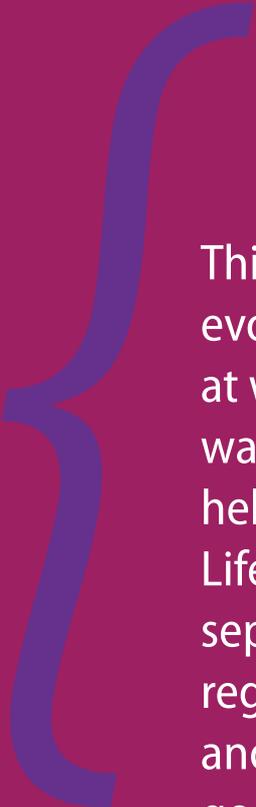




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This is a time of change, of transformation and evolution. It is a time to take stock, looking back at who we have been and forward to who we want to be in the future. The year under review held many challenges as we segregated our Life and Non Life insurance operations into separate legal entities, in line with new industry regulations. Yet for us this represents just another big step on a journey that has seen us go from strength to strength for over 27 years.

We're looking back with pride at all that we have achieved in the past, even as we look forward with excitement to the success that our future will hold.



# Our Integrated Annual Report

# 2014

*Social and environmental performance is paramount in creating a sustainable business and it flows from the strength of our relationships and the quality of engagement with all our stakeholders.*

In this second integrated annual report of Union Assurance PLC (UA) we will describe and quantify how we create financial and non-financial value to provide a longer-term view of the business. Social and environmental performance is paramount in creating a sustainable business and it flows from the strength of our relationships and the quality of engagement with all our stakeholders. This annual report explains UA's value creation process around the material stakeholders.

This report is a reflection of the integrated approach adopted by management encompassing the economic, social and environmental performance of the Company for the twelve months ending 31 December 2014.

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

With regards to our sustainability performance, the data measurement techniques and the basis of calculations including assumptions and estimates applied in the compiling of such sustainability performance indicators are in accordance with standard industry practices and "In Accordance – Core" of Global Reporting Initiative GRI G4 guidelines.

*This report is a reflection of the integrated approach adopted by management encompassing the economic, social and environmental performance of the Company for the twelve months ending 31 December 2014.*



[www.unionassurance.com](http://www.unionassurance.com)

# Overview of the Group

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

UA throughout its 27 years has maintained an impressive record in terms of its financial performance, which is attributed to the innovative and customised solutions and services it offers to its Life and Non Life insurance clientele. At Union Assurance we also take the lead in investing in cutting-edge technologies and take pride in nurturing people with structured training and development initiatives.

Union Assurance General Limited was incorporated during the year as a fully owned subsidiary of Union Assurance PLC, in order to transfer the Non Life insurance business in line with the regulatory requirement for composite insurance companies to segregate their Life and Non Life insurance businesses into separate legal entities by February 2015.

Consequent to the relevant legal procedures, the Non Life business was transferred to Union Assurance General Limited on 1 January 2015. The Group divested a 78% stake in Union Assurance General Limited to Fairfax Asia Limited on the same date.

Fairfax Asia Limited is a wholly owned subsidiary of Fairfax Financial Holdings Limited, a Canadian-based financial services holding company. Fairfax Asia operates in several markets in Asia, including India, Singapore, Hong Kong, China, Malaysia, Indonesia and Thailand.

Union Assurance PLC will continue to carry out Life insurance business while holding 22% of Union Assurance General Limited. John Keells Holdings PLC, one of the largest conglomerates in Sri Lanka with interests in several key sectors of the local economy is the parent Company of Union Assurance PLC.



