss

For the year ended 31 December 2019	
Leases under SLFRS 16	2019
	Rs'000
Interest on lease liabilities	(19,592)
Depreciation of right-of-use assets	(94,541)
Expenses relating to short-term leases	(15,299)
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
	(129,432)

For the year ended 31 December 2018	
Operating leases under LKAS 17	2018
	Rs'000
Lease expense	123,915
	123,915

Amounts recognised in statement of cash flows

The Company has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Company; and
- short-term lease payments and payments for leases of low-value assets as operating activities.

The Company has not restated comparative information.

For the year ended 31 December 2018	
Operating leases under LKAS 17	
2019	
Rs'000	
Total cash outflow for leases	110,108
	110,108

29.2 Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

30 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. The reversal of relevant taxable temporary differences are determined based on future taxable profits. 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

With the introduction of the 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 has 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 commencing 1 April 2018. 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.

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.

As at 31 December	2019	2018
	Rs'000	Rs'000
Deferred tax assets	(528,614)	(1,079,046)
Deferred tax liabilities	-	-
Net tax liabilities/ (assets)	(528,614)	(1,079,046)

NOTES TO THE FINANCIAL STATEMENTS

30.1 Movement in Deferred Tax Balances

For the year ended 31 December		2019				
Rs'000	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net Deferred tax assets	Deferred tax liabilities	
Deferred tax liabilities	-	-	-	-	-	
Deferred tax assets						
Carry forward tax losses	(1,079,046)	550,432	-	(528,614)	(528,614)	
	(1,079,046)	550,432	-	(528,614)	(528,614)	
Net tax liabilities/ (assets)	(1,079,046)	550,432	-	(528,614)	(528,614)	

As at 31 December		2018				
Rs'000	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net Deferred tax assets	Deferred tax liabilities	
Deferred tax liabilities						
Property, plant and equipment	98,713	(91,671)	(7,042)	-	-	
Intangible assets	6,677	(6,677)	-	-	-	
Deferred tax assets						
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)	
Net tax liabilities/ (assets)	-	(1,111,450)	32,404	(1,079,046)	(1,079,046)	

30.2 Analysis of Recognised Deferred Tax Assets / Liabilities

As at 31 December		2019		2018	
Rs'000		Temporary Difference	Tax effect	Temporary Difference	Tax effect
Deferred tax assets					
Carry forward tax losses		1,887,907	(528,614)	(3,853,735)	(1,079,046)
		1,887,907	(528,614)	(3,853,735)	(1,079,046)
Deferred tax liability		-	-	-	-
Net recognised deferred tax assets / liabilities		1,887,907	(528,614)	(3,853,735)	(1,079,046)

30.3 Deferred tax assets from tax losses

The tax losses as at the reporting date was Rs. 1,888 million resulted in deferred tax asset of Rs. 529 million. Deferred tax asset has been recognised in full as the management is confident that the Company would generate adequate future taxable profits to recover the deferred tax assets in the future periods, based on projection approved by the Board.

30.4 Impact due to corporate income tax rate change

As provided for in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.

As per the proposed changes by the government, the tax rate for insurance companies has changed from 28% to 24% with effect from 1 January 2020. However, as these changes have not been gazetted as at the reporting date, the prevailing income tax rate of 28% has been used for the deferred tax computation as at 31 December 2019.

30.5 Tax Loss Analysis

The tax loss carried forward as at the reporting date is Rs. 1,888 million (2018 - Rs. 3,854 million) which is made up as follows;

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	3,853,735	5,472,188
Unrecognised taxable income from previous year	(59,626)	-
Utilised during the year	(1,907,196)	(1,759,511)
	1,886,913	3,712,677
Loss incurred in the business of life insurance	-	130,605
Unrecognised tax losses from previous year	994	10,453
Balance as at 31 December	1,887,907	3,853,735

31 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 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December				2019		2018		
	Place of incorporation and operation	Proportion of ownership interest	Number of Shares	Cost Rs. '000	Directors valuation / market value Rs. '000	Carrying value Rs. '000	Directors valuation / market value Rs. '000	Carrying value Rs. '000
Unquoted								
Fairfirst Insurance Limited	Sri Lanka	22%	68,902,870	689,029	1,245,951	1,245,951	1,130,379	1,130,379

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. 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31.1 Summarised Financial Information in Respect of Associate

Share of Results of Associate

Income Statement

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Net earned premium	5,669,341	6,957,797
Finance and other income	852,803	796,631
Benefits, claims and expenses	(5,907,970)	(7,230,149)
Profit before tax	614,174	524,279
Income tax reversal / (expenses)	(138,105)	156,661
Profit from continuing operations, net of tax	476,069	680,940
Percentage ownership interest	22%	22%
Company's share of profit from investment in associate, net of tax	104,736	149,807
Other Comprehensive Income		
Other comprehensive income, net of tax	49,259	(68,862)
Company's share of other comprehensive income, net of tax	10,837	(15,150)
Total comprehensive income	525,328	612,078
Share of results of equity accounted investee recognised in statement of profit or loss and other comprehensive income, net of tax	115,573	134,657

Current non current analysis of assets / Liabilities in respect of associate

As at 31 December	2019	2018
	Rs'000	Rs'000
Total assets	16,196,348	15,194,915
Total liabilities	10,532,929	10,056,824
Net assets (100%)	5,663,419	5,138,091
Company's share of net assets (22%)	1,245,951	1,130,379

31.1(a) Company's Share of Other Comprehensive Income, net of Tax

For the year ended 31 December	Note	2019	2018
		Rs'000	Rs'000
Share of gains / (losses) on AFS reserve	39	13,234	(15,583)
Share of actuarial gains / (losses) on defined benefit plans	42.2	(2,397)	433
		10,837	(15,150)

31.2 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	2019	2018
	Rs'000	Rs'000
Value of investment in equity accounted investee as at 1 January	1,130,379	995,722
Add		
Net profit for the period recognised in income statement	104,735	149,807
Other comprehensive income	10,837	(15,150)
Dividend received	-	-
Company share of (net of tax) equity accounted investee for the year ended 31 December	115,572	134,657
Value of investment in equity accounted investee as at 31 December	1,245,951	1,130,379
Contingent liabilities of equity accounted investee	Nil	Nil
Capital and other commitments of equity accounted investee	Nil	Nil

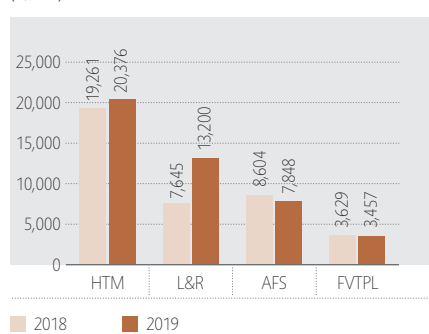
31.3 There are no restrictions on the ability of the associate to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances.

31.4 The Company has neither contingent liabilities nor capital and other commitments towards its associate company.

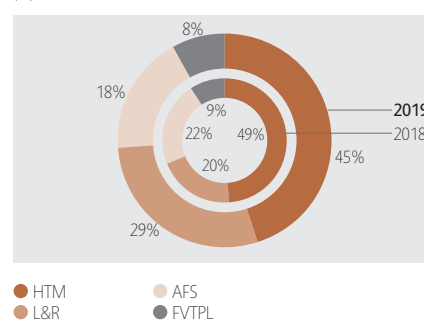
32.2 The Company's Financial Instruments are Summarised as Follows:

As at 31 December		2019		2018	
Rs. '000	Note	Carrying value	Fair Value	Carrying value	Fair Value
Held to maturity financial assets (HTM)	32.3	20,376,303	21,577,858	19,261,339	18,450,312
Loans and receivables (L&R)	32.4	13,199,658	13,479,038	7,644,568	7,520,810
Available for sale financial assets (AFS)	32.5	7,848,043	7,848,043	8,603,633	8,603,633
Financial assets at fair value through profit or loss (FVTPL)	32.6	3,457,191	3,457,191	3,628,533	3,628,533
Total financial investments		44,881,195	46,362,130	39,138,073	38,203,288

Investments - Reporting Category Wise
(Rs. Mn)



Composition of Investments
(%)



32.2 (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	2019	2018
	Rs'000	Rs'000
Treasury bonds		
Held to maturity financial investments	1,449,744	1,476,199
Available for sale financial investments	2,116,302	1,927,374
	3,566,046	3,403,573

32 FINANCIAL INVESTMENTS

The risk management practices adopted by the Company in relation to the investment portfolio and risk management disclosures are outlined in Note 8 to the financial statements.

32.1 Financial Investments Pledged as Security

None of the financial investments have been pledged as security as at the reporting date.

32.3 Held to Maturity Financial Assets (HTM)

As at 31 December	2019	2018
Note	Rs'000	Rs'000
Amortised cost		
Quoted debentures	32.3(a) 216,505	216,551
Treasury bonds	20,159,798	19,044,788
Total HTM financial investments	20,376,303	19,261,339

NOTES TO THE FINANCIAL STATEMENTS

32.3(a) Quoted Debentures - Banks and Finance

As at 31 December				2019		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,505	243,644	16.75
				216,505	243,644	

As at 31 December				2018		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Hatton National Bank PLC	A+	31/07/2022	2,000,000	216,551	237,909	16.75
				216,551	237,909	

32.3 (b) Impairment of Held to Maturity Financial Investments

At the reporting date, there were no HTM financial investments that were overdue and impaired.

32.4 Loans and Receivables (L&R)

As at 31 December	Note	2019	2018
		Rs'000	Rs'000
Amortised cost			
Bank deposits		2,968,261	757,417
Quoted debentures	32.4 (a)	8,209,160	6,078,753
Reverse repurchase agreements		2,022,237	808,398
Total L&R financial investments		13,199,658	7,644,568
The effective interest rates on non-current portion of portfolio		11.92%	15.25%

32.4 (a) Quoted Debentures - Banks and Finance

As at 31 December				2019		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Central Finance Company PLC	A+	6/1/2020	400,000	43,277	43,737	9.52
National Development Bank PLC	A	6/24/2020	2,429,000	228,896	201,742	-
National Development Bank PLC	A	6/24/2020	1,850,000	199,661	232,116	9.40
Senkadagala Finance PLC	BBB+	11/10/2020	500,000	50,812	51,029	13.75
Commercial Bank of Ceylon PLC	AA-	3/9/2021	250,000	25,926	23,339	10.75
Seylan Bank PLC	BBB+	7/15/2021	950,400	101,168	100,794	13.00
Siyapatha Finance Limited	A-	9/20/2021	102,400	10,533	11,048	13.50
Singer Sri Lanka PLC	A-	9/28/2021	3,500,000	360,611	367,876	12.00
Bank of Ceylon	AA	10/24/2021	242,499	25,011	26,228	13.25
Nations Trust Bank PLC	A-	11/8/2021	3,000,000	305,494	305,615	12.65
People's Leasing Company PLC	AA-	11/16/2021	2,000,000	203,040	203,107	12.60
Bank of Ceylon	AA	12/29/2021	2,000,000	202,062	200,825	13.25
Lanka Orix Leasing Company PLC	A	7/31/2022	500,000	52,883	54,978	13.00
National Savings Bank	AAA	9/10/2022	1,500,000	154,917	159,282	11.00
LB Finance PLC	A-	12/11/2022	1,000,000	100,669	104,788	12.75
LB Finance PLC	BBB+	12/11/2022	1,000,000	100,694	101,066	13.25
Sampath Bank PLC	A	12/21/2022	1,600,000	160,569	167,413	12.50
Sampath Bank PLC	A	3/20/2023	200,000	20,994	21,009	12.50
Sampath Bank PLC	A	3/20/2023	2,500,000	258,682	262,618	12.50
DFCC Bank PLC	A+	3/29/2023	2,500,000	274,426	277,942	12.60
Nations Trust Bank PLC	A-	4/20/2023	2,875,000	313,036	325,566	13.00
Hatton National Bank PLC	AA-	8/30/2023	1,204,706	105,328	113,779	8.00
Bank of Ceylon	AA	10/25/2023	452,300	47,298	47,393	13.75
Hatton National Bank PLC	A+	11/1/2023	724,000	73,909	73,969	13.00
National Development Bank PLC	A	12/19/2023	4,500,000	517,722	520,290	13.90
Sampath Bank PLC	A	2/28/2024	1,000,000	111,565	116,541	13.90
Seylan Bank PLC	BBB+	4/18/2024	4,000,000	441,522	472,371	15.00
Bank of Ceylon	Unrated	7/23/2024	2,000,000	209,825	216,812	11.50
Siyapatha Finance Limited	BBB+	8/8/2024	2,760,000	290,146	302,628	13.33
Hayleys PLC	A+	8/26/2024	1,000,000	104,507	104,522	13.00
Nations Trust Bank PLC	A-	12/23/2024	1,000,000	100,299	103,948	12.80
HNB Finance Limited	BBB+	12/30/2024	6,000,000	600,216	625,475	13.20
DFCC Bank PLC	A+	3/29/2025	3,000,000	329,249	348,342	13.00
Seylan Bank PLC	BBB+	3/29/2025	2,000,000	206,614	206,727	13.20
Hatton National Bank PLC	A+	9/23/2026	864,100	89,307	94,832	12.80
Nations Trust Bank PLC	A-	12/23/2026	3,000,000	300,904	314,030	12.90
Peoples Bank	AA	11/8/2027	4,370,000	444,533	473,760	12.25
Seylan Bank PLC	BBB+	3/29/2028	3,000,000	310,153	326,974	13.50
Sri Lanka Telecom PLC	AA+	4/19/2028	2,000,000	205,070	225,013	12.75
Commercial Bank of Ceylon PLC	AA-	7/23/2028	5,000,000	527,632	559,018	12.50
				8,209,160	8,488,542	

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December				2018		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Hemas Holdings PLC	AA-	4/29/2019	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+	6/1/2020	400,000	42,015	42,341	9.52
National Development Bank PLC	A	6/24/2020	2,429,000	202,363	204,609	-
National Development Bank PLC	A	6/24/2020	1,850,000	194,078	194,509	9.40
Senkadagala Finance PLC	BBB+	11/10/2020	500,000	50,686	51,368	13.75
Commercial Bank of Ceylon PLC	AA-	3/9/2021	250,000	26,002	25,084	10.75
Seylan Bank PLC	BBB+	7/15/2021	950,400	101,402	100,794	13.00
Siyapatha Finance Limited	A-	9/20/2021	102,400	10,498	10,691	13.50
Singer Sri Lanka PLC	A-	9/28/2021	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-	11/8/2021	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	7/31/2022	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	3/20/2023	2,500,000	258,697	253,694	12.50
DFCC Bank PLC	A+	3/29/2023	2,000,000	218,913	217,149	12.60
Nations Trust Bank PLC	A-	4/20/2023	2,875,000	313,224	309,786	13.00
Hatton National Bank PLC	AA-	8/30/2023	1,204,706	101,653	102,262	8.00
Bank of Ceylon	AA	10/25/2023	452,300	47,488	47,756	13.75
Hatton National Bank PLC	A+	11/1/2023	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+	3/29/2025	3,000,000	329,263	329,605	13.00
Seylan Bank PLC	BBB+	3/29/2025	2,000,000	206,623	202,138	13.20
Seylan Bank PLC	BBB+	3/29/2028	3,000,000	310,160	304,261	13.50
Sri Lanka Telecom PLC	AAA	4/19/2028	2,000,000	205,075	208,778	12.75
Commercial Bank of Ceylon PLC	AA-	7/23/2028	5,000,000	527,644	516,401	12.50
				6,078,753	5,954,994	

32.4 (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.