Overview of the Group

## 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

## Values

### Excellence

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

### Caring

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

### Innovation

Improving constantly, reinventing and evolving

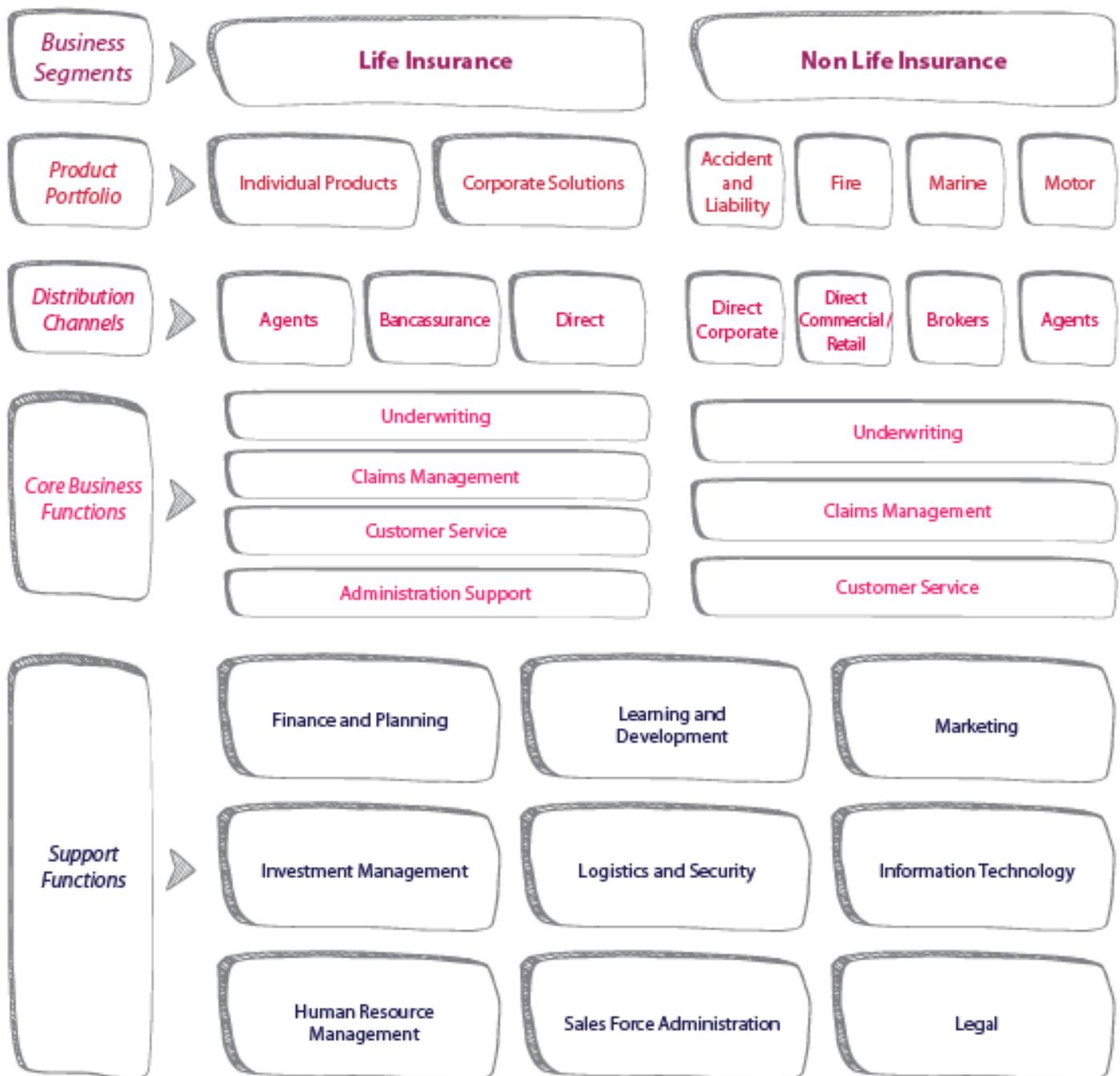
### Trust

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

### Ethics and Integrity

Doing the right thing always

# Organisation Structure



# Operational Footprint

Western	Sabaragamuwa	Northern
Aluthgama	Avissawella	Chavakachcheri
Bandaragama	Balangoda	Chunnakam
Bulathsinhala	Embilipitiya	Jaffna
Corporate Office	Godakawela	Kilinochchi
City Office	Kalawana	Mannar
Dehiwala	Kegalle	Mullaitivu
Diwulapitiya	Mawanella	Point Pedro
Gampaha	Pelmadulla	Vavuniya
Hanwella	Rambukkana	<b>Southern</b>
Homagama	Ratnapura	Akuressa
Horana	Ruwanwella	Ambalangoda
Ingiriya	Warakapola	Ambalantota
Ja-Ela	<b>North Central</b>	Baddegama
Kadawatha	Anuradhapura	Deniyaya
Kaduwela	Bakamuna	Elpitiya
Kalutara	Hingurakgoda	Galle
Katunayaka	Kekirawa	Hambantota
Kelaniya	Medirigiriya	Kamburupitiya
Kiribathgoda	Padawiya	Matara
Kirindiwela	Polonnaruwa	Tangalle
Kirulapone	Tambuttegama	Thanamalwila
Kolonnawa	<b>North Western</b>	Tissamaharama
Kotahena	Anamadua	Weligama
Kottawa	Chilaw	<b>Eastern</b>
Maharagama	Kuliyapitiya	Ampara
Matugama	Kurunegala	Batticaloa
Minuwangoda	Madampe	Chenkaladi
Moratuwa	Mahawa	Kalmunai
Motor Centre	Melsiripura	Mahaoya
Negombo	Narammala	Muttur
Nittambuwa	Nikaweratiya	Trincomalee
Nugegoda	Pannala	Valaichchenai
Padukka	Polgahawela	<b>Central</b>
Panadura	Puttalam	Dambulla
Piliyandala 1	Wariyapola	Digana
Piliyandala 2	Wennappuwa	Galewela
Ratmalana	<b>Uva</b>	Gampola
Thalawathugoda 1	Badulla	Hatton
Thalawathugoda 2	Bandarawela	Kandy 1
Wattala	Bibile	Kandy 2
	Mahiyangana	Katugastota
	Monaragala	Matale
	Wellawaya	Nawalapitiya
		Nuwara Eliya
		Pussellawa

122+  
Locations



# Highlights of the Year 2014

## January

Launched "DenGone" a multimedia, educational video game in collaboration with the Public Health Department of the Colombo Municipal Council to educate children on the risks of dengue while showcasing innovative yet simple steps that can be taken to eradicate it.

## February

Union Assurance sustainability practices were recognised at the **Sustainability Reporting Awards 2013** organised by the Association of Chartered Certified Accountants (ACCA) by being adjudged the winner in the Banking, Finance and Insurance sector.

## April

Union Assurance was recognised as the second runner-up for quality financial statements and certificate of Merit for Corporate Governance Disclosure at the annual report awards ceremony conducted by the South Asian Federation of Accountants (SAFA).

## March

Union Assurance received the prestigious "Celent Model Insurer Asia Award 2014" for developing Digital Advisory Toolkit (DAT). The award recognises best insurance technology creativities in the Asia Pacific region.

UA was adjudged a winner in the social empowerment category at the "Asia Responsible Entrepreneurship Awards 2014 – South Asia" organised by Enterprise Asia in New Delhi, for UA's remarkable contribution to the community in creating a healthy and safer tomorrow.

## May

Data management system of Union Assurance was accredited with ISO/IEC 27001:2005 certificate.

Partnered with one of the largest commercial banks in the country to sell Non Life insurance products to the bank's customers at over 50 branches located island wide.

## June

Union Assurance was recognised for the 2<sup>nd</sup> consecutive year as one of the 15 great places to work in Sri Lanka through a survey conducted by the Great Place to Work<sup>®</sup> Institute. The survey was conducted across many banking and financial institutions as well as multinationals and public listed companies.

Launched "Union Assurance Motor App" providing easy access to valuable information to all motorists and non motorists. This comprehensive app is available in Sinhala, Tamil, and English, making it user friendly and intuitive.

Annual sales awards ceremony was held to felicitate UA's top performers. This exclusive event was attended by over 1,500 sales and support staff members.

## July

Launched "Union Super Investor", which provides the full benefits of a long term life insurance policy, for which customer need to pay only for a five year period.

Union Assurance General Limited was incorporated as a fully owned subsidiary of Union Assurance PLC to take over the Non Life insurance business in line with the IBSL regulation.

## September

Brand wide campaign titled "Union Super Investor Month" was conducted to create awareness regarding the "Union Super Investor" product.

## August

Introduced an innovative mobile solution through sms gateway "Union Life" designed to make life Insurance more transparent, convenient and accessible to UA's life policyholders.

## November

Launched a touch screen based solution for selected corporate clients to review details of surgical and hospitalisation claims of their employees thereby providing greater customer convenience.

People development practice of UA was recognised with a gold award by the Sri Lanka Institute of Training and Development (SLITD).

## October

Awarded Service Brand of the Year – Silver Award for the 3<sup>rd</sup> consecutive year at the brand excellence awards ceremony conducted by the Sri Lanka Institute of Marketing (SLIM). UA was the only insurer to be awarded this prestigious title which clearly demonstrated the collaborative brand building work carried out year on year by the Company.

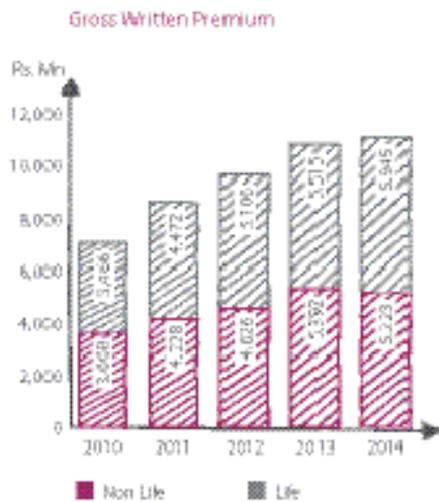
## December

Adjudged the Runner's up for Excellence in Corporate Governance and for Business Excellence in the Insurance Sector at the Business Excellence Awards ceremony conducted by the National Chamber of Commerce.

The 2013 Annual Report won a bronze award for Corporate Governance Disclosures, bronze award for Management Discussion and Analysis and silver award in the insurance sector for the Best Annual Report at the Annual Report Awards Ceremony conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

# Triple Bottom Line Performance

## Financial Highlights



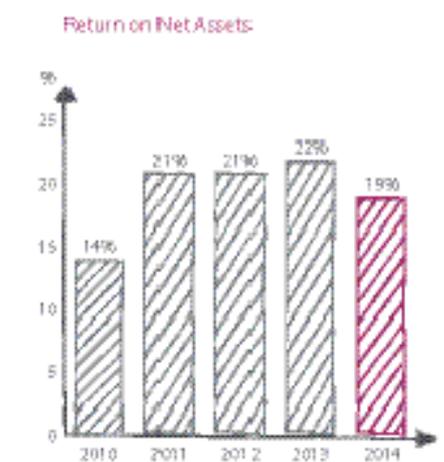
**Rs. 1.2 Billion**

Profit for the year increased from 1,123 million in 2013 to Rs. 1,203 million in 2014.

		2014	2013	2012
Revenue	Rs. million	11,168	10,907	9,732
Growth in revenue	%	2	12	12
Net profit	Rs. million	1,203	1,123	921
Growth in net profit	%	7	22	33
Earnings per share	Rs.	14.04	13.11	12.28
Dividend per share	Rs.	6.50	6.00	5.00
Dividend payout	%	46	46	41
Return on net assets	%	19	22	21