32.5 Available for Sale Financial Assets (AFS)

As at 31 December	2019	2018
	Rs'000	Rs'000
Fair value		
Treasury bonds	7,848,043	8,573,954
Treasury bills	-	29,679
Total Available for Sale		
Financial investments	7,848,043	8,603,633

32.5 (a) Impairment of Available for Sale Financial Investments

At the reporting date, there were no AFS financial investments that were overdue and impaired.

32.6 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December	Note	2019	2018
		Rs'000	Rs'000
Fair value			
Quoted equities	32.6(a)	2,059,968	2,129,129
Unit Trusts		152,338	-
		2,212,306	2,129,129
Investments in unit linked funds			
Quoted equities	32.6(b)	949,024	1,167,900
Reverse repurchase agreements		112,386	112,842
Treasury bills		26,649	85,523
Treasury bonds		-	42,152
Bank deposits		16,292	-
Quoted debentures		140,534	90,987
		1,244,885	1,499,404
Total Fair Value Through Profit or Loss financial investments		3,457,191	3,628,533

32.6(a) Quoted Equities - Other than Unit Linked Investments

As at 31 December	2019			2018			
	Rs'000	No of shares	Cost	Carrying / Fair Value	No of shares	Cost	Carrying / Fair Value
Banks, Finance and Insurance							
Commercial Bank PLC (non - voting)	673,634	48,086	55,912	661,016	46,949	62,797	
Commercial Bank PLC	863,208	93,883	82,005	542,520	57,232	62,390	
Hatton National Bank PLC	1,642,838	341,564	282,897	3,134,722	530,607	601,852	
Hatton National Bank PLC (non voting)	1,545,068	198,479	209,357	-	-	-	
Sampath Bank PLC	2,512,761	601,607	408,072	2,413,533	578,223	567,180	
Central Finance Company PLC	437,028	40,235	45,451	433,038	39,899	38,410	
DFCC Bank PLC	391,520	65,589	35,980	391,520	65,599	36,411	
National Development Bank PLC	1,291,100	203,716	129,110	1,224,260	196,637	130,751	
People's Leasing & Finance PLC	3,937,398	68,951	70,479	3,821,672	67,308	62,293	
Seylan Bank PLC (Non Voting)	683,973	34,854	23,118	-	-	-	
Seylan Bank PLC	483,178	38,918	25,367	847,412	62,659	49,560	
		1,735,882	1,367,748		1,645,113	1,611,644	
Diversified Holding							
Hemas Holdings PLC	556,323	20,297	44,506	536,638	18,644	47,653	
Distilleries Company of Sri Lanka PLC	5,304,755	96,249	98,138	5,304,755	96,249	85,407	
Melstacorp PLC	2,529,764	145,110	110,045	2,529,764	145,110	127,247	
		261,656	252,689		260,003	260,307	
Construction and Engineering							
Access Engineering PLC	2,965,739	74,852	64,653	2,965,739	74,852	41,817	
		74,852	64,653		74,852	41,817	
Manufacturing							

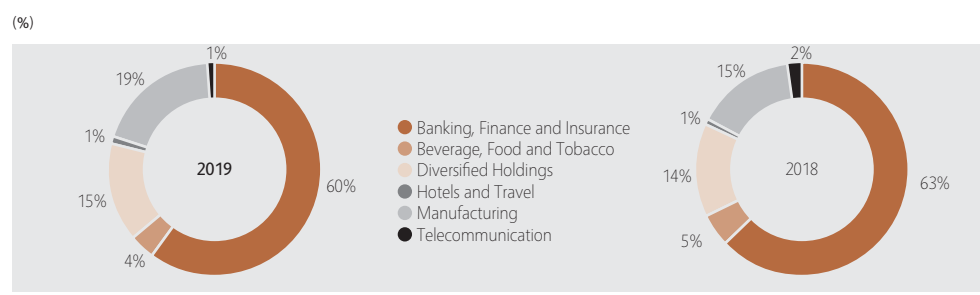
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December	2019			2018		
	Rs'000	No of shares	Cost	Carrying / Fair Value	No of shares	Cost
Chevron Lubricants Lanka PLC	426,400	29,039	31,937	426,400	29,039	31,042
Tokyo Cement Company (Lanka) PLC (voting)	1,703,397	46,124	81,763	685,432	6,968	17,273
Tokyo Cement Company (Lanka) PLC (non-voting)	1,729,956	36,938	67,814	1,729,956	36,938	39,789
Piramal Glass PLC	7,927,708	48,005	35,675	5,103,984	36,422	19,395
Textured Jersey Lanka PLC	2,782,495	74,831	113,526	2,782,495	74,831	90,432
		234,937	330,715		184,198	197,931
Telecommunication						
Dialog Axiata PLC	2,697,066	29,668	33,174	-	-	-
		29,668	33,174		-	-
Motors						
Diesel and Motor Engineering PLC	3,437	5,194	1,100	22,062	33,340	7,578
		5,194	1,100		33,340	7,578
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	364,900	25,931	9,889	364,900	25,931	9,852
		25,931	9,889		25,931	9,852
		2,368,120	2,059,968		2,223,437	2,129,129

32.6(b) Equity Securities / Unit Linked Fund - (FVTPL)

As at 31 December	2019			2018		
	Rs'000	No of shares	Cost	Carrying / Fair Value	No of shares	Cost
Banking, Finance and Insurance						
Hatton National Bank PLC	184,428	30,932	31,759	1,273,836	230,887	222,303
Hatton National Bank PLC (non voting)	1,030,711	188,087	139,661			
Sampath Bank PLC	958,902	176,435	155,726	327,011	72,184	76,848
Commercial Bank of Ceylon PLC	645,980	72,238	61,368	445,457	51,368	51,228
Commercial Bank of Ceylon PLC -(non voting)	96,335	8,329	7,996	339,733	31,225	32,275
Central Finance Company PLC	164,450	15,191	17,103	162,949	15,065	14,454
DFCC Bank PLC	70,960	12,500	6,521	70,960	12,500	6,599
National Development Bank PLC	173,287	31,222	17,329	164,316	30,272	17,549
Nations Trust Bank PLC	-	-	-	322,718	29,152	28,786
People's Leasing and Finance PLC	715,472	12,096	12,807	694,444	11,798	11,319
		547,030	450,270		484,451	461,361
Beverage, Food and Tobacco						
Nestle Lanka PLC	82,311	136,636	106,988	74,551	126,697	126,737
The Lion Brewery Ceylon PLC	-	-	-	72,588	39,471	41,375
		136,636	106,988		166,168	168,112
Diversified Holdings						
Melstacorp PLC	173,690	8,976	7,556	532,160	61,406	65,984
John Keells Holdings PLC	396,725	58,206	66,491	-	-	-
Hemas Holdings PLC	1,572,569	155,360	125,806	1,516,925	150,686	134,703
Distilleries Company of Sri Lanka PLC	257,644	4,215	4,766	755,443	13,470	12,163
		226,757	204,619		225,562	212,850
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	125,493	9,003	3,401	125,493	9,003	3,388
		9,003	3,401		9,003	3,388

As at 31 December	2019			2018		
Rs'000	No of shares	Cost	Carrying / Fair Value	No of shares	Cost	Carrying / Fair Value
Manufacturing						
Tokyo Cement Company Lanka PLC -(non voting)	349,177	6,898	13,687	298,451	5,626	6,864
Tokyo Cement Company (Lanka) PLC (voting)	1,070,125	30,640	51,366			
Piramal Glass Ceylon PLC	1,882,584	11,065	8,471	17,673,950	101,248	67,161
Textured Jersey Lanka PLC	2,701,518	99,637	110,222	5,751,742	222,904	186,932
		148,240	183,746		329,778	260,957
Telecommunication						
Dialog Axiata PLC	-	-	-	6,062,610	64,326	61,232
		-	-		64,326	61,232
		1,067,666	949,024		1,279,288	1,167,900



32.6 (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.

32.7 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 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
As at 31 December 2018	19,261,339	7,644,568	8,603,633	3,628,533	39,138,073

NOTES TO THE FINANCIAL STATEMENTS

Rs.'000	Held to maturity	Loans and receivables	Available for sale	Fair value through profit or loss	Total
As at 1 January 2019	19,261,339	7,644,568	8,603,633	3,628,533	39,138,073
Purchases	3,152,661	5,853,549	292,134	3,110,132	12,408,476
Maturities	(2,198,549)	(307,996)	(1,062,335)	(2,193,913)	(5,762,793)
Disposals	-	-	(526,672)	(854,048)	(1,380,720)
Scrip Dividend	-	-	-	62,705	62,705
Fair value losses recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	(302,436)	(302,436)
Fair value gains recorded in OCI	-	-	559,563	-	559,563
Amortisation	104,949	61,991	31,592	5,856	204,388
Net change in accrued Interest	55,903	(52,454)	(49,872)	362	(46,061)
As at 31 December 2019	20,376,303	13,199,658	7,848,043	3,457,191	44,881,195

33 LOANS TO LIFE POLICYHOLDERS

See accounting policy in Note 26.

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	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	956,638	751,046
Loans granted during the year	630,532	538,936
Repayments during the year	(337,348)	(333,344)
	1,249,822	956,638
Interest receivables on loans to life policyholders	305,937	262,311
Balance as at 31 December	1,555,759	1,218,949

33.1 Collateral Details

As at 31 December 2019 surrender value of policyholder loans amounted to Rs.2,544 million (2018 - Rs.1,998 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.

33.2 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.

33.3 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.

33.4 Impairment of Loans to Life Policyholders

Policyholder loans are reviewed for impairment at each reporting date. As of 31 December 2019, there were no impaired loss recorded on policyholder loans (2018 - Nil).

33.5 Number of Policy Loans

Number of policy loans due as at 31 December 2019 was 20,085 (2018 - 15,447).

34 REINSURANCE RECEIVABLE**Accounting Policy**

See accounting policy in Note 26.

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	2019	2018
	Rs'000	Rs'000
Reinsurance receivable on outstanding claims	132,847	177,180
Reinsurance receivable on settled claims	370,128	193,946
Total reinsurance receivables	502,975	371,126

34.1 Impairment of Reinsurance Receivable

The Board of Directors has assessed potential impairment loss of reinsurance receivable as at 31 December 2019. Based on the assessment, there was no impairment loss on reinsurance receivable.

34.2 Fair Value of Reinsurance Receivable

The carrying values disclosed above approximate the fair value at the reporting date.

34.3 The Ageing of Reinsurance Receivable on Paid Claims

As at 31 December	2019	2018
	Rs'000	Rs'000
Less than 60 days	54,092	112,405
More than 60 days	316,036	81,541
	370,128	193,946

34.4 Reinsurance Receivable Past Due but Not Impaired (On Paid Claims)

As at 31 December 2019, reinsurance receivable of Rs. 316 million (2018 - Rs. 82 million) were past due but not impaired. These relate to parties where there were no recent history of default.

34.5 Collateral Details

The Company does not hold any collateral as security against potential default by reinsurance counter parties.

34.6 Reinsurance Receivable on Outstanding Claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable has not been received.

34.7 Risk Management

Refer Note 8.1(c) to the financial statements for risk management initiatives relating to reinsurance.

35 PREMIUMS RECEIVABLE

Accounting Policy

See accounting policy in Note 26.

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	2019	2018
	Rs'000	Rs'000
Premiums receivable from;		
Policyholders	214,855	172,410
Intermediaries (Including collections in transit)	129,930	159,129
Total premiums receivable	344,785	331,539

35.1 Fair Value of Premiums Receivable

The carrying amount disclosed above approximates the fair value at the reporting date.

35.2 Impairment of Premiums Receivable

The Management has assessed potential impairment loss of premiums receivable as at 31 December 2019. Based on the assessment, there was no impairment loss on premiums receivable (2018 - Nil).

35.3 Collateral Details

The Company does not hold any collateral as security against potential default by policyholders or intermediaries.

35.4 Risk Management Initiatives Relating to Premiums Receivable

Refer Note 8.2(c) to the financial statements for risk management initiatives relating to premiums receivable.

NOTES TO THE FINANCIAL STATEMENTS

36 RECEIVABLES AND OTHER ASSETS

Accounting Policy

See accounting policy in Note 26.

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		2019	2018
	Note	Rs'000	Rs'000
Financial Assets			
Staff loans*	36.1	306,914	284,188
Agent / advisor loans	36.2	196,944	212,984
Refundable deposits		22,748	17,126
Amounts due from Related parties			
Parent Company - John Keells Holdings PLC		-	-
Other related parties		-	21,026
Other receivables		36,770	73,506
		563,376	608,830
Non Financial Assets			
Taxes recoverable	36.5	630,098	767,786
Prepayments		151,300	163,047
Inventories		34,316	13,677
Advance payments		69,406	117,372
Other receivables		4,389	4,889
		889,509	1,066,771
Total receivables and other assets		1,452,885	1,675,601

36.1 Staff Loans

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Balance as at 1 January		284,546	236,309
Loans provided during the year		159,744	186,635
Payments / settlements during the year		(108,262)	(99,227)
Fair value adjustment during the year		(24,869)	(39,171)
		311,159	284,546
Provision for impairment	36.1(a)	(4,245)	(358)
Balance as at 31 December		306,914	284,188

36.1 (a) Provision for Impairment

As at 31 December		2019	2018
		Rs'000	Rs'000
Balance as at 1 January		358	358
Charge for the year		3,887	-
Balance as at 31 December		4,245	358

36.2 Agent Loans

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Balance as at 1 January		221,141	77,400
Loans provided during the year		95,705	217,138
Payments / settlements during the year		(80,010)	(69,397)
		236,836	221,141
Provision for impairment	36.2(a)	(39,892)	(8,157)
Balance as at 31 December		196,944	212,984

36.2 (a) Provision for Impairment

As at 31 December		2019	2018
		Rs'000	Rs'000
Balance as at 1 January		8,157	5,310
Charge for the year		31,735	2,847
Balance as at 31 December		39,892	8,157

36.3 Impairment of Staff and Agent Loans

The Management has assessed potential impairment loss of staff and agent loans as at 31 December 2019. 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 36.1(a) and 36.2(a).

36.4 Loans Granted to Directors

No loans have been granted to Directors of the Company.

36.5 Taxes Recoverable

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
ACT recoverable		92,296	92,296
WHT recoverable		170,551	116,382
Notional tax receivable	36.5(a)	341,304	541,304
ESC receivable		25,947	17,804
		630,098	767,786

36.5 (a) Notional Taxes Recoverable

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Notional tax recognised during the year		541,304	608,003
Impairment during the year	12.5	(200,000)	-
Notional tax utilised during the year		-	(66,699)
Balance as at 31 December		341,304	541,304

36.6 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.

36.7 Refer Note 8.2(c) to the financial statements for risk management policies / initiatives relating to other financial assets.

37 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.

37.1 Cash in Hand and at Bank

As at 31 December	2019	2018
	Rs'000	Rs'000
Cash at Bank	549,941	636,076
Cash at Bank with related parties		
- Nations Trust Bank PLC	79,865	57,439
Cash in hand	3,156	3,320
Total cash in hand and at bank	632,962	696,835

38.2 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	2019		2018	
	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

37.2 Cash and Cash Equivalent in the Statement of Cash Flows

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Cash in hand and at bank	37.1	632,962	696,835
Bank overdraft used for cash management purposes		(168,428)	(244,175)
Cash and cash equivalent in the statement of cash flows		464,534	452,660

37.3 Fair Value of Cash in Hand and at Bank

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

37.4 Risk Management Initiatives Relating to Cash in Hand and at Bank

Please refer Note 8.2(c) to the financial statements.

38 STATED CAPITAL

Accounting PolicyOrdinary 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.

38.1 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

39 AVAILABLE FOR SALE RESERVE**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.

As at 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	(85,386)	413,443
Net change in fair value of AFS financial assets	290,225	(54,762)
Net change in fair value of AFS financial assets transferred to the income statement	(6,207)	(11,729)
	284,018	(66,491)
Net change in liabilities of insurance contracts arising from fair value changes in AFS financial assets	275,545	(416,275)
Net change in liabilities of insurance contracts arising from fair value changes in AFS financial assets transferred to the income statement	42,057	35,479
	317,602	(380,796)
Share of gains/ (losses) on AFS assets of equity accounted investee	13,234	(15,583)
Related tax	-	(35,959)
Balance as at 31 December	529,468	(85,386)

39.1 Net change in fair value transferred to the income statement

As at 31 December	2019	2018
	Rs'000	Rs'000
Net change in fair value of AFS financial assets	(6,207)	(11,729)
Net change in liabilities of insurance contracts arising from fair value changes in AFS financial assets	42,057	35,479
Balance as at 31 December	35,850	23,750

40 REVALUATION RESERVE**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.

Life Policyholders' Revaluation Reserve

As at 31 December	2019	2018
	Note	Rs'000
		Rs'000
Balance as at 1 January		1,214,876
Revaluation surplus during the year		403,283
Adjustment for deferred tax		-
Net gain on revaluation of land and buildings		7,042
Depreciation transfer during the year		1,618,159
		(4,615)
		1,613,544
Unrealised gain reserve	40.1	475,860
Balance as at 31 December		2,089,404
		1,690,736

The revaluation relates to land and building as indicated in Note 28.

40.1 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 and upon declaration of surplus.

41 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 32.2(a)].

As at 31 December	2019	2018
	Rs'000	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)
	3,381,934	3,381,934

42 OTHER RESERVES

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Reserve on merger with Cornhill (Private) Limited	42.1	16,752	16,752
Reserves on retirement benefit obligation	42.2	(23,133)	(4,767)
Employee share based option	42.3	58,609	46,625
Total other reserves		52,228	58,610

42.1 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.

42.2 Reserves on Retirement Benefit Obligation

Refer Note 46 for Accounting Policies.

As at 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	(4,767)	(8,356)
Actuarial gains / (losses) on defined benefit plan	(15,969)	6,643
Share of actuarial gains / (losses) on defined benefit plan of equity accounted investee	(2,397)	433
Related tax	-	(3,487)
Balance as at 31 December	(23,133)	(4,767)

42.3 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 Note 42.3 (a)	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	2019		2018	
	No	WAEP (Rs)	No	WAEP (Rs)
Outstanding at 1 January	1,222,501	187.51	998,756	202.00
Granted during the year	158,000	136.97	440,000	154.10
Transfers	255,579	151.48	(29,806)	157.56
Forfeited during the year	(725,743)	162.38	(186,449)	191.65
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	910,337	188.66	1,222,501	187.51
Exercisable at 31 December	398,809	153.90	501,482	160.91

42.3 (a) Employee Expenses for Share Based Payment Transactions

The expense recognised for employee services received during the year is as follows;

As at 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	46,625	34,580
Expense arising from equity settled share-based payment transactions	11,984	12,045
Balance as at 31 December	58,609	46,625

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.

42.3 (b) 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.

43 RETAINED EARNINGS

As at 31 December	Note	2019	2018
		Rs'000	Rs'000
Balance as at 1 January		7,625,794	5,438,052
Profit for the year		1,158,030	3,243,842
Transfer from revaluation reserve to retained earnings, net of tax	40	4,615	4,615
First and final dividends 2018 / 2017	25.1	(1,178,571)	(1,060,715)
Balance as at 31 December		7,609,868	7,625,794

44 INSURANCE CONTRACT LIABILITIES

Accounting Policy

44.1 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.

44.2 Use of Judgements and Estimates

44.2 (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, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features.

Discretionary Participating Features (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that;

- are likely to be a significant portion of the total contractual benefits;
 - the amount or timing of which is contractually at the discretion of the issuer;
- and contractually based on:
- The performance of a specified pool of contracts or a specified type of contract,
 - Realised and or unrealised investment returns on a specified pool of assets held by the issuer, and
 - The profit or loss of the company, fund or other entity that issues the contract.

Derivatives embedded in an insurance contract or an investment contract with DPF are separated and fair valued through the income statement unless the embedded derivative itself is an insurance contract or investment contract with DPF. The derivative is also not separated if the host insurance contract and / or investment contract with DPF is measured at fair value through the profit and loss.

IRCSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

44.2 (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 and 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 IRCSL and the participating liabilities are based on the fund yield of the life fund.
- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IRCSL.
- Surrender rates based on actual experience.

The amount of policyholder dividend to be paid is determined annually by the Company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract.

The 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.

44.3 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.

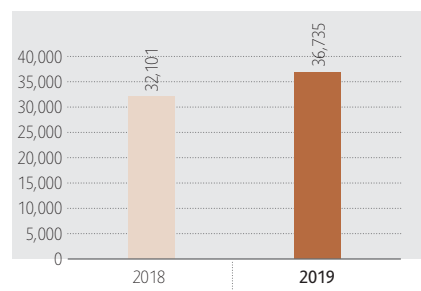
44.4 Valuation of Life Insurance Fund

The valuation of the conventional life insurance fund as at 31 December 2019 was carried out by Mr. Vivek Jalan FIA, FIAI of Willis Towers Watson India Private Limited and a sum of Rs. 1,000 million was transferred from the conventional life insurance fund to the shareholders fund for the year 2019. Subsequent to the transfer the conventional life fund stood at Rs. 35,448 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 the non unit fund stood at Rs. 42 million.

Conventional and Unit Link

(Rs. Mn)



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 2019 is adequate to cover the liabilities of the funds.

44.5 Surplus from Life Insurance Fund Transferred to Life Shareholder Fund

As at 31 December	2019	2018
	Rs'000	Rs'000
Conventional life insurance fund	1,000,000	1,084,874
Non unit fund of linked Life insurance	-	15,126
	1,000,000	1,100,000

Insurance Contract Liabilities

As at 31 December	2019	2018	
Note	Rs'000	Rs'000	
Life insurance fund	44.6	34,819,468	29,872,348
One-off surplus arising from changing policy liability valuation relating to participating fund	44.12	435,046	435,046
Tax Payable		(51,059)	(26,428)
Claim payables		286,296	318,915
		35,489,751	30,599,881

44.6 Composition of the Life Fund

As at 31 December	Note	2019			2018		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Balance as at 1 January		32,195,111	(2,322,763)	29,872,348	27,621,407	(1,764,806)	25,856,601
Premium income / Reinsurance expenses	10/11	11,647,756	(525,782)	11,121,974	11,243,915	(716,441)	10,527,474
Liabilities paid for death, maturities, surrenders, benefits and claims	16	(3,760,837)	92,486	(3,668,351)	(3,509,084)	158,484	(3,350,600)
Benefits and claims experience variation		(868,547)	-	(868,547)	(732,257)	-	(732,257)
Investment return		3,422,343	-	3,422,343	3,451,142	-	3,451,142
Expenses		(5,060,299)	-	(5,060,299)	(5,912,416)	-	(5,912,416)
Income tax expenses		-	-	-	32,404	-	32,404
Balance as at 31 December		37,575,527	(2,756,059)	34,819,468	32,195,111	(2,322,763)	29,872,348

44.7 Movement in Life Fund

As at 31 December	2019		2018	
	Rs'000		Rs'000	
Conventional life insurance fund				
Balance as at 1 January	30,557,320		26,912,057	
Increase in life insurance fund before surplus transfer to shareholders	5,940,278		5,106,818	
Transfer to shareholders	(1,000,000)		(1,084,874)	
Effect of Taxation on Surplus / Bonus transferred to - Policyholders	(24,631)		(26,428)	
Net change in unclaimed benefits	(24,934)		(350,253)	
Balance as at 31 December - Conventional Life insurance	35,448,033		30,557,320	
Non Unit Fund of Linked Life Insurance Contracts				
Balance as at 1 January	42,561		37,556	
Increase in non unit fund of linked life insurance before surplus transfer to shareholders	6,841		8,929	
Transfer to shareholders	-		(15,126)	
Net change in unclaimed benefits	(7,684)		11,202	
Balance as at 31 December - Non unit fund of linked Life insurance	41,718		42,561	
	35,489,751		30,599,881	

NOTES TO THE FINANCIAL STATEMENTS

44.8 Key Assumptions used in Determination of Best Estimate Liability

Asset Class	Basis
Economic Assumptions	
Risk free rate	Risk free rate curve as of 31 December 2019 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 31 December 2017
Morbidity rate	Percentage of reinsurance rates, where the percentages are determined based on the morbidity studies performed as of 31 December 2017
Expense rate and Expense inflation	Fixed & variable, acquisition and maintenance cost assumptions based on the 2018 experience study, with an inflation adjustment made to reconcile with the actual expenses in 2019
Lapse rates, paid-up rates and surrender rates	Rates are based on company's persistency study as of 31 December 2018

44.9 Sensitivity Analysis

Sensitivity analysis of life insurance fund liability is provided in Note 8.1(a).

44.10 Expected Maturity Profile for Reserves for Insurance Contracts, Net of Reinsurance (Undiscounted cash flows)

As at 31 December	2019	2018
	Rs'000	Rs'000
< 1 year	2,332	2,043
1 to 5 years	10,570	9,961
5 to 10 years	22,197	21,346
10 to 20 years	35,885	47,411
> 20 years	8,581	13,857
	79,565	94,618

44.11 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 ratio (CAR) of 362% and Total Available Capital (TAC) of Rs. 18,120 million as at 31 December 2019, which exceeded the minimum requirement of 120% and Rs. 500 million respectively as per the Solvency Margin (Risk Based Capital) Rules.

44.12 One - off Surplus Arising from Changing Policy Liability Valuation

The one off surplus comprises of Rs. 432.5 million attributable to participating business and Rs. 2.5 million attributable to unit linked fund and Rs. 3,382 million attributable to non participating and non unit fund of unit linked business.

Based on the directions issued by the IRCSL dated 20 March 2018 and subsequent approval, the Company has transferred Rs. 3,382 million attributable to non - participating and non unit fund of unit linked business from life policyholder fund through Income Statement to life shareholder fund and held as part of the Restricted Regulatory Reserve under equity in the statement of financial position.

One - off Surplus was determined as the difference between the NPV solvency basis liability and the GPV distribution basis liability as of 31 December 2015. This is calculated for Participating and other than participating funds, separately. Above basis is in line with the 'Minimum One - off Surplus' calculation basis provided in the IRCSL guideline.

Applicable 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 are given in next page.