**Rs. 11.2 Billion**

Recorded combined GWP of Rs. 11.2 billion



# Non Financial Highlights

			2014	2013	2012
<b>Economic performance</b>					
EC1	Total value added (Rs. million)	Rs. million	7,409	6,315	5,593
<b>Economic value distributed</b>					
	Customers (claims and benefits)	Rs. million	5,094	4,557	4,087
	Employees	Rs. million	1,255	1,117	1,089
	Intermediaries	Rs. million	1,396	1,215	1,171
	Reinsurers	Rs. million	1,398	1,537	1,162
	Suppliers	Rs. million	1,206	1,200	1,038
	Society including Government	Rs. million	39	59	87
	Shareholders	Rs. million	514	429	375
EC3	Employee benefit liability as of 31 December	Rs. million	197	186	164
EC7	Investment in community and infrastructure projects	Rs. million	15	21	7
<b>Environmental impact</b>					
EN3	Direct energy consumption	Gigajoules	1,878	2,568	2,426
	Direct energy consumption per Rs. millions of revenue	Gigajoules	0.19	0.23	0.25
EN4	Indirect energy consumption	Gigajoules	1,878	7,784	7,440
	Indirect energy consumption per Rs. millions of revenue	Gigajoules	0.19	0.71	0.76
EN8	Water withdrawal	Cubic meters	22,121	22,967	22,179
EN11	Sites near / in high bio-diversity areas	Count	Nil	Nil	Nil
EN15	Direct greenhouse gas emissions-Scope 1 (MT)	Tonnes of CO2e	326.28	237.25	98.15
EN16	Carbon footprint	Metric tons	4,258	3,940	4,555
	Carbon footprint per Rs. millions of revenue	Metric tons	0.38	0.36	0.47
	Carbon footprint per employee	Metric tons	3.75	3.39	4.2
EN22	Water discharge	Cubic meters	22,121	22,967	22,179
EN29	Significant environmental fines	Rs.	Nil	Nil	Nil
<b>Social</b>					
<b>Labour practice and decent work</b>					
<b>Employment</b>					
LA1	Strength of the permanent staff	No. of persons	1,134	1,157	1,088
LA1	Strength of the non permanent staff	No. of persons	5,503	5,348	4,662
LA1	Attrition of new hires (as a percentage of new hires)	%	13%	5%	11%
LA5	Percentage of workforce represented in management worker health and safety committees	%	6%	5%	1%
LA6	Number of injuries	Number	47	49	Nil
LA7	No. of people educated on serious diseases	Number	Nil	Nil	400
<b>Training and education</b>					
LA9	Training per permanent staff member	No. of hours	17	24	31
	Training per non permanent staff member	No. of hours	60.1	83.1	79.4
LA11	No. of employees receiving performance reviews	%	100%	100%	100%
<b>Investment</b>					
HR1	Investment in training and development	Rs. million	49	55	60
<b>Ethical business</b>					
HR5	Incidents of child labour (below age 16)	%	Nil	Nil	Nil
	Incidents of young workers (aged 16-18)	%	Nil	Nil	Nil
HR6	Forced labour	%	Nil	Nil	Nil
<b>Social responsibilities</b>					
SO1	Community engagement (no. of persons impacted)	Number	234,294	15,885	444,445
SO2	Proportion of business analysed for risk of corruption	%	100%	100%	100%
SO8	Significant fines for violation of laws / regulations	Rs.	Nil	Nil	Nil
<b>Customer health and safety</b>					
PR1	Safety awareness campaigns	Number	376	373	405
	Health awareness campaigns	Number	59	11	72
	Investment in community services	Rs. million	15	21	7
<b>Customer privacy</b>					
PR8	Customer complaints	Number	1,198	813	982
	Disputes referred to Insurance Ombudsman	Number	53	32	23
<b>Marketing communication</b>					
PR6	Voluntary standards relating to advertising		Group policy / Internal code of conduct		
PR9	Significant fines for product / service issues	Rs.	Nil	Nil	Nil

# A time of change

## Chairman's Message

*As we look back at the evolution of the Company since its inception in 1988, we can be pleased with the many successes the Company has achieved, and as we look forward we can be confident that the strong foundation that has been laid will enable the organisation to grow from strength to strength.*

It gives me great pleasure to present the annual report of your company for the year ended 31<sup>st</sup> December 2014. As per regulations governing the insurance industry, companies such as Union Assurance PLC (UA) were required to segregate their Life and Non Life businesses into two separate legal entities with effect from February 2015. In line with this regulatory requirement, UA de-merged its Life and Non Life insurance operations with effect from 1<sup>st</sup> January 2015. The existing company, UA will continue to transact Life insurance, and the Non Life insurance business was transferred to a newly formed legal entity, Union Assurance General Limited (UAG).

As we look back at the evolution of the Company since its inception in 1988, we can be pleased with the many successes the Company has achieved, and as we look forward we can be confident that the strong foundation that has been laid will enable the organisation to grow from strength to strength.

### Macro Economic Environment

The IMF predicts that Sri Lanka will achieve a real GDP growth of 7% for 2014. Based on performance in the previous quarters, it is expected that growth will be generated by the industry and services sectors of the economy, as the agriculture sector is expected to report a contraction due to adverse weather conditions.

Year 2014 saw a continuation of the expansionary monetary policy witnessed in the previous year. Treasury bill rates continued to decline throughout the year due to multiple policy rate reductions, which were supported by a low inflationary environment. However the lack of credit growth continued for most of the year with an uptick witness only towards the fourth quarter.

In an environment of low interest rates, many investors turned to the equity market to increase their returns. As a result the All Share Price Index (ASPI) increased by 23% and the S&P SL20 index increased by 25% during the year.

### Company Performance

UA maintained a steady growth rate in terms of turnover and profits. Life and Non Life insurance premium increased by 2% from Rs. 10.9 billion in 2013 to Rs. 11.2 billion in 2014. PAT also improved by 7% to Rs. 1.2 billion over the same period.

More information on the Company performance is provided in the CEO's review, Management Discussion and Analysis and audited financial statements.

### Life Insurance Industry

The Life insurance industry is expected to record a 9% growth rate. The Company continues to focus on growing regular premium products mainly to individual customers. As per available statistics, UA is ranked 3<sup>rd</sup> in terms of new business premiums (2013 - 4th). Considering that insurance premiums as a % of GDP in Sri Lanka generally lags regional averages, there is a greater need for all stakeholders to promote the benefits of Life insurance to all segments of society, utilise

technological advances to implement cost effective business models and develop products which meet customer needs in a transparent manner.

### Non Life Insurance Industry

The Non Life segment is estimated to have grown by 4% to Rs. 58 billion in 2014. Most lines of business remained price competitive, with insurers competing for market share ahead of the requirement to segregate their Life and Non Life businesses. As per available statistics, the price competition in the industry has eroded the claims ratios of several insurers in the market. UA's premium income declined by 3% on a year on year basis. However, the Company reported an improvement in the overall claims ratio. However, we anticipate that the regulatory requirement for composite insurers to separate their Life and Non Life portfolios, the need to maintain a minimum level of capital and a relatively low interest rate environment will promote more disciplined underwriting practices.

### Segregating the Life and Non Life Insurance Business

As mentioned above, UA followed due legal and regulatory processes and incorporated Union Assurance General Limited, as a subsidiary of UA and transferred the Non Life insurance business to this new entity. Subsequent to this transfer and completion of customary closing conditions, Fairfax Asia Limited purchased a 78% stake in UAG for a total consideration of Rs. 3.66 billion which resulted in a capital gain of Rs. 1.22 billion to UA. UA retained a 22% stake in the new entity.

*The team maintained their winning streak, receiving national and international accolades for transparency, good governance, sustainability, people practices, brand management, CSR and IT applications.*

Fairfax Asia Limited is a wholly-owned subsidiary of Fairfax Financial Holdings Limited, a Canadian based financial services holding company. Fairfax Financial Holdings Limited, through its subsidiaries, has insurance and reinsurance operations worldwide and Fairfax Asia Limited operates in several markets in Asia including India, Singapore, Hong Kong, China, Malaysia, Indonesia and Thailand.

### Strength and Stability

In line with prudent risk management practices, UA has reinsured its risks with reinsurers who have a rating of not less than 'A' from international rating agencies. As in previous years the Life policyholders' liability has been externally valued by an actuary.

UA is well capitalised in terms of the current regulatory minimum capital requirements as well as the risk based capital framework which the regulator will implement in 2016. The Non Life insurance balance sheet is further strengthened by a strong reinsurance programme which is led by reinsurers who have been assigned at least an 'A' rating by international rating agencies. The Company's incurred but not reported claims reserve has been actuarially valued to ensure the accuracy of our claims provision. The details of our reinsurance panel is available on the inner back cover and actuary's report is available on page 174.

### Corporate Social Responsibility

We have two clearly articulated CSR platforms for our Life and Non Life businesses i.e. health awareness and road safety.

The Life team conducted 59 programmes and interacted with over 200,000 persons to create awareness regarding dengue and thalassemia. Where applicable, these programmes were conducted with the concurrence of the Ministry of Health.

The Non Life team conducted 40 road safety awareness programmes in 2014 interacting with over 22,000 persons including school children. In addition, the Company launched a unique Facebook game "Road Rush" to create awareness regarding road rules and the importance of adhering to good driving techniques.

### Regulations

Subsequent to the segregation of Life and Non Life businesses discussed earlier, the next regulatory requirement is to list the Non Life insurance business before February 2016.

All insurers will also have to comply with a risk based capital framework with effect from 1<sup>st</sup> January 2016. In addition Life companies will be required to change their basis of valuing Life policy liabilities from a net premium valuation basis to a gross premium valuation basis. The current basis is considered to be more of a historical cost basis vs. the proposed basis which is a more market value based approach.

The Insurance Board of Sri Lanka (IBSL) also introduced several other regulations including rules for institutional agents, which is more applicable to Non Life insurance companies.