Disclosure in Financial Statements	Compliance with the Requirement	Page
i Equity and statement of changes in equity to include a new line item called 'Restricted Regulatory Reserve' with value equal to one - off surplus for other than participating business. Adequate disclosure to be made with regards to 'Restricted Regulatory Reserve'.	Complied [Note 41]	226
ii 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 41]	226
iii The basis of computation of one - off surplus. Any deviation from the direction in respect of determining the 'minimum one - off surplus'.	Complied [Note 44.8]	232
iv One-off surplus relating to participating and other than participating should be disclosed separately	Complied [Note 44.12]	233
v Disclosure on composition of investments supporting the Restricted Regulatory Reserve.	Complied [Note 32.2(a)]	215

44.12(a) 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 Shareholder Fund and the Policyholder Fund as well as between different lines of business within the Policyholder 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 Policyholder Fund to Shareholder Fund

The IRCSL will permit distribution of One-off Surplus subject to yearly distribution caps on a case-by-case basis.

44.13 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 sufficient to meet future benefits and expenses.

In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any 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 149 to this report

NOTES TO THE FINANCIAL STATEMENTS

45 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		2019	2018
	Note	Rs'000	Rs'000
Liability of Fund investment		991,822	1,250,157
Liability of Fund income	45.1	254,253	251,114
Total insurance contract liabilities		1,246,075	1,501,271

45.1 Movement in Liability of Fund Income

As at 31 December		2019	2018
		Rs'000	Rs'000
Balance as at 1 January		251,114	436,689
Net investment income		67,310	76,655
Net realised gains		16,950	37,929
Net fair value losses		(63,752)	(274,332)
Management fee expense		(17,369)	(25,827)
Balance as at 31 December		254,253	251,114

Fair Value of the Financial Investments Backing Unit Linked Contracts are as Follows.

As at 31 December		2019	2018
		Rs'000	Rs'000
Government securities		139,035	240,518
Equity instruments		949,024	1,167,900
Corporate debt instruments		140,534	90,986
Fixed deposits		16,292	-
		1,244,885	1,499,404
Other financial investments and assets		10,928	5,535
Other unit linked liabilities		(9,738)	(3,668)
Insurance contract liabilities - Unit Linked		1,246,075	1,501,271

46 EMPLOYEE BENEFITS LIABILITIES

Accounting Policy

46.1 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		2019	2018
31 December		Rs'000	Rs'000
Employees' Provident Fund (EPF)			
Employer's contribution (12%)		68,403	57,763
Employee's contribution (8%)		45,602	43,729
Employees' Trust Fund (ETF)			
Employer's contribution (3%)		17,101	14,441

46.2 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.

46.3 Other long term employee benefits

A new Long-Term Incentive Plan (LTI) has been launched for senior management; upon achievement of strategic targets. The liability recognised in the statement of financial position is the present value of the estimated future cash outflows of long term incentive plan as at the reporting date.

46.4 Employee benefit liabilities

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Employee defined benefit plan - gratuity	46.4.(a)	126,618	115,516
Other long term employee benefits	46.4.(b)	36,339	-
Balance as at 31 December		162,957	115,516

46.4.(a) Movement in Present Value of Gratuity

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	115,516	122,588
Included in Profit or Loss:		
Current service cost	14,028	11,044
Interest cost	13,465	11,513
	27,493	22,557
Included in OCI:		
Net actuarial (gain) / loss on obligation	15,969	(6,643)
Other		
Gratuity expenses capitalised during the year	-	2,719
Gratuity Transfer	2,542	-
Payments during the year	(34,902)	(25,705)
Balance as at 31 December	126,618	115,516

46.4.(b) Other long term employee benefits

As at 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	-	-
Current service cost	36,339	-
Balance as at 31 December	36,339	-

46.5 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	2019	2018
Discount rate	11.0%	11.5%
Staff turnover rate - early withdrawal through resignations		
- i) Less than 5 years	21%	17%
- ii) More than 5 years	4%	3%
Salary increase	10%	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.

46.6 Maturity Analysis of the Payments

The following payments are expected on employee benefit liabilities in future years

As at 31 December	2019	2018
	Rs'000	Rs'000
Within the next 12 months	29,286	19,893
Between 1 and 2 years	22,211	19,384
Between 2 and 5 years	41,114	34,745
Over 5 years	34,007	41,494
Total expected payments	126,618	115,516

NOTES TO THE FINANCIAL STATEMENTS

46.7 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%	-	(3,898)	122,720
-1%	-	4,158	130,776
-	1%	4,410	131,028
-	-1%	(4,203)	122,415

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.

47 REINSURANCE PAYABLES

Accounting Policy

See accounting policy in Note 26.

Reinsurance payables represent balances due to reinsurance companies. Amounts payable are recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs in a manner consistent with the related reinsurance contract.

Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

As at 31 December	2019	2018
	Rs'000	Rs'000
Balance as at 1 January	669,314	345,146
Arising during the year	525,604	716,441
Utilised during the year	(381,988)	(392,273)
Balance as at 31 December	812,930	669,314

48 OTHER LIABILITIES

Financial Liabilities

See accounting policy in Note 26.

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.

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	2019	2018
	Rs'000	Rs'000
Other Financial Liabilities		
Agency commission payable	262,634	240,952
Other staff related provisions	139,368	145,523
Lease liability	289,991	-
Premiums in suspense	676,707	545,547
	1,368,700	932,022
Other Non Financial Liabilities		
Government levies	54,791	71,928
Other liabilities and accruals	1,259,689	1,268,275
Premium received In advance	22,929	42,659
	1,337,409	1,382,862
Total other liabilities	2,706,109	2,314,884

Maturity schedule of other financial liabilities as of 31 December 2019 and 2018 are shown in Note 8.2(b) to the financial statements.

49 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. Outstanding current account balances are unsecured, interest free and settlement occurred in cash

49.1 Parent and Ultimate Controlling Party

The Company's immediate and ultimate controlling party is John Keells Holdings PLC.

49.2 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 2019 audited financial statements, which required additional disclosures in the 2019 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.

49.3 Non-Recurrent Related Party Transaction

There were no non-recurrent related party transactions which aggregate value exceeded 10% of the equity or 5% of the total assets of the Company which ever is lower as per 31 December 2019 audited financial statements, which required additional disclosures in the 2019 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.

49.4 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.

49.4 (a) Compensation of KMPS

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Short term employment benefits	50,987	51,481
Post employment benefits	6,247	7,531
Share based benefits	-	-
Total	57,234	59,012

The short term employment benefits include Non Executive Directors fees, emoluments paid to the Executive Directors and other key management personnel. 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.

49.4 (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	2019	2018
	Rs'000	Rs'000
Insurance premium	1,431	1,246

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2019.

49.4 (c) Share Based Benefits to KMP and CFM

As at 31 December	2019	2018
	Rs'000	Rs'000
Number of ordinary shares held	-	-
Dividends Paid (in Rs. 000)	-	-

NOTES TO THE FINANCIAL STATEMENTS

49.5 Transactions with Related Entities

The Directors of the company as at 31 December 2019 was also Directors of the following companies as set out below and transactions included in Note 49.5(a), 49.5(b) and 49.5(c) have been carried out with such companies.

Company	Name of Director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	K N J Balendra	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	D. C. Alagaratnam (Resigned w.e.f 31st December 2019)	Director	Keells Consultants (Pvt) Ltd is the Secretary of Union Assurance PLC and Fellow subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Keells Consultants (Pvt) Ltd
Infomate (Pvt) Ltd	D. C. Alagaratnam (Resigned w.e.f 31st December 2019)	Director	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Infomate Private Limited
John Keells Office Automation (Pvt) Ltd	D. C. Alagaratnam (Resigned w.e.f 31st December 2019)	Director	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with John Keells Office Automation (Pvt) Ltd
Asian Hotels And Properties PLC	K N J Balendra S Rajendra	Chairman Director	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Asian Hotels and Properties PLC
Trans Asia Hotels PLC	K N J Balendra	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Trans Asia Hotels PLC
Ceylon Cold Stores PLC	K N J Balendra	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with Ceylon Cold Stores PLC
John Keells Foundation	K N J Balendra	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with John Keells Foundation
Fairfirst Insurance Limited	A. D. Pereira (Resigned w.e.f 31st October 2019)	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
DHL Keells (Pvt) Ltd	K N J Balendra	Chairman	Fellow Subsidiary of Union Assurance PLC	The Company has transactions in the normal course of business with DHL Keells (Pvt) Ltd

49.5 (a) Transactions with the Parent and Ultimate Controlling Party

As at 31 December	2019	2018
	Rs'000	Rs'000
Statement of financial position		
Assets		
Intangible assets	-	2,128
	-	2,128
Liabilities		
Other liabilities	(22,398)	(47,658)
	(22,398)	(47,658)

Transacted amounts for the year ended 31 December	2019	2018
	Rs'000	Rs'000
Gross written premium	1,398	507
Net benefits and claims	500	-
Other operating and administrative expenses	(117,072)	(108,315)

49.5 (b) Transactions with / Between Subsidiary Companies and Associates of the Parent Company and Other Related Entities

As at 31 December Company	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	2019	2018
			Rs'000	Rs'000
Statement of financial position				
Assets				
Property, plant and equipment				
John Keells Office Automation (Pvt) Ltd	Subsidiary	Acquisition of property plant, and equipments and Intangibles	15,007	18,201
John Keells Computer Services (Pvt) Ltd	Subsidiary		2,112	235
			17,119	18,436
Financial investments				
Nations Trust Bank PLC	Associate	Debenture investments	1,044,966	628,413
Nations Trust Bank PLC	Associate	Cash at Bank	79,865	58,939
			1,124,831	687,352
Employee benefit liabilities				
John Keells Logistics Limited	Subsidiary	Gratuity transfer	2,542	-
Other liabilities				
Other subsidiaries and associates		Payment for shared services	(15,169)	(1,852)
			(15,169)	(1,852)

As at 31 December Company	Relationship with John Keells Holdings PLC	Investment / Nature of transaction	Transaction amount during the year	
			2019	2018
			Rs'000	Rs'000
Income Statement				
Gross written premium				
Other subsidiaries and associates			2,936	2,761
			2,936	2,761
Net benefits and claims				
Other subsidiaries and associates			1,060	675
			1,060	675
Investment income				
Nations Trust Bank PLC	Associate	Debenture interest income	75,089	102,178
			75,089	102,178
Other operating and administrative expenses				
Other subsidiaries and associates			(169,488)	(145,947)
			(169,488)	(145,947)

NOTES TO THE FINANCIAL STATEMENTS

49.5 (c) Transactions with / Between Associate of the Company - Fairfirst Insurance Ltd

Income Statement

For the year ended 31 December	2019	2018
	Rs'000	Rs'000
Gross written premium	2,059	2,109
Net benefits and claims	(1,000)	(5,400)
Other operating and administrative expenses	(47,901)	(47,230)

Statement of Financial Position

As at 31 December	2019	2018
	Rs'000	Rs'000
Other receivables	-	21,026
Other liabilities	-	(5,387)

These balances are relating to current account transactions and are payable / receivable on demand.

50 COMMITMENTS

50.1 Capital Commitments

There were no significant capital commitments as at the reporting date other than the following.

As at 31 December	2019	2018
	Rs. Mn	Rs. Mn
Capital commitment contracted	915	429

51 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;

51.1 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 out of retained earnings for the financial year ended 31 December 2019. The dividend will be paid on 19 March 2020.

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 18 February 2020 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 2019.

52 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 Judgements 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 2019, relates to the following;

52.1 Income tax assessment relating to years of assessment 2010/11, 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17

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 filed at the Court of Appeal on 20 December 2018 against the said determination. The case was fixed for argument at Court of Appeal on 02 and 03 March 2020.

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2011 / 12, 2012 / 13, 2013 / 14 and 2014 / 15, 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, Rs. 175 million together with a Rs. 88 million penalty totalling to Rs. 263 million and Rs. 862 million together with a Rs. 431 million penalty totalling to Rs. 1,293 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 2015 / 16 and 2016 / 17, 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 and Rs. 472 million along with a 50% penalty totalling to Rs. 708 million respectively. The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

VAT assessment relating to years of assessment 2016 and 2017

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2016 and 2017, assessing the Life insurance business to pay a VAT liability of Rs. 8.4 million along with a Rs. 6.6 million penalty totalling to Rs. 15 million and Rs. 1.4 million along with a Rs. 1.1 million penalty totalling to Rs. 2.5 million respectively. The Company has lodged / in the process of lodging valid appeals with the Commissioner General of Inland Revenue against the said assessments.

VAT and NBT on Financial Services assessment relating to years of assessment 2016 and 2017

The Department of Inland Revenue has raised assessments on Union Assurance PLC for the years of assessment 2016 and 2017, assessing the Life insurance business to pay a VAT & NBT on Financial Services liability of Rs. 69 million along with a Rs. 37 million penalty totalling to Rs. 106 million and Rs. 337 million along with a Rs. 20 million penalty totalling to Rs. 357 million respectively. The Company has lodged valid appeals with the Commissioner General of Inland Revenue against the said assessments.

Directors are of the view that the Company has followed due process and acted in accordance with the prevailing laws in its tax submissions for above years of assessment 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

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.

53 COMPARATIVE INFORMATION

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

54 DIRECTORS' RESPONSIBILITY

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements. Please refer page 150 for the Statement of Directors' Responsibility.

Thinking *about your contentment*

We are focused on delivering convenience and accessibility; and your satisfaction remains our highest priority. We believe in actively listening to your concerns, and taking prompt action to ensure your contentment is achieved.

Supplementary *Information*



244	Decade at a Glance	258	Statement of Financial Position
246	Independent Assurance Report on Non-Financial Reporting	259	Statement of Cash Flows
248	GRI Content Index	261	Notes to the Statement of Financial Position
254	Certificate of Carbon Footprint	265	Understanding our Financials
255	Glossary of Insurance Terms	266	Distribution Network
257	Quarterly Analysis	269	Corporate Information
258	Life Insurance Fund	270	Notice of Meeting
258	Insurance Revenue Account	271	Proxy Form

DECADE AT A GLANCE

Insurance Revenue Account for the year ended 31 December	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Rs'000										
Gross written premium	11,647,756	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
Net written premium	11,121,974	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
Investment and other income	3,442,849	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
Net benefits and claims	(8,487,157)	(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)
Change in contract liability due to transfer of one off surplus	-	-	3,381,934	-	-	-	-	-	-	-
Underwriting and net acquisition costs (including reinsurance)	(1,857,396)	(2,055,051)	(1,841,151)	(1,441,617)	(1,289,437)	(1,115,834)	(968,181)	(890,536)	(819,076)	(675,673)
Other operating and administrative expenses	(3,220,270)	(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)
Income tax reversal	-	32,404	-	(60,679)	28,275	-	-	-	-	-
Surplus from life insurance fund	1,000,000	1,100,000	7,023,934	1,100,000	800,000	750,000	612,000	525,000	429,000	325,000
Investment and other income not attributable to policyholders	726,419	1,029,785	236,290	179,432	1,530,851	167,623	207,074	23,161	-	-
Expenses not attributable to policyholders	(122,693)	(114,796)	(63,940)	(27,119)	(42,205)	(36,883)	(28,110)	(15,342)	(12,826)	-
Share of net result of equity accounted investee	104,736	149,807	187,844	60,315	57,990	-	-	-	-	-
Income tax reversal	(550,432)	1,079,046	-	-	-	-	-	-	-	-
Profit for the year	1,158,030	3,243,842	7,384,128	1,312,628	2,346,636	880,740	790,964	532,819	416,174	325,000

* Includes the restricted one-off surplus transfer of Rs. 3.4 billion in 2017.

Statement of Financial Position for the year ended 31 December	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Rs'000										
Assets										
Intangible assets	1,306,922	1,392,191	212,817	94,647	59,616	66,766	117,475	-	-	-
Property, plant and equipment	2,500,305	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
Right of use assets	296,799	-	-	-	-	-	-	-	-	-
Deferred tax assets	528,614	1,079,046	-	-	-	-	-	-	-	-
Investment in equity accounted investee	1,245,951	1,130,379	995,722	777,346	736,216	-	-	-	-	-
Financial investments	44,881,195	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
Loans to life policyholders	1,555,759	1,218,949	1,001,538	867,177	741,852	660,744	515,735	385,688	246,674	232,618
Reinsurance receivable	502,975	371,126	267,417	178,181	149,772	67,536	502,571	400,627	545,774	619,228
Premiums receivable	344,785	331,539	268,511	246,800	203,722	159,117	1,844,831	1,459,440	1,236,299	1,237,594
Receivables and other assets	1,452,885	1,675,601	947,239	809,784	732,017	816,718	1,087,585	1,055,006	1,795,727	1,552,089
Deferred acquisition cost	-	-	-	-	-	-	149,145	146,097	147,495	139,176
Cash in hand and at bank	632,962	696,835	580,126	379,232	326,012	196,429	466,402	315,634	373,413	390,138
Assets held for sale	-	-	-	-	-	8,393,314	-	-	-	-
Total Assets	55,249,152	49,116,729	43,067,007	35,693,463	31,013,817	35,603,536	30,318,740	25,883,026	22,222,856	19,617,426

Statement of Financial Position for the year ended 31 December	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Rs.'000										
Equity										
Stated capital	1,000,000	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
Restricted regulatory reserve	3,381,934	3,381,934	3,381,934	-	-	-	-	-	-	-
Other reserves	2,671,100	1,663,960	2,144,728	817,003	1,232,893	1,228,722	829,094	720,830	955,194	1,340,970
Retained earnings	7,609,868	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
Total Equity	14,662,902	13,671,688	11,964,714	3,866,192	3,464,928	6,210,859	5,117,293	4,309,058	3,247,214	3,168,512
Liabilities										
Insurance contract liabilities - Life	35,489,751	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
Insurance contract liabilities - Unit Linked	1,246,075	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
Insurance contract liabilities - Non Life	-	-	-	-	-	-	3,440,249	3,200,838	3,050,976	2,813,250
Employee benefit liabilities	126,618	115,516	122,588	107,963	100,199	90,437	186,078	163,572	89,467	83,032
Deferred revenue	-	-	-	-	-	-	109,402	96,904	154,702	132,422
Reinsurance payables	812,930	669,314	345,146	208,742	213,855	150,784	764,977	415,394	441,567	405,764
Other liabilities	2,742,448	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
Bank overdraft	168,428	244,175	195,306	150,306	118,952	66,017	38,724	24,475	30,373	29,109
Liabilities held for sale	-	-	-	-	-	5,261,366	-	-	-	-
Total Liabilities	40,586,250	35,445,041	31,102,293	31,827,271	27,548,889	29,392,677	25,201,447	21,573,968	18,975,642	16,448,914
Total equity and liabilities	55,249,152	49,116,729	43,067,007	35,693,463	31,013,817	35,603,536	30,318,740	25,883,026	22,222,856	19,617,426
Investor Information										
Return on Net Assets (%)*	8.17	25.31	93.29	35.81	48.51	15.55	16.78	14.10	12.97	11.88
Earnings Per Share (Rs.)*	19.65	55.05	125.31	22.27	31.20	14.04	13.11	12.28	9.27	6.83
Dividend Per Share (Rs.)	20.00	20.00	18.00	10.50	8.50	6.50	6.00	5.00	5.00	3.13
Net Assets Per Share (Rs.)	248.87	232.00	203.04	65.61	58.80	72.46	59.70	50.27	43.30	84.49
Market Price Per Share (Rs.)	330.00	347.30	135.00	143.00	165.00	164.00	104.00	83.00	108.10	122.10
Market Capitalisation (Rs. Mn.)	19,446.00	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
Price Earnings Ratio (Times)	16.79	6.31	1.08	6.42	5.29	11.68	7.94	6.76	11.66	8.94
Other Information										
Number of employees	567	614	529	474	450	445	1,157	1,088	1,009	989
No of Shares ('000)	58,929	58,929	58,929	58,929	58,929	85,714	85,714	85,714	75,000	37,500

* 2010 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 5872
 +94 - 11 244 6058
Internet : 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 Disclosures as identified below for the year ended 31 December 2019. The Sustainability Disclosures are included in the Union Assurance PLC’s Integrated Annual Report for the year ended 31 December 2019 (the “Report”).

The Reasonable Assurance Sustainability Disclosures covered by our reasonable assurance engagement are:

Assured Sustainability Disclosures	Integrated Annual Report Page
Performance highlights - Financial highlights	18

The Limited Assurance Sustainability Disclosures covered by our limited assurance engagement are:

Limited Assurance Sustainability Disclosures	Integrated Annual Report Page
Sustainability performance Disclosures	
<ul style="list-style-type: none"> ■ Performance highlights - Non-financial highlights 	19
Information provided on following stakeholder groups.	
<ul style="list-style-type: none"> ■ Shareholders - Financial capital 	48-59
<ul style="list-style-type: none"> ■ Customers - Social and Relationship Capital, Intellectual Capital and Manufactured capital 	60-69,80-85 and 92-95
<ul style="list-style-type: none"> ■ Environment - Natural capital 	86-91
<ul style="list-style-type: none"> ■ Employees - Human capital 	70-79
<ul style="list-style-type: none"> ■ Suppliers - Social and Relationship capital 	60-69
<ul style="list-style-type: none"> ■ Community - Social and Relationship capital 	60-69

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 Disclosures

In our opinion, the Reasonable Assurance Sustainability Disclosures, as defined above, for the year ended

31 December 2019 are, in all material respects, prepared and presented in accordance with the GRI Sustainability Reporting Standards.

Limited Assurance Sustainability Disclosures

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 Disclosures, as defined above, for the year ended 31 December 2019, have not in all material respects, been prepared and presented in accordance with the GRI Sustainability Reporting Standards.

MANAGEMENT’S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Reasonable Assurance Sustainability Disclosures and the Limited Assurance Sustainability Disclosures in accordance with the GRI Sustainability Reporting Standards.

These responsibilities includes establishing such internal controls as management determines are necessary to enable the preparation of the Reasonable Assurance Sustainability Disclosures and the Limited Assurance Sustainability Disclosures 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.

KPMG is 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

MR Mulari FCA, T.J.S. Rajakari FCA, Ms S.M.B. Jayasekera ACA, G.A.U. Kaluarachchi FCA, R.H. Rajan FCA, A.M.R.P. Alankoon ACA, P.Y.S. Perera FCA, W.W.J.C. Perera FCA, W.K.D.C. Abayaratne FCA, R.M.D.B. Rajaparse FCA, M.K.M. Shanee ACA, C.P. Jayatilaka FCA, Ms S. Joseph FCA, S.T.D.L. Perera FCA, Ms B.K.D.T.N. Rodrigo FCA, Ms C.P.K.N. Perera ACA
Principals - S.R.L. Purosh FCA(IIK), U.B. Allamby-al-Law, I.S. Gopewardene ACA

OUR RESPONSIBILITY

Our responsibility is to express a reasonable assurance conclusion on the Company's preparation and presentation of the Reasonable Assurance Sustainability Disclosures and a limited assurance conclusion on the preparation and presentation of the Limited Assurance Sustainability Disclosures 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 Disclosures are free from material misstatement and limited assurance about whether the Limited Assurance Sustainability Disclosures are free from material misstatement.

Reasonable assurance over Reasonable Assurance Sustainability Disclosures

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 Disclosures 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 Disclosures 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 Disclosures, the suitability of the criteria, being the GRI Sustainability Reporting

Standards used by the Company in preparing and presenting the Reasonable Assurance Sustainability Disclosures 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 Disclosures.

Limited assurance on the Assured Sustainability Disclosures

Our limited assurance engagement on the Limited Assurance Sustainability Disclosures consisted of making enquiries, primarily of persons responsible for the preparation of the Limited Assurance Sustainability Disclosures, 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 Disclosures;
- enquiries about the design and implementation of the systems and methods used to collect and report the Limited Assurance Sustainability Disclosures, including the aggregation of the reported information;
- comparing the Limited Assurance Sustainability Disclosures 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 Disclosures 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.

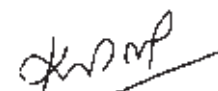
The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Limited Assurance Sustainability Disclosures.

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 Disclosures are prepared and presented in accordance with the GRI Sustainability Reporting Standards and for no other purpose or in any other context.

RESTRICTION OF USE OF OUR REPORT

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.



CHARTERED ACCOUNTANTS

Colombo
28 February 2020



GRI CONTENT INDEX This Report has been prepared “in accordance” with the Core of the GRI Standards and has underwent the GRI Materiality Disclosures service in February 2020.

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(s), URL(s) and/ or direct answer	Reason for omission
GRI 101: FOUNDATION 2016			
GRI 102: GENERAL DISCLOSURES 2016			
	Organizational profile		
	102-1 Name of the organization	269	
	102-2 Activities, brands, products, and services	8,64 and 65 https://unionassurance.com	
	102-3 Location of headquarters	269	
	102-4 Location of operations	93	
	102-5 Ownership and legal form	269	
	102-6 Markets served	8,15,64 and 65	
	102-7 Scale of the organization	18 and 19	
	102-8 Information on employees and other workers	72 and 73	
	102-9 Supply chain	66	
	102-10 Significant changes to the organization and its supply chain	No significant changes in the supply chain	
	102-11 Precautionary Principle or approach	133 and 134	
	102-12 External initiatives	6	
	102-13 Membership of associations	69	
	Strategy		
	102-14 Statement from senior decision-maker	15	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behavior	20 and 21	
	Governance		
	102-18 Governance structure	102 and 103	
	Stakeholder engagement		
	102-40 List of stakeholder groups	34	
	102-41 Collective bargaining agreements	No collective bargaining agreements	
	102-42 Identifying and selecting stakeholders	30	
	102-43 Approach to stakeholder engagement	30 to 33	
	102-44 Key topics and concerns raised	30 to 33	

GRI Standard	Disclosure	Page number(s), URL(s) and/ or direct answer	Reason for omission
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	9	
	102-46 Defining report content and topic Boundaries	6	
	102-47 List of material topics	35 and 36	
	102-48 Restatements of information	6	
	102-49 Changes in reporting	6	
	102-50 Reporting period	6	
	102-51 Date of most recent report	31st December 2018	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding the report	Nadee Perera (nadeep@ unionassurance.com)	
	102-54 Claims of reporting in accordance with the GRI Standards	6	
	102-55 GRI content index	248 to 253	
	102-56 External assurance	246 and 247	
TOPIC-SPECIFIC STANDARDS- MATERIAL TOPICS			
GRI 200: ECONOMIC STANDARD SERIES			
GRI 201: ECONOMIC PERFORMANCE 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	50	
	103-2 The management approach and its components	50	
	103-3 Evaluation of the management approach	49	
	201-1 Direct economic value generated and distributed	17 and 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	75	
	201-4 Financial assistance received from government	None	
GRI 203: INDIRECT ECONOMIC IMPACTS 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	61	
	103-2 The management approach and its components	61	
	103-3 Evaluation of the management approach	61	
	203-1 Infrastructure investments and services supported	17 and 67	
	203-2 Significant Indirect Economic Impacts	23 and 67	
GRI 300: ENVIRONMENT STANDARD SERIES			
GRI 302: ENERGY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	87	
	103-2 The management approach and its components	87	
	103-3 Evaluation of the management approach	87	
	302-1 Energy consumption within the organization	88	
	302-2 Energy consumption outside of the organization	88	
	302-3 Energy intensity	88	
	302-4 Reduction of energy consumption	88	
	302-5 Reductions in energy requirements of products and services	88	

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s), URL(s) and/ or direct answer	Reason for omission
GRI 303: WATER 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	88	
	103-2 The management approach and its components	88	
	103-3 Evaluation of the management approach	88	
	303-1 Water withdrawal by source	88	
	303-2 Water sources significantly affected by withdrawal of water	88	
	303-3 Water recycled and reused	19 and 89	
GRI 305: EMISSIONS 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	89	
	103-2 The management approach and its components	89	
	103-3 Evaluation of the management approach	89	
	305-1 Direct /Scope 1 GHG emissions	89 and 254	
	305-2 Energy indirect /Scope 2 GHG emissions	89 and 254	
	305-3 Other indirect /Scope 3 GHG emissions	89 and 254	
	305-4 GHG emissions intensity	89	
	305-5 Reduction of GHG emissions	89	
	305-6 Emissions of ozone-depleting substances /ODS	Not Tracked	
	305-7 Nitrogen oxides /NOx, sulfur oxides /SOx, and other significant air emissions	Not Tracked	
GRI 306: EFFLUENTS AND WASTE 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	90	
	103-2 The management approach and its components	90	
	103-3 Evaluation of the management approach	90	
	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	90	
	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	
GRI 307: ENVIRONMENTAL COMPLIANCE 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	91	
	103-2 The management approach and its components	91	
	103-3 Evaluation of the management approach	91	
	307-1 Non-compliance with Environmental laws and regulations	Zero non-compliance reported during the year	