While these are significant changes to the regulatory framework, we appreciate the efforts of the IBSL to create sufficient awareness regarding these changes and for allowing insurers sufficient time to adjust their business models accordingly.

### Achievements

The team maintained their winning streak, receiving national and international accolades for transparency, good governance, sustainability, people practices, brand management, CSR and IT applications.

The Company's 2013 annual report won three awards at the prestigious ICASL awards ceremony. The Corporate Governance Disclosures and Management Discussion and Analysis sections were ranked among the top three reports across all sectors, and the overall report was placed among the best reports in the insurance sector as well. The 2012 report received a certificate of merit for Corporate Governance and was placed within the top three reports in the insurance sector at the South Asian Federation of Accountants (SAFA) awards ceremony.

UA was adjudged the winner in the Banking, Finance and Insurance sector at the sustainability reporting awards conducted by the Association of Chartered Certified Accountants. This was the 6<sup>th</sup> time since 2007 that the Company's activities were recognised at this forum.

The Company was selected as a Great Place to Work by the GPTW Institute. In addition, the Company's people development practices were recognised with a gold award by the Sri Lanka Institute of Training and Development (SLITD). Both these awards were received for the 2<sup>nd</sup> consecutive year, highlighting UA's consistent, best in class people management practices.

We are extremely proud to report that UA was placed among the top three service brands in Sri Lanka at the SLIM Brand Excellence awards. This is the 3<sup>rd</sup> consecutive year that the UA brand has been recognised in this manner.

*We intend to grow our life business in an aggressive but sustainable manner by enhancing the quality of our sales force and focusing on customer service.*

The Company has initiated focused CSR activities and our efforts to promote health awareness and road safety among the communities we serve was recognised with an award in the social empowerment category at the Asia Responsible Entrepreneurship awards organised by Enterprise Asia.

We also received a Celent Model Insurer Award for developing a digitalised sales tool kit which enhances convenience and transparency for our customers as well as sales staff.

# Chairman's Message

GRI-G4

G4-1

## Business Strategies

We intend to grow our Life business in an aggressive but sustainable manner by enhancing the quality of our sales force and focusing on customer service. We have also focused on managing our operations in a cost effective manner using digital technologies and creating variable cost structures where possible, to match expenses with revenue streams. We have a robust product development process, a well articulated brand and strong competencies across all key business functions. We will leverage these strengths to constantly innovate and deliver products and services which meet evolving customer needs.

*We are extremely confident that the UA team possesses the right competencies to capitalise on these opportunities and maintain a higher growth trajectory for the Life insurance business.*

From a Non Life perspective UAG has an excellent product portfolio backed by a strong team which delivers excellent customer service using cutting edge technology. We are confident that Fairfax Asia Limited which has acquired a majority stake in the Non Life business will combine our strengths with their technical expertise, relationship management skills and strong global presence to add significant value to the Non Life insurance operations.

## Future Outlook

The significant under penetration in the Life insurance segment despite rising income levels and a rapidly ageing population with growing protection, retirement and health insurance needs continues to excite us. We are extremely confident that the UA team possesses the right competencies to capitalise on these opportunities and maintain a higher growth trajectory for the Life insurance business.

The Non Life industry will remain price competitive in the short term. However, falling interest rates combined with the need to service a higher level of capital (as per regulatory requirements) is likely to harden rates in the medium term. UAG has a cost effective distribution and customer service infrastructure which can be leveraged to further enhance the margins from this line of business.

## Dividends

The Directors are pleased to declare a dividend of Rs. 6.50 per share for 2014. The dividend payout for the year amounts to Rs. 557 million compared with the Rs. 514 million payout in 2013.

## Acknowledgements

On behalf of the Board, I wish to place on record our sincere appreciation to the Chairperson, Director General and their team at the IBSL for the manner in which they have supported the industry to navigate some of the most significant regulatory changes in the industry's history.

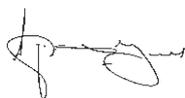
Our thanks also go to the Insurance Ombudsman who has diligently performed his duties, while at the same time working to enhance public awareness regarding the value of insurance at every available opportunity.

On behalf of the Board, I also take this opportunity to thank the Chief Executive Officer, the management team and the UA staff for their continuing dedication to achieving the Company's objectives. The results we have achieved are due to the hard work and commitment of the entire UA team including the field staff as well as our business partners, who richly deserve our appreciation.

We exist to serve our customers with the highest levels of convenience, transparency and respect. We sincerely appreciate the trust they have placed in us and look forward to maintaining a long term relationship with them.

A special word of thanks to our shareholders who have been an integral part of the Company's journey.

Finally, I wish to place on record my appreciation to my fellow Directors for their unstinted support, guidance and insight which has helped steer the organisation towards the many successes it has achieved to date.



**Ajit D Gunewardene**  
Chairman

25 February 2015



Chairman's Message

# Who we were, who we want to be...

## Chief Executive Officer's Review

*As we look back, we have many stakeholders to appreciate for their unstinted support, and as we look forward to the future with a renewed sense of vigour and focus we are confident that the strong foundation laid by the Company will enable the two separate legal entities to forge ahead creating market leading positions in both the Life and Non Life insurance sectors.*

The management team continued to focus attention on building a sustainable business model which is capable of thriving in a multitude of socio economic environment. As a result, we reported a balanced financial performance both in terms of turnover and profits for the year.

In line with the regulatory requirement to segregate the Life and Non Life insurance businesses into two separate legal entities, attention was also focused to ensure these two businesses would be able to thrive on a stand-alone basis. Accordingly, the management team developed separate strategic priorities for the Life and Non Life insurance businesses.

### Life Business

The strategic priorities for the Life business (other than achieving short and medium term financial objectives) were to;

1. Expand distribution channels with a strong focus on quality and cost effectiveness
2. Develop new products which meet customer needs
3. Provide consistent high quality customer service
4. Improve morale, motivation and productivity of staff and
5. Enhance UA's brand position vis-à-vis competitors

### Achieving Short / Medium Term Financial Objectives

Life insurance premium grew by 8% mainly driven by growth in traditional policies. The Life business generated a profit of Rs. 881 million, which is 11% higher than the profit generated in 2013.

### Expand Distribution Channels with a Strong Focus on Quality and Cost Effectiveness

We maintained a strong focus on enhancing the quality of our business by implementing processes to ensure that we recruit and retain the right calibre of distribution staff and double checking that policies sold to customers meet their financial / insurance needs.

We implemented an assessment centre process to maintain a minimum standard with regard to the leaders we recruit to the Company. We intend to roll out a similar process for recruitment of non permanent advisors in 2015. The training path for all levels of distribution staff was streamlined, and we are already seeing the results of this change in terms of an increase in the average size of policies sold and the number of new recruits who achieve a satisfactory performance standard within a short period of time.

From a cost effective perspective, we continue to digitalise our key business processes. As a result of our focused efforts 22% of the sales force carry either a tablet or laptop computer and we receive approximately 29% of our new business proposals digitally.

During the year, we provided email addresses to all our distribution staff, which will further enhance productivity across the entire distribution and underwriting value chain.

### Develop New Products which Meet Customer Needs

We identified a clear gap in the market for a Life insurance product which offers long term protection and wealth accumulation but without having to pay premiums over a long period of time. Hence 'Union Super Investor' is a unique Life insurance solution which offers the benefits of a long term Life product but with a limited premium paying term. The product was launched in August 2014 and has been well received especially in the mass affluent customer segment.

### Provide Consistent, High Quality Customer Service

The Company launched a tele underwriting process enabling underwriters to directly contact customers and clarify any concern which may have otherwise delayed issuance of policies. This process combined with IT enhancements to automatically issue policies (if certain risk parameters are fulfilled) greatly reduced the time taken to issue policies.

In addition the Company commenced a process of returning a copy of the proposal document which forms the basis to issue an insurance policy back to the customer to enhance transparency and avoid possible disputes in the future.

# Chief Executive Officer's Review

We also increased the number of channels available to customers to settle their insurance premiums by opening 9 premium collection points at selected branch locations and entering into an agreement with Mobitel to settle premiums via mobile phones.

## Improve Morale, Motivation and Productivity of our Staff

We are pleased to report that UA was recognised as a 'Great Place to Work' by the GPTW Institute for the 2<sup>nd</sup> consecutive year. Career growth and training, work life balance, a welcoming environment for new recruits and a non discriminating work culture were highlighted as UA's key strengths.

*The UA brand was recognised among the top three service brands at the SLIM Brand Excellence Awards for the 3<sup>rd</sup> consecutive year. This achievement reflects the significant efforts that have been initiated to ensure that each member of the UA team lives the brand pillars of convenience, transparency and respect which ultimately lead to creating a company that is trusted by all stakeholders.*

UA continues to invest significantly to developing the skills and competencies of the team to take on the challenges of the dynamic industry in which we operate. The succession planning process the Company implemented over the past three years yielded the desired results as we were able to separate our Life and Non Life businesses with all key positions being filled internally.

## Enhance UA's Brand Positioning

The UA brand was recognised among the top three service brands at the SLIM Brand Excellence Awards for the 3<sup>rd</sup> consecutive year. This achievement reflects the significant efforts that have been initiated to ensure that each member of the UA team lives the brand pillars of convenience, transparency and respect which ultimately lead to creating a company that is trusted by all stakeholders. A key initiative in this regard was to prepare customised training modules for each function highlighting the importance of the brand and how each team member could reinforce the brand pillars through their day to day activities.

The Company also implemented a social media strategy to amplify the brand attributes and commenced a process of conducting internal customer satisfaction surveys to improve internal work practices in line with the brand pillars.

## Non Life Business

The strategic priorities for the Non Life insurance business were to;

1. Deliver profitable growth by leveraging cost effective distribution channels and technology platforms
2. Improve service standards as a key differentiator and

3. Increase profitably by managing claims, expenses and debtors

## Deliver Profitable Growth

Despite overall premium reporting a marginal decline on a year on year basis, the initiatives to expand cost effective distribution channels, by leveraging our IT infrastructure yielded positive results, as all such channels significantly outperformed the Company's average growth rate. Several steps were taken during the year to streamline the operations of these channels which will further enhance their cost efficiency. Steps were also taken to improve margins in the traditional distribution channels which has yielded good results as well.

## Improve Service Standards as a Key Differentiator

UA continued to focus on delivering high quality customer service and positioning the Company as a insurer who provides value for money solutions backed by excellent service rather than competing on the lowest price.

Several steps were taken during the year to streamline the motor underwriting process and strengthen surgical and hospitalisation related services, which account for a significant share of the Company's Non Life insurance business.

## Increase Profitability by Managing Claims, Expenses and Debtors

We continued to adopt a disciplined approach to underwriting business, with a clear mandate to walk away from business which we could not price adequately. As a result the overall claims ratio declined from 70% in 2013 to 67% in 2014. However, the expense ratio increased from 35% to 39% over the same period resulting in the combined ratio (combination of claims and expense ratios) remaining flat over the period.

The deterioration in the expense ratio is mainly due to not generating the expected premium volumes due to the price competition in the market. However, we believe the initiatives we have implemented to grow volumes while maintaining expenses will yield positive results in the short to medium term.

In order to optimise our cash flow in light of declining interest rates, we streamlined the monitoring and management of outstanding premiums (debtors) which resulted in a 11% decrease in the average credit period in 2014 compared with 2013. However, an increase in the effective tax rate, increased variable expenses and lower yields on investments resulted in a decline in Non Life insurance profits.

## Outlook and Future Strategies – Life Insurance Business

We maintain a very positive outlook for the Life business. Low levels of penetration, an improving economic climate and a rapidly ageing population create an ideal opportunity for the Life sector to deliver strong results into the foreseeable future. For example, Life premiums as a percentage of GDP in Sri Lanka is approximately 0.5%, compared with our closest neighbour India, which as a penetration ratio of approximately 3.1%

In line with this outlook our future strategies revolve around building a market leading position (both in terms of premium and profitability) in the Life insurance segment. UA has a strong brand, excellent team, differentiated product portfolio and IT enabled, cost effective processes. We will fully leverage these strengths to continue to grow the Life business with a tight focus on quality, customer service and cost efficiency. We believe this balance between aggressive growth and margin management will best serve the interests of all stakeholders considering a low interest rate environment and likelihood of higher taxes on this segment.

## Outlook and Future Strategies – Non Life Insurance Business

The regulatory requirement to segregate Life and Non Life insurance into two separate legal entities has resulted in a large number of companies being incorporated to provide Non Life insurance solutions. Hence, the prevailing price competition in this segment is likely to continue at least in the short term. However, the medium term prospects for the segment are extremely bright with underwriting margins set to improve through a return to more prudent / risk based pricing due to insurers having to maintain a minimum capital amid declining investment yield. If improved economic activity does not translate into new business opportunities there is a strong prospect for consolidation to take place as well.

UAG with its strategic shareholder Fairfax Asia Limited, which has significant presence and experience in Asia is uniquely positioned to fully exploit the opportunities that lie ahead.

The Company will continue to focus on growing premium volume in a cost effective manner by developing non traditional channels while maintaining tight underwriting controls and delivering high quality customer services.

## Conclusion

The year under review will be the final year that we operate as a composite insurer providing Life and Non Life insurance solutions as one legal entity.

As we look back, we have many stakeholders to appreciate for their unstinted support, and as we look forward to the future with a renewed sense of vigour and focus we are confident that the strong foundation laid by the Company will enable the two separate legal entities to forge ahead creating market leading positions in both the Life and Non Life insurance sectors.



Dirk Pereira  
Chief Executive Officer

25 February 2015



Chief Executive Officer's Review

***Management  
Discussion and Analysis***



# Management Discussion and Analysis

GRI-G4	
G4-15	G4-25
G4-17	G4-32
G4-18	G4-33

## Stakeholder Assessment

### Looking Back and Looking Forward Through the Eyes of Sustainability

We at Union Assurance focus on being better on a continuous basis. Something better means greater excellence or achieving higher quality. It also means something more useful, suitable, favourable or healthy. For us, it comes down to improved performance: striving to be an even better company tomorrow than we are today. We aim to achieve this by offering simple, transparent products that are easy to access and fairly priced, thus facilitating a better customer experience and by continuously embedding environmental, social and ethical considerations in our core activities, we strive to build a better business.

Therefore, sustainability to us is a journey than a destination, a continuous process in which changing circumstances are given, and the expectations, beliefs, values and demands of our stakeholders are of pivotal importance in setting a direction for both today and tomorrow. We will be successful only if we create value both inside and outside our company.



### Report Scope

Through this integrated Annual Report we communicate to our stakeholders how we create and sustain value and work towards ensuring the long term viability of the business.

This report covers the economic, social and environmental performance of our company,

### Basis and External Assurance

The Report is prepared "In Accordance-Core" of the Global Reporting Initiative (GRI) G4 Guidelines for sustainability reporting. Messrs. KPMG, an independent assurance provider, has verified all sustainability related aspects of this Report and has provided an assurance report which is given on page 106.

### Data Measurement Techniques and Assumptions Used

The Company uses actual data to measure our performance against the GRI indicators. Assumptions have mainly been used in calculating carbon footprint of our operations. UA has partnered with Carbon Consulting Company (Pvt) Ltd to carry out the computation necessary to arrive at the carbon footprint in accordance with the Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in a partnership with the World Business Council for Sustainable Development and the World Resource Institute, certificate on carbon footprint is given on page 107.

Being a subsidiary of John Keells Holding PLC, we use infrastructure developed by the group to capture and monitor sustainability data on a monthly basis with the support of a dedicated sustainability champion.

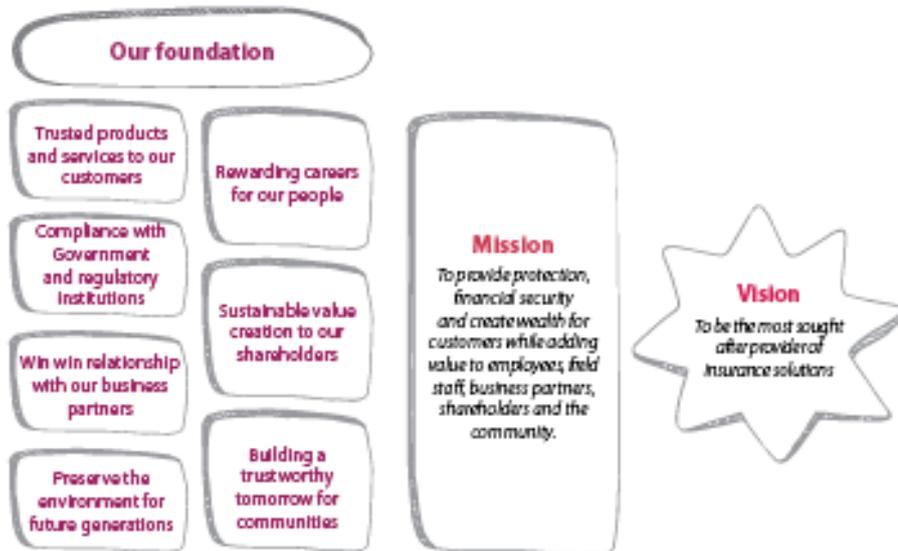
### Defining our Material Issues

Defining materiality is critical to ensuring an organisation understands its significant economic, environmental and social impacts. Material issues are defined as those that could make a major impact on the Company's ability to deliver its promise to various stakeholders. Reporting on these matters is critical in enabling stakeholders and management to make sound judgments and take decisive actions.