GRI Standard	Disclosure	Page number(s), URL(s) and/ or direct answer	Reason for omission
GRI 400: SOCIAL STANDARD SERIES			
GRI 401: EMPLOYMENT 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	72	
	103-2 The management approach and its components	72	
	103-3 Evaluation of the management approach	71	
	401-1 New employee hires and employee turnover	72	
	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	
	401-3 Parental leave	76	
GRI 402: LABOR/MANAGEMENT RELATIONS 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	76	
	103-2 The management approach and its components	76	
	103-3 Evaluation of the management approach	76	
	402-1 Minimum notice periods regarding operational changes	72	
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	77	
	103-2 The management approach and its components	77	
	103-3 Evaluation of the management approach	77	
	403-1 Workers representation in formal joint management-worker health and safety committees	77	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	19	
	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	
GRI 404: TRAINING AND EDUCATION 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	73 and 74	
	103-2 The management approach and its components	73 and 74	
	103-3 Evaluation of the management approach	73 and 74	
	404-1 Average hours of training per year per employee	19	
	404-2 Programs for upgrading employee skills and transition assistance programs	74	
	404-3 Percentage of employees receiving regular performance and career development reviews	19	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	71	
	103-2 The management approach and its components	71	
	103-3 Evaluation of the management approach	71	
	405-1 Diversity of governance bodies and employees	77	
	405-2 Ratio of basic salary and remuneration of women to men	77	

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s), URL(s) and/ or direct answer	Reason for omission
GRI 406: NON-DISCRIMINATION 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	77	
	103-2 The management approach and its components	77	
	103-3 Evaluation of the management approach	77	
	406-1 Incidents of discrimination and corrective actions taken	No incidents reported	
GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	76	
	103-2 The management approach and its components	76	
	103-3 Evaluation of the management approach	76	
	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	
GRI 410: SECURITY PRACTICES 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	66	
	103-2 The management approach and its components	66	
	103-3 Evaluation of the management approach	66	
	410-1 Security personnel trained in human rights policies or procedures	100% training provided	
GRI 413: LOCAL COMMUNITIES 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	67	
	103-2 The management approach and its components	67	
	103-3 Evaluation of the management approach	67	
	413-1 Operations with local community engagement, impact assessments, and development programs	19 and 67	
	413-2 Operations with significant actual and potential negative impacts on local communities	No such operations have negative impacts on local communities	
GRI 414: SUPPLIER SOCIAL ASSESSMENT 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	66	
	103-2 The management approach and its components	66	
	103-3 Evaluation of the management approach	66	
	414-1 New suppliers that were screened using social criteria	19	
	414-2 Negative social impacts in the supply chain and actions taken	No negative social impact reported	
GRI 415: PUBLIC POLICY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	68	
	103-2 The management approach and its components	68	
	103-3 Evaluation of the management approach	68	
	415-1 Political contributions	No political contributions made	

GRI Standard	Disclosure	Page number(s), URL(s) and/ or direct answer	Reason for omission
GRI 416: CUSTOMER HEALTH AND SAFETY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	64 and 65	
	103-2 The management approach and its components	64 and 65	
	103-3 Evaluation of the management approach	64 and 65	
	416-1 Assessment of the health and safety impacts of product and service categories	64	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	No incidents reported	
GRI 417: MARKETING AND LABELING 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	64 and 65	
	103-2 The management approach and its components	64 and 65	
	103-3 Evaluation of the management approach	64 and 65	
	417-1 Requirements for product and service information and labeling	64	
	417-2 Incidents of non-compliance concerning product and service information and labeling	Zero incidents	
	417-3 Incidents of non-compliance concerning marketing communications	Zero incidents	
GRI 418: CUSTOMER PRIVACY 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	62 and 63	
	103-2 The management approach and its components	62 and 63	
	103-3 Evaluation of the management approach	62 and 63	
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Zero incidents	
GRI 419: SOCIOECONOMIC COMPLIANCE 2016			
	GRI 103: Management Approach 2016		
	103-1 Explanation of the material topic and its Boundary	62 and 63	
	103-2 The management approach and its components	62 and 63	
	103-3 Evaluation of the management approach	62 and 63	
	419-1 Non-compliance with laws and regulations in the social and economic area	19	

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

27th February 2020

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 2019 is **1,526.26 tonnes of Carbon Dioxide Equivalents (tCO₂e)**.

Reporting Scope	Emissions Source	Emissions Activity	Emissions Total (tCO ₂ e)
Scope 1 – Direct Emissions	Stationary Combustion	Generator Fuel	6.38
	Mobile Combustion	Long-term Leased Vehicles (Operational)	90.07
SCOPE 1 TOTAL EMISSIONS			96.44
Scope 2 – Indirect Emissions	Purchased Electricity	Electricity Consumption	1084.25
SCOPE 2 TOTAL EMISSIONS			1084.25
Scope 3 – Indirect Emissions	Purchased Electricity	Electricity Transmission and Distribution Losses	88.91
	Waste Transportation	Third-Party Outbound Waste Transportation	0.06
	Waste Disposal	Waste Disposal	0.11
	Employee Commuting	Employees Commuting to and from Work	256.51
SCOPE 3 TOTAL EMISSIONS			345.58
TOTAL SCOPE 1, 2 & 3 CARBON FOOTPRINT OF UNION ASSURANCE PLC			1,526.26

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.

GLOSSARY OF INSURANCE TERMS

Longevity - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

Loss ratio - Percentage ratio of claims expenses to earned premiums.

Mortality - The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

Net asset value - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

Net expenses for claims and benefits - These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

Non-participating business - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Non-proportional reinsurance - Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

Outstanding claims provision - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.

Participating business - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

Policyholders' bonuses - In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed 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

Rs'000	2019					2018					Total
	1st quarter January- March	2nd quarter April- June	3rd quarter July- September	4th quarter October- December	Total	1st quarter January- March	2nd quarter April- June	3rd quarter July- September	4th quarter October- December	Total	
Gross written premium	2,528,257	2,595,437	2,958,296	3,565,766	11,647,756	2,551,165	2,618,684	2,733,837	3,340,229	11,243,915	
Premium ceded to reinsurers	1,610	(161,456)	(173,717)	(192,219)	(525,782)	(131,278)	(137,917)	(185,624)	(261,622)	(716,441)	
Net written premium	2,529,867	2,433,981	2,784,579	3,373,547	11,121,974	2,419,887	2,480,767	2,548,213	3,078,607	10,527,474	
Other revenue	-	-	-	-	-	-	-	-	-	-	
Net investment income	1,083,558	1,149,024	1,146,500	985,762	4,364,844	983,233	1,079,438	973,679	1,601,790	4,638,140	
Net realised gains / (losses)	6,441	(4,551)	(2,578)	25,001	24,313	76,377	23,951	(8,388)	31,534	123,474	
Net fair value gains / (losses)	(497,283)	(278,953)	253,462	224,927	(297,847)	(128,257)	(246,231)	(465,050)	36,463	(803,075)	
Other income	9,181	9,863	13,755	15,845	48,644	15,518	10,405	104,081	(87,044)	42,960	
Total other revenue	601,897	875,383	1,411,139	1,251,535	4,139,954	946,871	867,563	604,322	1,582,743	4,001,499	
Total net revenue	3,131,764	3,309,364	4,195,718	4,625,082	15,261,928	3,366,758	3,348,330	3,152,535	4,661,350	14,528,973	
Benefits, claims and expenses	-	-	-	-	-	-	-	-	-	-	
Net insurance benefits and claims paid	(1,025,415)	(729,118)	(988,712)	(925,106)	(3,668,351)	(785,752)	(792,177)	(1,042,754)	(729,917)	(3,350,600)	
Net change in insurance claims outstanding	99,602	(101,962)	123,179	43,648	164,467	88,825	158,089	92,704	103,143	442,761	
Change in contract liabilities - Life Fund	(831,755)	(1,085,768)	(1,857,494)	(1,208,256)	(4,983,273)	(1,324,479)	(1,056,212)	(493,405)	(1,031,095)	(3,905,191)	
Underwriting and net acquisition costs (including reinsurance)	(492,032)	(419,195)	(500,280)	(445,889)	(1,857,396)	(487,710)	(542,338)	(525,682)	(499,321)	(2,055,051)	
Other operating, administrative and selling expenses	(602,795)	(727,378)	(694,954)	(988,628)	(3,013,755)	(550,588)	(809,029)	(974,360)	(1,189,395)	(3,523,372)	
Depreciation and amortisation	(64,054)	(67,885)	(88,193)	(79,762)	(299,894)	(26,892)	(27,832)	(27,627)	(72,584)	(154,935)	
Total benefits, claims and expenses	(2,916,449)	(3,131,306)	(4,006,454)	(3,603,993)	(13,658,202)	(3,086,596)	(3,069,499)	(2,971,124)	(3,419,169)	(12,546,388)	
Profit from operations	215,315	178,058	189,264	1,021,089	1,603,726	280,162	278,831	181,411	1,242,181	1,982,585	
Share of results of equity accounted investee, net of tax	30,518	29,401	26,876	17,941	104,736	23,694	21,355	32,961	71,797	149,807	
Profit before tax	245,833	207,459	216,140	1,039,030	1,708,462	303,856	300,186	214,372	1,313,978	2,132,392	
Income tax (expense) / reversal	(67,727)	(61,902)	(63,134)	(357,670)	(550,432)	-	-	1,423,344	(311,894)	1,111,450	
Profit for the year	178,106	145,557	153,006	681,360	1,158,030	303,856	300,186	1,637,716	1,002,084	3,243,842	

LIFE INSURANCE FUND

INSURANCE REVENUE ACCOUNT

For the year ended 31 December	2019	2018
	Rs. '000	Rs. '000
Gross written premium	11,647,756	11,243,915
Premium ceded to reinsurers	(525,782)	(716,441)
Net written premium	11,121,974	10,527,474
Net insurance benefits and claims paid	(3,668,351)	(3,350,600)
Net change in insurance claims outstanding	164,467	442,761
Underwriting and net acquisition costs (net of reinsurance)	(1,857,396)	(2,055,051)
Other operating, selling and administrative expenses	(2,956,764)	(3,731,797)
Depreciation and amortisation	(263,506)	(125,567)
Underwriting surplus	2,540,424	1,707,220
Investment and other income	3,442,849	3,265,567
Change in contract liabilities - Life fund	(4,983,273)	(3,905,191)
Income tax reversal	-	32,404
Surplus from life insurance fund	1,000,000	1,100,000
Investment and other income not attributable to policyholders	726,419	1,029,785
Expenses not attributable to policyholders	(122,693)	(114,796)
Share of results of equity accounted investee, net of tax	104,736	149,807
Income tax reversal / (expenses)	(550,432)	1,079,046
Profit from shareholders' fund	158,030	2,143,842
Profit for the year attributable to equity holders of the company	1,158,030	3,243,842

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page	2019	2018
			Rs. '000	Rs. '000
Assets				
Intangible assets			581,438	630,319
Property, plant and equipment	28	202	2,500,305	2,082,990
Right of use assets	29	206	296,799	-
Financial investments, including derivatives	1	261	36,142,412	31,024,453
Loans to life policyholders	33	222	1,555,759	1,218,949
Reinsurance receivable	34	222	502,975	371,126
Premiums receivable	35	223	344,785	331,539
Receivables and other assets	2	264	768,128	1,270,836
Cash in hand and at bank	3	264	624,552	682,430
Total assets			43,317,153	37,612,642
Reserves and liabilities				
Reserves				
Available for sale reserve			267,219	(50,384)
Revaluation reserve	4	264	1,613,544	1,214,876
Other reserves	5	264	(6,411)	9,559
Total reserves			1,874,352	1,174,051
Liabilities				
Insurance contract liabilities	44	229	35,489,751	30,599,881
Insurance contract liabilities - Unit Linked	45	234	1,246,075	1,501,271
Employee benefit liabilities	46.3	235	162,957	115,516
Reinsurance payables	47	236	812,930	669,314
Other liabilities	7	264	3,562,660	3,308,434
Bank overdraft	37	225	168,428	244,175
Total liabilities			41,442,801	36,438,591
Total reserves and liabilities			43,317,153	37,612,642

STATEMENT OF CASH FLOWS

For the year ended 31 December	2019	2018
	Rs. '000	Rs. '000
Cash flows from operations		
Insurance premiums received	11,634,510	11,180,888
Reinsurance premiums paid	(207,177)	(392,273)
Insurance benefits and claims paid	(3,760,837)	(3,509,084)
Reinsurance claims received	92,486	158,484
Payments to intermediaries to acquire insurance contracts	(1,953,383)	(2,498,772)
Cash paid to and on behalf of employees	(1,228,363)	(1,031,559)
Interest received	3,367,274	3,133,794
Dividends received	86,559	95,803
Other operating cash flows	(2,125,139)	(2,103,419)
Cash paid to life shareholder fund	(1,100,000)	(7,023,934)
Cash generated from operating activities - (Note A)	4,805,930	(1,990,072)
Employee benefits paid	(34,902)	(25,705)
Net cash from operating activities	4,771,028	(2,015,777)
Cash flows from investing activities		
Acquisition of investments	(10,870,358)	(17,482,187)
Maturity proceeds of investments	4,048,476	18,079,744
Proceeds from sale of investments	2,312,820	2,008,520
Acquisition of property, plant and equipment	(97,601)	(153,751)
Acquisition of intangible assets	(36,971)	(416,840)
Proceeds on sale of property, plant and equipment	583	1,298
Net cash used in investing activities	(4,643,051)	2,036,784
Net cash inflow before financing activities	127,977	21,007
Cash flows used in financing activities		
Settlement of lease liabilities	(110,108)	-
Obligation to repurchase securities	699,080	1,998,230
Settlement of obligation to repurchase securities	(699,080)	(1,998,230)
Net cash from financing activities	(110,108)	-
Net increase in cash and cash equivalents	17,869	21,007
Cash and cash equivalents at the beginning of the year	438,255	417,248
Cash and cash equivalent at the end of the year	456,124	438,255

LIFE INSURANCE FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December	2019	2018
	Rs. '000	Rs. '000
A. Reconciliation of surplus from life insurance fund before tax with cash from operating activities		
Surplus from life insurance fund before tax	1,000,000	1,067,596
Non - cash items included in profit before tax		
Depreciation and amortisation	263,506	154,935
Provision for employee benefits	63,633	22,557
Provision for doubtful staff debtors	34,315	2,847
Net realised (gains)	(23,534)	(111,745)
Net fair value (gains) / losses	304,054	803,075
(Gains) / losses on sale of property, plant and equipment	(572)	(759)
Amortisation of financial investment	(107,457)	(154,795)
Amortisation of lease liabilities	33,999	-
Scrip dividend income	(62,705)	(57,151)
Interest expense on obligation to repurchase securities	2,323	3,179
Profit before working capital changes	1,507,762	1,729,739
Net change in operational assets		
Net change in reinsurance assets / liabilities	11,767	220,459
Net change in premiums receivable	(13,246)	(63,028)
Net change in receivables and other assets	(1,731,553)	(7,431,944)
Net change in operational liabilities		
Net change in life insurance contract liabilities	4,634,674	3,029,930
Net change in other liabilities	396,526	524,772
Cash generated from operating activities	4,805,930	(1,990,072)
B. Cash and cash equivalents at the end of the year		
Cash in hand and at bank	624,552	682,430
Bank overdraft	(168,428)	(244,175)
Cash and cash equivalents	456,124	438,255
Net cash in hand and at bank for the previous year	438,255	417,248
Increase in cash and cash equivalents	17,869	21,007

NOTES TO THE STATEMENT OF FINANCIAL POSITION

1 FINANCIAL INVESTMENTS

Refer Note 9 for the accounting policy

As at 31 December	Note	2019		2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Rs. '000					
Held to maturity financial assets (HTM)	1.1	17,402,472	18,568,401	15,517,649	14,924,258
Loans and receivables (L&R)	1.2	11,201,304	11,458,080	7,572,228	7,448,469
Available for sale financial assets (AFS)	1.3	4,132,224	4,132,224	4,306,043	4,306,043
Financial assets at fair value through profit or loss (FVTPL)	1.4	3,406,412	3,406,412	3,628,533	3,628,533
Total financial investments		36,142,412	37,565,117	31,024,453	30,307,303

1.1 Held to Maturity Financial Assets (HTM)

As at 31 December	Note	2019	2018
		Rs'000	Rs'000
Amortised cost			
Quoted debentures	32.3(a)	216,505	216,551
Treasury bonds		17,185,967	15,301,098
Total HTM financial investments		17,402,472	15,517,649

1.2 Loans and Receivables (L&R)

As at 31 December	Note	2019	2018
		Rs'000	Rs'000
Amortised cost			
Bank deposits		1,660,991	757,417
Quoted debentures	1.2 (a)	7,649,908	6,078,753
Reverse repurchase agreements		1,890,405	736,058
Total L&R financial investments		11,201,304	7,572,228

1.2 (a) Quoted debentures

As at 31 December	Issuer	Credit Rating	Maturity date	No. of debentures	2019		
					Carrying value Rs. '000	Market value Rs. '000	Interest %
	CENTRAL FINANCE COMPANY PLC	A+	6/1/20	400,000	43,277	43,737	9.52
	National Development Bank PLC	A	6/24/20	2,429,000.00	228,896	201,742	-
	National Development Bank PLC	A	6/24/20	1,850,000.00	199,661	232,116	9.4
	SENKADAGALA FINANCE PLC	BBB+	11/10/20	500,000	50,812	51,029	13.75
	COMMERCIAL BANK OF CEYLON PLC	AA-	3/9/21	250,000	25,926	23,339	10.75
	SEYLAN BANK PLC	BBB+	7/15/21	950,400	101,168	100,794	13.00
	SIYAPATHA FINANCE LIMITED	A-	9/20/21	102,400	10,533	11,048	13.50
	SINGER SRI LANKA PLC	A-	9/28/21	3,500,000	360,611	367,876	12.00
	BANK OF CEYLON	AA	10/24/21	242,499	25,011	26,228	13.25
	NATIONS TRUST BANK PLC	A-	11/8/21	3,000,000	305,494	305,615	12.65
	PEOPLE'S LEASING COMPANY PLC	AA-	11/16/21	2,000,000	203,040	203,107	12.60
	BANK OF CEYLON	AA	12/29/21	2,000,000	202,062	200,825	13.25
	LANKA ORIX LEASING COMPANY PLC	A	7/31/22	500,000	52,883	54,978	13.00
	NATIONAL SAVINGS BANK	AAA	9/10/22	1,500,000	154,917	159,282	11.00
	LB FINANCE PLC	A-	12/11/22	1,000,000	100,669	104,788	12.75
	LB FINANCE PLC	BBB+	12/11/22	1,000,000	100,694	101,066	13.25
	SAMPATH BANK PLC	A	12/21/22	1,600,000	160,569	167,413	12.50
	SAMPATH BANK PLC	A	3/20/23	2,500,000	258,682	262,618	12.50
	DFCC BANK PLC	A+	3/29/23	2,000,000	219,008	222,353	12.60
	NATIONS TRUST BANK PLC	A-	4/20/23	2,875,000	313,036	325,566	13.00
	HATTON NATIONAL BANK PLC	AA-	8/30/23	1,204,706	105,328	113,779	8.00

LIFE INSURANCE FUND

NOTES TO THE STATEMENT OF FINANCIAL POSITION

As at 31 December				2019		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
BANK OF CEYLON	AA	10/25/23	452,300	47,298	47,393	13.75
HATTON NATIONAL BANK PLC	A+	11/1/23	724,000	73,909	73,969	13.00
NATIONAL DEVELOPMENT BANK PLC	A	12/19/23	4,500,000	517,722	520,290	13.90
SAMPATH BANK PLC	A	2/28/24	1,000,000	111,565	116,541	13.90
SEYLAN BANK PLC	BBB+	4/18/24	2,000,000	220,761	236,185	15.00
SIYAPATHA FINANCE LIMITED	BBB+	8/8/24	2,760,000	290,146	302,628	13.33
HAYLEYS PLC	A+	8/26/24	500,000	52,254	52,261	13.00
NATIONS TRUST BANK PLC	A-	12/23/24	1,000,000	100,299	103,948	12.80
HNB Finance Limited	BBB+	12/30/24	6,000,000	600,216	625,475	13.20
DFCC BANK PLC	A+	3/29/25	3,000,000	329,249	348,342	13.00
SEYLAN BANK PLC	BBB+	3/29/25	2,000,000	206,614	206,727	13.20
HATTON NATIONAL BANK PLC	A+	9/23/26	864,100	89,307	94,832	12.80
NATIONS TRUST BANK PLC	A-	12/23/26	3,000,000	300,904	314,030	12.90
Peoples Bank	AA	11/8/27	4,370,000	444,533	473,760	12.25
SEYLAN BANK PLC	BBB+	3/29/28	3,000,000	310,152	326,974	13.50
SRI LANKA TELECOM PLC	AA+	4/19/28	2,000,000	205,070	225,013	12.75
COMMERCIAL BANK OF CEYLON PLC	AA-	7/23/28	5,000,000	527,632	559,018	12.50
				7,649,908	7,906,685	

As at 31 December				2018		
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %
Hemas Holdings PLC	AA-	4/29/19	1,452,900	148,480	148,592	11.00
Merchant Bank of Sri Lanka PLC	A	11/12/19	500,000	52,734	53,245	9.00
Lanka Orix Leasing Company PLC	A	11/24/19	1,000,000	98,504	99,676	9.00
Sampath Bank PLC	A	12/15/19	3,000,000	310,564	314,770	8.25
Seylan Bank PLC	A-	12/23/19	2,000,000	191,654	193,860	8.60
Siyapatha Finance Limited	BBB+	12/24/19	250,000	26,197	26,415	8.90
Central Finance Company PLC	A+	6/1/20	400,000	42,015	42,341	9.52
National Development Bank PLC	A	6/24/20	2,429,000	202,363	204,609	-
National Development Bank PLC	A	6/24/20	1,850,000	194,078	194,509	9.40
Senkadagala Finance PLC	BBB+	11/10/20	500,000	50,686	51,368	13.75
Commercial Bank of Ceylon PLC	AA-	3/9/21	250,000	26,002	25,084	10.75
Seylan Bank PLC	BBB+	7/15/21	950,400	101,402	100,794	13.00
Siyapatha Finance Limited	A-	9/20/21	102,400	10,498	10,691	13.50
Singer Sri Lanka PLC	A-	9/28/21	3,500,000	360,773	351,741	12.00
Bank of Ceylon	AA	10/24/21	242,499	25,104	24,980	13.25
Nations Trust Bank PLC	A-	11/8/21	3,000,000	305,542	289,415	12.65
People's Leasing Company PLC	AA-	11/16/21	2,000,000	203,073	203,046	12.60
Bank of Ceylon	AA	12/29/21	2,000,000	202,900	204,597	13.25
Lanka Orix Leasing Company PLC	A	7/31/22	500,000	52,887	52,871	13.00
LB Finance PLC	A-	12/11/22	1,000,000	100,675	98,785	12.75
LB Finance PLC	BBB+	12/11/22	1,000,000	100,701	90,726	13.25

As at 31 December				2018			
Issuer	Credit Rating	Maturity date	No. of debentures	Carrying value Rs. '000	Market value Rs. '000	Interest %	
Sampath Bank PLC	A	12/21/22	1,600,000	160,578	157,526	12.50	
Sampath Bank PLC	A	3/20/23	2,500,000	258,697	253,694	12.50	
DFCC Bank PLC	A+	3/29/23	2,000,000	218,913	217,149	12.60	
Nations Trust Bank PLC	A-	4/20/23	2,875,000	313,224	309,786	13.00	
Hatton National Bank PLC	AA-	8/30/23	1,204,706	101,653	102,262	8.00	
Bank of Ceylon	AA	10/25/23	452,300	47,488	47,756	13.75	
Hatton National Bank PLC	A+	11/1/23	724,000	73,924	73,973	13.00	
National Development Bank PLC	A	12/19/23	4,500,000	518,679	449,550	13.90	
DFCC Bank PLC	A+	3/29/25	3,000,000	329,263	329,605	13.00	
Seylan Bank PLC	BBB+	3/29/25	2,000,000	206,623	202,138	13.20	
Seylan Bank PLC	BBB+	3/29/28	3,000,000	310,160	304,261	13.50	
Sri Lanka Telecom PLC	AAA	4/19/28	2,000,000	205,075	208,778	12.75	
Commercial Bank of Ceylon PLC	AA-	7/23/28	5,000,000	527,644	516,401	12.50	
				6,078,753	5,954,994		

1.3 Available for Sale Financial Assets (AFS)

As at 31 December	2019	2018
	Rs'000	Rs'000
Fair value		
Treasury bonds	4,132,224	4,276,364
Treasury bills	-	29,679
Total AFS financial investments	4,132,224	4,306,043

1.4 Financial Assets at Fair Value Through Profit or Loss (FVTPL)

As at 31 December	2019	2018	
Note	Rs'000	Rs'000	
Fair value			
Quoted equities	32.6(a)	2,059,968	2,129,129
Unit Trusts		101,558	-
		2,161,526	2,129,129
Investments in unit linked funds			
Quoted equities	32.6(b)	949,024	1,167,900
Reverse repurchase agreements		112,386	112,842
Treasury bills		26,649	85,523
Treasury bonds		-	42,152
Bank deposits		16,292	-
Debentures		140,535	90,987
		1,244,886	1,499,404
		3,406,412	3,628,533

LIFE INSURANCE FUND

NOTES TO THE STATEMENT OF FINANCIAL POSITION

2 RECEIVABLES AND OTHER ASSETS

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Financial assets			
Agent / advisor loans	36.2	196,944	212,984
Refundable deposits		22,748	17,126
Amount due from Fairfirst Insurance Limited		-	21,026
Other receivables		68,508	73,506
		288,200	324,642
Non financial assets			
Taxes recoverable	36.5	340,397	750,319
Prepayments		43,324	60,937
Inventories		34,316	13,677
Advance payments		57,502	117,372
Other receivables		4,389	3,889
		479,928	946,194
Total receivable and other assets		768,128	1,270,836

2.1 Taxes Recoverable

As at 31 December		2019	2018
		Rs'000	Rs'000
ACT recoverable		92,296	92,296
WHT receivable		156,319	102,241
Notional tax receivable		71,304	541,304
ESC receivable		20,478	14,478
		340,397	750,319

3 CASH IN HAND AND AT BANK

As at 31 December		2019	2018
		Rs'000	Rs'000
Cash at bank		621,321	679,042
Cash at bank - Unit Linked		75	68
Cash in hand		3,156	3,320
Total		624,552	682,430

4 REVALUATION RESERVE

As at 31 December		2019	2018
		Rs'000	Rs'000
Balance as at 1 January		1,214,876	1,212,449
Revaluation surplus during the year		403,283	-
Adjustment for deferred tax		-	7,042
Transfer to retained earnings		(4,615)	(4,615)
Balance as at 31 December		1,613,544	1,214,876

5 OTHER RESERVES

As at 31 December		2019	2018
	Note	Rs'000	Rs'000
Reserve on Cornhill merger		16,752	16,752
Reserve on employee benefit obligations		(23,163)	(7,193)
Total other reserves		(6,411)	9,559

6 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.