Identification, prioritisation and validation of material issues were based on 'five part materiality test'.

Hence, our materiality assessment process is consistent with GRI G4 guidelines and therefore reflective of best practice in defining report content.

The following table depicts the level of significance each aspect has on economic, social and environmental performance.



We believe success can be achieved only if we create value both inside and outside our company while staying ahead of our competitors. Hence, we will continue to embed sustainability practices into every aspect of our business and stay focused on the key issues that are material to our long term success.

providing both financial and non-financial information while complying with all applicable laws and regulations.

### Report Boundary

This financial reporting boundary of this report covers the entire company including the Head Office, Motor Centre, Zonal Offices, Regional Offices, Branches and Business Development Offices (BDOs) totalling to 122 locations spread throughout the island.

## Five Part Materiality Assessment Matrix

No.	GRI indicator	Aspects	Impact		External stakeholder impacted	Direct financial impacts to UA and other stakeholders	Policy related performance (country and / or company)	Organisational peer based norms and behaviour	Stakeholder behaviour, norms and expectations	Societal norms and expectations
			Internal	External						
<b>Economic performance</b>										
1	G4-EC1	Economic performance	H	H	Shareholders, Customers, Community	Not meeting economic performance and return on investment	No external policies exist.  UA has internal policies.	Industry benchmarks.	Shareholders - return on investment, Customers - better service, better pricing, Community - more CSR activities	Contribution to economic development of the region / country
2	G4-EC5	Market presence	L	L	Community	Operational cost to the Company	No such policies exist, UA hires in line with organisation's culture and performance standards	Not tracked	Improving living standards of local community	Expectation of employment opportunities
3	G4-EC7	Indirect economic impact	H	H	Community, Environment, Government and Regulatory Institutions	There is a direct negative financial impact to the Company, and a positive financial impact to external stakeholder	No external policy exists to govern investment on CSR activities	Peer engagement in CSR activities	Community - infrastructure and livelihood development enhancing the Company's social license to operate	Expectation of employment and other support initiatives
4	G4-EC9	Procurement practices	L	L	Business Partners / Suppliers, Community	Operational cost to the Company	Policy in place for sourcing from suppliers / business partners	Not tracked	Shareholders - cost effective procurement process  Business partners / suppliers - equal opportunity for business engagement	Positive contribution to the local economy
<b>Environment performance</b>										
5	G4-EN3	Energy	M	M	Shareholders, Environment, Community	Operational cost to the Company	No external policies exist, but company engages in optimising energy usage	Not tracked	Shareholders - economic impact, Community - use of energy efficiency	Minimise energy wastage
6	G4-EN8	Water withdrawal	L	L	Environment	Operational cost to the Company	No external policies exist	Not tracked	Environmental impact due to water extraction and water pollution	Initiatives on water conservation
7	G4-EN15	Emissions	L	L	Environment	Operational cost due to consumption of electricity and fossil fuel	Policy is to minimise UA carbon footprint	Peer engagement in green practices	Environment - minimise carbon footprint	Carbon neutral
8	G4-EN22	Effluents & waste	M	M	Regulatory, Community, Media	Operational cost to the Company	No policies exist. Objective is to minimise natural waste	Not tracked	Environment, minimise effluents and waste	Engage in effective reuse and recycling
9	G4-EN29	Environmental compliance	L	L	Environment	Through fines and sanctions and loss of brand reputation	Company policy is to comply with all relevant regulations concerning environmental protection	Requirement for peers to comply with relevant regulations	Expectations by community to adhere to regulations and social license to operate	Adherence to all regulations

H - High M - Moderate L - Low

# Management Discussion and Analysis

GRI-G4

G4-19

G4-20

G4-21

G4-25

No.	GRI indicator	Aspects	Impact		External stakeholder impacted	Direct financial impacts to UA and other stakeholders	Policy related performance (country and / or company)	Organisational peer based norms and behaviour	Stakeholder behaviour, norms and expectations	Societal norms and expectations
			Internal	External						
10	G4-EN32	Supplier environment assessment	L	L	Environment	Loss of supply due to non compliance by the supplier	No policies exist. UA's vendor selection policy considers environmental and social impact of supplier's operations	Not tracked	Work with suppliers who meet sustainable environmental norms	Vigilance on the environment
<b>Social performance</b>										
<b>Sub category: Labour practices and decent work</b>										
11	G4-LA1	Employment	H	H	Customers, Shareholders, Community	Operational cost to the Company	Country regulations, company policies	Peer adherence to country regulations and their internal policies	Employees - good working conditions	Provide employment to community members living in close proximity to operations
12	G4-LA5	Occupational, health and safety	H	L	Community, Government and Regulatory Institutions	Loss of productivity	Country regulations, company policies	Peer adherence to country regulations and their internal policies	Negligence by workforce with regards to health and safety practices	Ensure health and safety of stakeholders who physically interact with the Company
13	G4-LA9	Training and education	H	H	Customers, Community, Shareholders	Cost implication, productivity and service level improvements	No external policies exist. UA policy on company learning and development	Not tracked but peers invest significantly on learning and development initiatives	Customer expectation of good service levels	Develop skills of its employees (permanent and non permanent)
14	G4-LA12	Diversity and equal opportunity	H	M	Community, Government and Regulatory Institutions	None	No country laws exist with regard to male / female ratio, internal policy on equal opportunities	Not tracked	Community, Government and other stakeholders- respect diversity and provide equal opportunities	Respect diversity and equal opportunity
15	G4-LA13	Equal remuneration for men and women	H	M	Community, Government and Regulatory Institutions	None	No external policies exist. UA policy on remunerating equally	Not tracked	Community, Government and other stakeholders- respect diversity and provide equal opportunities	Respect diversity and equal opportunity
16	G4-LA14	Supplier assessment for labour practices	M	L	Community, Government and Regulatory Institutions	Loss of revenue due to negative impact on image	UA policy with regard to supplier assessment	Not tracked	Suppliers - resistance towards sustainability practices.  Customer and investor - ethical and reliable supply chain	Engage in ethical business practices
17	G4-LA16	Labour practices and grievance mechanisms	L	M	Community, Government and Regulatory Institutions	Labour productivity	UA policy on effective grievance handling mechanism	Not tracked	Possible influence by the department of labour and other regulatory bodies on grievance mechanisms	Engage in ethical business practices

H - High M - Moderate L - Low

No.	GRI indicator	Aspects	Impact		External stakeholder impacted	Direct financial impacts to UA and other stakeholders	Policy related performance (country and / or company)	Organisational peer based norms and behaviour	Stakeholder behaviour, norms and expectations	Societal norms and expectations
			Internal	External						
<b>Sub category : Human rights</b>										
18	G4-HR3	Non discrimination	H	M	Community, Government and Regulatory Institutions	None	UA policy on equal opportunities	Not tracked	Community, Government and other stakeholders - treat every one fairly and equally	Effective non discrimination practices
19	G4-HR4	Freedom of association and collective bargaining	M	L	Community, Government and Regulatory Institutions	None	UA policy which do not prohibit forming of unions	Not tracked	Community and Government regulators - ensure freedom of association and collective bargaining	Practice freedom of association and collective bargaining
20	G4-HR5	Child labour	M	M	Shareholders, Community	Loss of revenue due to negative impact on image	UA policy on under aged labour	Not tracked	Customers and investors - ethical business practices	Engage in ethical business practices
21	G4-HR6	Forced or compulsory labour	M	M	Shareholders, Community	Loss of revenue due to negative impact on image	UA policy on forced or compulsory labour	Not tracked	Customers and investors - ethical business practices	Engage in ethical business practices
22	G4-HR7	Security practices	M	M	Customers, Business Partners / Suppliers	Negative impact on the business operations due to unhappy customers and business partners / suppliers	UA policy on human rights	Not tracked	Customers, employees and business partners / suppliers - fair treatment when they physically enter place of business	None
23	G4-HR10	Supplier human rights assessment	L	L	Business Partners / Suppliers	Loss of revenue due to negative impact on image and loss of supply due to non compliance by the supplier	No external policies. UA vendor selection policy	Not tracked	Work with suppliers who adhere to human rights practices	Vigilance on human rights practices
24	G4-HR12	Human rights grievance mechanisms	H	H	Community, Government and Regulatory Institutions	Loss of revenue due to negative impact on image	UA policy on an effective grievance handling mechanism	Not tracked	Possible influence by the department of labour and other regulatory bodies on grievance mechanisms	Engage in ethical business practices
<b>Sub category : Society</b>										
25	G4-S01	Local communities	M	M	Community	Cost of CSR projects but obtains goodwill and social license to operate.  Brand enhancement and mileage. Upliftment of living standards	No external policies exist to govern investment on CSR activities  UA framework for CSR activities	Peer engagement in CSR activities	Community-livelihood development enhancing the company's social license to operate	Provide employment to community members living close proximity to operations
26	G4-S03	Anti-corruption	H	H	Customers, Shareholders, Business Partners, Community, Government and Regulatory Institutions	Financial and reputational loss	Country laws and regulations exist. UA code of conduct, corporate governance practices, whistle blowing procedure	Peer adherence to country regulations and their internal policies	Shareholders, Government and other stakeholders-compliance, corruption free operations	Compliance with prevailing laws

H - High M - Moderate L - Low

# Management Discussion and Analysis

GRI-G4

G4-19

G4-20

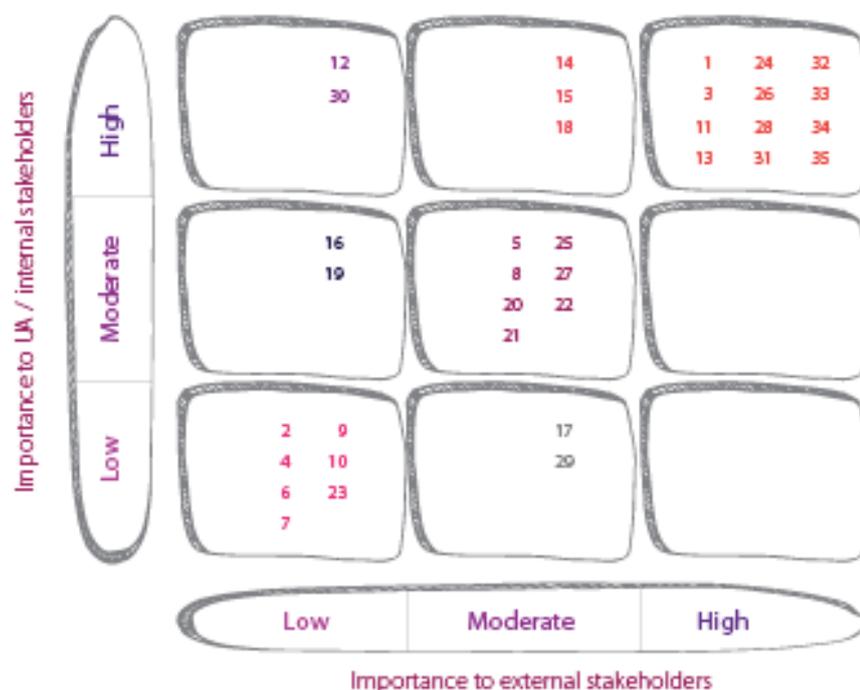
G4-21

No.	GRI indicator	Aspects	Impact		External stakeholder impacted	Direct financial impacts to UA and other stakeholders	Policy related performance (country and / or company)	Organisational peer based norms and behaviour	Stakeholder behaviour, norms and expectations	Societal norms and expectations
			Internal	External						
27	G4-SO7	Anti competitive behaviour	M	M	Customers, Community, Government and Regulatory Institutions	Financial and reputational loss	Country laws and regulations exist. UA business practices to avoid anti competitive behaviour	Peer adherence to country regulations and their internal policies	Shareholders, Government and customers - healthy competition among companies	Compliance with prevailing laws and adherence to ethical business practices
28	G4-SO8	Compliance	H	H	Customers, Shareholders, Business Partners, Government and Regulatory Institutions	Fines and sanctions and loss of brand reputation	Laws and regulations of the country	Peer adherence to country laws at minimum	Community, Shareholders, Government and suppliers - adherence to regulations and social License to operate	Expectation by society for company to adhere to all regulations
29	G4-SO9	Supplier assessment for impact on society	L	M	Business Partners / Suppliers	Loss of revenue due to negative impact on image	UA policy on supplier assessment	Not tracked	Supplier resistance towards sustainability practices.  Customers and investors - ethical and reliable of supply chain	Engage in ethical business practices
30	G4-SO11	Grievance mechanisms for impact on society	H	L	Customers, Community	Disruption to business operations not having a proper grievance mechanism	UA policy on grievance handling	Not tracked	Customers, Community, Government, Employees - company to have a proper mechanism to manage any grievance impacting social norms	Ethical business practices
<b>Sub category : Product responsibility</b>										
31	G4-PR3	Products and services labelling	H	H	Customers, Shareholders	Possible fines for non compliance and loss of revenue due to customer dissatisfaction for not providing information about products	Country laws and regulations such as guidelines issued by Insurance Board of Sri Lanka (IBSL) and UA policies	Peer adherence to country laws and regulations at minimum	Customers - accurate and comprehensive information of products	Provide products which satisfy the needs of the society
32	G4-PR5	Customer satisfaction	H	H	Customers, Shareholders	Drop in market share resulting in loss of revenue	UA policy on customer satisfaction	Not tracked	Customers - satisfactory products	Provide products which satisfy the needs of society
33	G4-PR6	Marketing communications	H	H	Customers, Shareholders	Cost of advertising	Guidelines Issued by (IBSL)  UA policy on code of advertising and marketing communications	Not tracked but peers invest heavily on advertising	Customers - contemporary advertisements	Adoption of ethical standards in advertising
34	G4-PR8	Customer privacy	H	H	Customers, Shareholders, Community	Loss of goodwill	Country laws, UA policy on safeguarding customer information	Peer adherence to country laws and regulations at minimum	Give comfort to the customers on data privacy	Usage of customer information only for given purpose
35	G4-PR9	Compliance	H	H	Customers, Shareholders, Community, Government and Regulatory Institutions	Possible fines for non compliance and loss of revenue due to customer dissatisfaction for not providing information about products	Country laws and regulations such as guidelines issued by IBSL and UA policies	Peer adherence to country laws and regulations at minimum	Customers - satisfactory products	Provide products which satisfy the needs of society

H - High M - Moderate L - Low

GRI-G4	
G4-19	G4-24
G4-20	G4-26
G4-21	G4-27

Following matrix summarises the key aspects and their materiality levels;



*A continuous dialogue between us and our stakeholders....*

## Engagement with Our Stakeholders

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

### 1. Customers

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
Conduct formal and informal research	As and when required	▶ Leverage technology, technical knowledge / competencies of internal staff and 3 <sup>rd</sup> party service providers to meet these expectations	▶ Inability of the Company to meet its commitments to customers in terms of;	▶ Leverage underwriting / claims management and actuarial skills to ensure that products are priced in a manner that will enable the Company to deliver its commitments throughout the policy period
Customer satisfaction surveys	Monthly	▶ Conduct risk surveys, portfolio reviews to ensure that Non Life insurance coverage has been adequately obtained	▶ Providing a financial safety net in case of Non Life insurance, and	
Regular formal interactions by sales managers with intermediaries	Monthly and as and when required	▶ Conduct fact finding / financial need analysis to ensure that Life insurance coverage is obtained in line with customers' income and lifestyle requirements	▶ The long term promise of protection / wealth accumulation in the case of Life insurance	▶ Ensure adequate reinsurance support with financially stable reinsurance partners
Corporate customers via sales managers	As and when required			
Customer welcome calls	On going			
Formalised complaint management process via dedicated hotline Centre	On going	▶ Enhance convenience by expanding distribution network and customer service points		▶ Manage claims in a manner that minimises leakage so that genuine customers continue to enjoy premium levels which are not inflated due to fraudulent practices / claims
Corporate website	On going	▶ Regularly review service standards and aim to exceed industry benchmark		
Social media	On going			
Media advertisements	As and when required	▶ Settle claims fairly and speedily		

# Management Discussion and Analysis

GRI-G4

G4-26

G4-27

## 2. Shareholders

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
Annual Reports	Annually	➤ Grow premium volumes in a sustainable manner by focusing on superior customer service, rather than price and managing claims and overheads in a manner that will ensure long term profitability	➤ Focus on year on year improvement in results / dividend payout without considering long term sustainability	➤ Maintain continuous dialogue with shareholders regarding industry dynamics, business opportunities, financial performance and any regulatory changes affecting the Company / Industry
Interim Financial Statements	Quarterly			
Annual General Meeting	Annually			
Extraordinary General Meetings	As and when required	➤ Structured investment committee with internal controls to optimise return on investments		
Announcements through the CSE	As and when required	➤ Regular review and update of corporate governance practices		➤ Effective performance management system
Media releases and press conferences	As and when required	➤ Structured audit plan for internal assurance		➤ Maintain highest level of corporate governance and transparency
Dedicated investor relations hotline	On going			➤ Strategically grow our portfolio while balancing risk and product profitability
Corporate website	On going			
One to one discussions	As and when required			

## 3. People

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
Employee satisfaction survey	Annually	➤ Ensure company communication cascades to all levels of staff	➤ Lack of experienced / qualified staff in industry and intense poaching especially with new entrants to the insurance space	➤ Continue to focus on technical training for distribution and support services staff to enhance skill levels across the organisation
Skip level meetings for all staff to elicit their ideas to improve service / productivity including providing an opportunity to address any concerns	Monthly	➤ Ensure adequate participation from all areas of business at strategic and operational planning events		
Formal review meetings with distribution channel representatives and technical staff	Monthly	➤ Ensure recruitment, promotions and rewards are based on qualifications, merit and capability, regardless of race, religion or gender	➤ Inability to keep pace with changing consumer needs due to lack of knowledge	➤ Review compensation and benefit packages and ensure adequate alignment with company performance and industry norms
Brainstorming sessions with all business units prior to reviewing medium to long term strategies	Annually	➤ Invest in learning and development infrastructure and resources	➤ Mis-selling / lack of skills in identifying customer needs and resultant consequences	➤ Implement compliant management / internal review processes to identify instances of mis-selling and / or gaps in coverage to take appropriate corrective action
Corporate communication via emails, company intranet, company newsletters etc.	On going	➤ Ensure proper work Life balance		
Management meetings	Quarterly	➤ Ensure health and safety at the workplace		
Special events including event by the Company recreation club	On going	➤ Establish a proper 'whistle blowing' policy, code of conduct and grievance handling process		

#### 4. Suppliers and Business Partners

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
On site visits and meetings	As and when required	<ul style="list-style-type: none"> <li>➤ Implement disciplined underwriting and walk away from business opportunities which do not generate sufficient premiums to meet claim expenses</li> <li>➤ Implement processes to ensure UA meets contractual obligations</li> <li>➤ Attempt to develop long term relationships with key suppliers based on quality, price and related considerations</li> <li>➤ Registration of vendors through a formal internal selection process which ensure transparency</li> </ul>	<ul style="list-style-type: none"> <li>➤ Soft market conditions may reduce reinsurance options for company/ industry</li> <li>➤ Inability to form long term partnerships with high quality, reliable suppliers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Focus on maintaining pricing discipline</li> <li>➤ Effective risk management initiatives</li> <li>➤ Invest time and effort at appropriate levels to build sustainable relationships</li> <li>➤ Regular review of registered vendors</li> </ul>
Formal interactions with reinsurance partners and suppliers	On going			

#### 5. Community

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
Formal interaction with community representatives	On going	<ul style="list-style-type: none"> <li>➤ Partnerships with national level institutions e.g. Sri Lanka Police, Ministry of Health etc.</li> <li>➤ Create networks at grass root levels to ensure activities yield a positive impact across the island.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Demand for multi-pronged initiatives which may not be aligned with company's business strategy</li> </ul>	<ul style="list-style-type: none"> <li>➤ Focus on building long term relationships with national institutions and implement programmes which are aligned with company's long term strategy to uplift health and safety in the communities we operate in.</li> <li>➤ Constantly communicate and focus on the health and safety platforms we manage to engage the local communities we operate in.</li> </ul>
Interactions with community activity partners e.g. representatives from Sri Lanka Police, Ministry of Health etc.	As and when required			
Engagement through corporate website and company Facebook page	On going	<ul style="list-style-type: none"> <li>➤ Local awareness campaigns through company CSR initiatives for local issues.</li> </ul>		
Interactions with community via CSR activities e.g. dengue prevention campaigns, thalassemia campaigns etc.	On going			
Press releases	As and when required			
Public events	As and when required			
Call centre and Corporate website	On going			

#### 6. Environment

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
Training employees to be aware of the environmental impact of our operations	On going	<ul style="list-style-type: none"> <li>➤ Extensively use alternative energy sources to reduce fuel consumption and carbon emissions</li> <li>➤ Recycling of used items</li> <li>➤ Leverage IT to minimise impact on environment</li> </ul>	<ul style="list-style-type: none"> <li>➤ As core business operations do not have a direct impact on the environment, impact on the environment could be overlooked</li> </ul>	<ul style="list-style-type: none"> <li>➤ Policies and procedures in place to control / minimise impact on the environment</li> <li>➤ Environmental impact update as part of the formal annual strategy presentation to the Board</li> </ul>
Integrating environmental considerations into business decisions	On going			

# Management Discussion and Analysis

GRI-G4  
G4-16  
G4-26  
G4-27

## 7. Government and Regulatory Institutions

Mode of engagement	Frequency of engagement	Our commitment to meet their expectations	Potential risks	Our risk mitigation strategies
On-site surveillances	As and when required	➤ Compliance with all applicable regulations and guidelines issued	➤ Frequent changes to regulations and interpretation difficulties could result in non compliance	➤ Proactive communication channel with Government and regulatory institutions
Filling of various returns	As and when required	➤ Active contribution to the development of the industry and economy		➤ External consultation support to keep abreast of the changing regulations
Directives and circulars	As and when required			
Press releases	As and when required			

In addition to above stakeholders, we actively participate in public policy development for the betterment of the society as a whole by being active members of,

➤ The Ceylon Chamber of Commerce

➤ American Chamber of Commerce in Sri Lanka  
➤ National Chamber of Exporters of Sri Lanka  
➤ Insurance Association of Sri Lanka

➤ Employers' Federation of Ceylon  
➤ Sri Lanka Association of Software and Service Companies (SLASSCOM)

## Snapshot of Material Issues

Based on the findings from the materiality assessment and stakeholder engagement, we have generated a prioritised set of material issues according to their importance to stakeholders and Union Assurance.

<div data-bbox="105 1444 582 1624" data-label="Section-Header"> <h3>Material Issue 1 Customers</h3> </div> <p>We are aware of the importance of placing our customers at the forefront of our decision making process in order to be considered as the most trustworthy insurer in the country.</p> <ul style="list-style-type: none"> <li>➤ Provide affordable quality products and services</li> <li>➤ Deliver superior customer service and convenience</li> <li>➤ Settle claims in a speedy and fair manner</li> <li>➤ Mechanism to obtain timely feedback to understand expectations</li> <li>➤ Effective complaint management process</li> </ul>	<div data-bbox="901 1444 1380 1624" data-label="Section-Header"> <h3>Material Issue 2 Shareholders</h3> </div> <p>We are committed to enhance shareholder return which is sustainable while continuing to meet the Company's medium to long term objectives.</p> <ul style="list-style-type: none"> <li>➤ Increase return on investment</li> <li>➤ Sustainable business performance</li> <li>➤ Reliable and timely information to shareholders and public</li> <li>➤ Best in class governance and assurance</li> </ul>
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### Material Issue People and Culture **3**

To ensure sustainable business performance it is important to attract, retain and develop appropriate skills;

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

### Material Issue Suppliers and Business Partners **4**

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

- ➔ Suppliers
  - ▶ On time settlement of dues
  - ▶ Fair and unbiased vendor selection process
- ➔ Business Partners
  - ▶ Deliver a balanced, profitable portfolio
  - ▶ Reliable and timely information
  - ▶ Effective risk assessments practices and policies

### Material