7 OTHER LIABILITIES

As at 31 December		2019	2018
		Rs'000	Rs'000
Financial liabilities			
Agency commission payable		262,634	240,952
Other staff related provisions		139,368	145,523
Premiums in suspense		676,707	545,547
		1,078,709	932,022
Non financial liabilities			
Government levies		71,687	53,852
Premium received in advance		22,929	42,659
Other liabilities		2,389,335	2,279,901
		2,483,951	2,376,411
Total other liabilities		3,562,660	3,308,433

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

Branch	Address	Contact Number/S
Akuressa	No. 38 & No 6A, D.D. Wanigasekara Mawatha, Akuressa	Tel : 0412283393/0412284072 /0412283493
Aluthgama	No. 51 1/1, Galle Road, Kalua Modara Aluthgama	Tel : 0342291690/0342291689/0342291685
Ambalangoda	No. 20, New Road, Ambalangoda	Tel : 0912258862/0912255882
Ambalantota	No. 153 & 153 1/1, Tangalle Road, Thawaluvila, Ambalantota	Tel : 0472223370/0472225027/0472225028/0472225626
Ampara	No. 60 & 60/1, 'Indrawansha Building', D.S. Senanayaka Street, Ampara	Tel : 0632224668/0632223669/0632224401/0632223311
Anuradhapura	No. 272, Main Street, Anuradhapura.	Tel : 0252224677/0252237777/0252234984/ 0252237778/0252235547
Awissawella	No. 15 1/2, Kudagama Road, Awissawella	Tel : 0362233575
Badulla	No. 226/4/1/09-14, Lower Street, Badulla	Tel : 0552229536/0552224373
Bakamuna	No. 42, Hospital Road, Bakamuna.	Tel : 0662256100/0662256644/0663140919
Bandarawela	No. 5, Haputale Road, Bandarawela	Tel : 0572223239/0572221760/0572223475
Battaramulla (Thalawathugoda)	No. 123, Kaduwela Road	Tel : 0112074453/0112074450/0112074457/ 0112074452/0113049480/0113049479/0113049481
Batticaloa	No. 217, Trincomalee Road, Batticaloa.	Tel : 0652228750/0652224574/0652228167
Beliatta	No. 67 1/1, Tangalle Road, Beliatta.	Tel : 0473125277
Chillaw	No. 87, Puttalam Road, Chillaw	Tel : 0322222104/0322221661
Chunnakam	No.160, Sir Ponnambalam Ramanathan Road, Chunnakam	Tel : 0212242091/0212241844/0212242097
City Office	No. 161 A, Dharmapala Mawatha, Colombo 07	Tel : 0112577129
Dambulla	No. 755, Anuradhapura Road, Dambulla.	Tel : 0662284628/0663140611
Elpitiya	No. 44A 1/1, Ambalangoda Road, Elpitiya	Tel : 0912291957
Embilipitiya	No. 162, New Town Road, Embilipitiya	Tel : 0472230463/0472262010/0472261946
Galle	No. 80 1/1, Colombo Road, Galle.	Tel : 0912243948/0912231107/0913131631
Gampaha	No. 55, Yakkala Road, Gampaha	Tel : 0332226441/0332235130
Gampola	No. 10B, Nidahas Mw, Keerapana, Gampola	Tel : 0812077174/0812077175/0812077176
Giriulla	No. 86A, Negombo Road, Giriulla.	Tel : 0372288586/0372248511
Hingurakgoda	No. 02, Airport Road Hingurakgoda	Tel : 0272246581/0272245299
Homagama	No. 119/2/1 & 119/3/1, Katuwana Road, Homagama	Tel : 0112892802/0112892803/0113663971
Horana	No. 198, Rathnapura Road, Horana.	Tel : 0342264182/0342265217
Ja-Ela	No. 71A 2/1, Negombo Road, Ja-Ela	Tel : 0112241512/0112243633/0112231661/0112226395
Jaffna	No. 218 3/1, Stanley Road, Jaffna.	Tel : 0212223753/0212216703/0213202094
Katugastota	No.185/4, Galagedara Road, Katugastota	Tel : 0812500286/0812500205/0812500588
Kadawatha	No. 1158 2/1, Kandy Road, Kadawatha	Tel : 0112927252/0113071596/0112927253
Kalmunai	No. 212, Batticaloa Road, Kalmunai	Tel : 0672222633
Kalutara	No. 340, Main Street, Kalutara	Tel : 0342222114/0342222113/0342222104
Kandy	No. 28, Hill Street, Kandy	Tel : 0812227443/0812232731/0812225025/812233291
Kegalle	No.134, Kalugalla Mawatha, Kegalle.	Tel : 0352221028/0352230497/0352232165
Kilinochchi	Nos. 83 & 85, Kandy Road, Kilinochchi	Tel : 0212280118/0212280117/0212280119
Kirillapona (Wellawatte)	No. 57-2/1, High Level Road, Kirillapona, Colombo 06	Tel : 0112513362/0113024334/0112513361/112513363
Kottawa	No. 193/C, Horana Road, Kottawa, Pannipitiya	Tel : 0112178008/0113158154
Kuliyapitiya	No. 93, Madampe Road, Kuliyapitiya	Tel : 0372281904/0372282904/0372284664
Kurunegala	No. 6, Rajapihilla Road, Kurunegala	Tel : 0372221834/0372222000/0372222474/ 0372223230/0372223650/0372224252/0372227585/ 0372230465/0372230950/372230435
Maharagama	No. 272/B/2/1, Awissawella Road, Maharamaga.	Tel : 0112089082/0112089081/0112842315

Branch	Address	Contact Number/S
Mahiyanganaya	No. 44D, Miyugunagama, Mahiyanganaya	Tel : 0552258255/0552258777
Maho/ Mahawa	No. 272, Moragollagama Road, Mahawa	Tel : 0372275264
Mannar	No. 43, Ward No:2, Pallimuni Street, Mannar	Tel : 0232223257/0233238255/0232251882
Matale	No. 553/F1/1, Trincomalee Street, Matale	Tel : 0662231536/0662222929
Matara Zone 1	No. 58 1/2, 3rd Floor, Esplanade Road, Matara	Tel : 0412232740/0412226633/0412223024/ 0412226033/0412226644
Matara Zone 2	No. 58 1/2, 2nd Floor, Esplanade Road, Matara	Tel : 0412226865/0412226806/0412226837/0412226805
Mathugama	No. 94/2, Agalawatta Road, Mathugama	Tel : 0342248017/0343944339/0342241441
Medirigiriya	No. 417, Main Street, Madirigiriya	Tel : 0272050148/0272248310
Monaragala	No. 112, Wellawaya Road, Monaragala	Tel : 0552276290/0552277379
Moratuwa	No. 494, De Soysa Road, Rawathawatta, Moratuwa	Tel : 0112645526/0112645802/0112641800/ 0112641666/0112641855
Mullative	First Floor, P.W.D. Road, Mullathive Town, Mullathivu	Tel : 0212290894/0212290893/0113030697
Negombo	No. 147, St. Joseph's Street, Negombo	Tel : 0312224264/0312238443/0312235043/0313717890
Nikaweratiya	No. 65, Puttlam Road, Nikaweratiya	Tel : 0372260567/0372260249/372260334
Nugegoda	No. 376, High Level Rd, Gangodawila, Nugegoda	Tel : 0112815511/0112815512/0112815513/0112811703
Nuwaraeliya	No. 36, Park Road, Nuwaraeliya	Tel : 0522223341/0113135922
Padaviya	No. 2, New Town, Padaviya	Tel : 0252253018/0253770758/0252253277
Panadura	No. 571, Galle Road, Panadura	Tel : 0382244790/0382244630
Pettah	No. 3, Sea Street, Colombo 11.	Tel : 0112432704/0112432329/0112432321
Piliyandala	No. 226, Horana Road, Piliyandala	Tel : 0112619550/0112609105/0112609106
Point Pedro	No. 357, Main Street, Point Pedro	Tel : 0212260344/0212261970/0113158153
Polonnaruwa	No. 13, 1st Floor, Hospital Junction, Polonnaruwa.	Tel : 0272226611/0272051142/0272051148/0272226612
Puttalam	No. 97/1, 2nd Floor, Cargills Food Cotiy Building, Puttalam	Tel : 0322265980/0322265890/0322267475
Ratnapura	No. 567 1/1, 3rd Floor, Senavirathna Building, Colombo Road, Rathnapura	Tel : 0452226740/0452233035/0453471507
Ruwanwella	No.185/1/2, Avissawella Road, Ruwanwella	Tel : 0362268747/0362266631
Tangalle	No. 61, Beach Road, Tangalle	Tel : 0472241841/0472241727
Thalawathugoda	No. 705, Boralla Road, Thalawathugoda	Tel : 0112775495/0112775496/0113661551/0113661552
Thambuththegama	No:148,Thammannagama, Thambuththegama	Tel : 0252276060/0252275185/0252276211
Tissamaharama	No. 118, Hambantota Road,Tissamaharama	Tel : 0472237711/0472238027
Trincomalee	No. 170, Abeyapura, Kandy Road, Trincomalee	Tel : 0262227530/0262227536
Valachchenai	Main Street, Valachchanai	Tel : 0652258556/0652258555/0652258557
Vavuniya	No.188,190,192,& 190/1, Kandy Road, Vavuniya	Tel : 0242226003/0242227113/0242223138
Warakapola	No.198 B1/1, 'Willara Complex', Main Street, Warakapola	Tel : 0352267441
Wariyapola	No. 203/A, Kurunegala Road, Wariyapola	Tel : 0372268208/0372267206
Wattala	No.250/2/2, Negombo Road, Wattala	Tel : 0112932153/0113037591/0112932030
Wellawaya	No. 210, Moneragala Road, Wellawaya	Tel : 0552274380/0552274219
Wennappuwa	No. 6, Colombo Road, Wennappuwa	Tel : 0312255844/0552274218

CORPORATE INFORMATION

GRI 102-1 | 102-3 | 102-5

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

K. N. J. Balendra - Chairman
(Appointed w.e.f 01.01.2019)
S. Rajendra
H. A. J. De Silva Wijeyeratne
D. H. Fernando
S. Appleyard (Appointed w.e.f 01.01.2019)
A. D. Pereira [Resigned w.e.f. 31.10.2019]
D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]

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 (RPTRC) of John Keells Holdings PLC (the Parent) represents the RPTRC of the Company.

Project Risk Assessment Committee

The Project Risk Assessment Committee (PRAC) of John Keells Holdings PLC (the Parent) represents the PRAC of the Company.

Board Audit and Compliance Committee

H. A. J. De Silva Wijeyeratne - Chairman
S. Rajendra
D. H. Fernando

Board Supervisory Committee

H. A. J. De Silva Wijeyeratne - Chairman
S. Rajendra
D. C. Alagaratnam [Resigned w.e.f. 31.12.2019]

Investment Committee

J. G. A. Cooray - Chairman
Dirk Pereira [Resigned w.e.f. 31.10.2019]
Jude Gomes [Appointed w.e.f. 01. 12. 2019]
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
National Development Bank PLC
National Savings Bank
Nations Trust Bank PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank
Union Bank Colombo PLC

Reinsurance Panel

RGA
Hannover Re
Munich Re
Partner Re

Registered Office of the Company

20, St Michael's Road,
Colombo 3.

Investor Relations

All investor queries should be directed to;
Investor relations hotline 011-2990314
e-mail: investorrelations@unionassurance.com

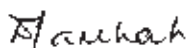
NOTICE OF MEETING

Notice is hereby given that the 33rd 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 Tuesday, 31st March 2020 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 2019 with the report of Auditors thereon.
3. To re-elect as Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. Suresh Rajendra is contained in the Board of Directors section of the Annual Report.
4. To re-elect as Director, Mr. Harin Amendra Joseph De Silva Wijeyeratne who retires in terms of Article 84 of the Articles of Association of the Company. A brief profile of Mr. Harin Amendra Joseph De Silva Wijeyeratne is contained in the Board of Directors section of the Annual Report.
5. To re-appoint Auditors Messrs. KMPG, Chartered Accountants and authorize the Directors to determine their remuneration.
6. To consider any other business of which due notice has been given in terms of the relevant laws and regulation.

By Order of the Board

Union Assurance PLC



Keells Consultants (Private) Limited
Secretaries

28 February 2020

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 member's vote is counted. If the proxy holder's appointor has indicated the manner of voting, only the appointor's indication of the manner to vote will be used.

PROXY FORM

I/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
- Mr. Harin Amendra Joseph De Silva Wijeyeratne or failing him
- Mr. Dumith Hemantha Fernando or failing him
- Mr. Stephen Anthony Appleyard

as my/our proxy to represent me/us and vote on my/our behalf at the 33rd Annual General Meeting of the Company to be held on Tuesday, 31st March 2020 at 9.00 a.m. and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I/We, the undersigned, hereby direct my/our proxy to vote for me/us and on my/our behalf on the specified Resolution as indicated by the letter "X" in the appropriate cage;

	For	Against
1. To re-elect as Director, Mr. Suresh Rajendra who retires in terms of Article 84 of the Article of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as Director, Mr. Harin Amendra Joseph De Silva Wijeyeratne who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint Auditors Messrs. KPMG Chartered Accountants and to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

Signed on thisday of Two Thousand and Twenty.

.....
 Signature /s of Shareholders/s

NOTE:

INSTRUCTIONS AS TO COMPLETION OF THE PROXY FORM ARE NOTED ON THE REVERSE.

PROXY FORM

INSTRUCTIONS AS TO COMPLETION OF PROXY

1. Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 20, St. Michael's Road, Colombo 3, not later than 48 hours before the time appointed for the holding of the meeting.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the appointer is a company or corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or corporate in accordance with its Articles of Association or Constitution.
5. If this Form of Proxy is returned without any indication of how the person appointed as Proxy shall vote, then the proxy shall exercise his/her discretion as to how he/she votes or, whether or not he/she abstains from voting.

Please fill in the following details:

Name	:
Address	:
	
	
Jointly with	:
Share Folio No.:	

Designed & produced by

emagewise

Cover printed by Nethu Print Solutions
Digital plates, printing of inner and finishing by
Softwave Printing and Packaging (Pvt) Ltd

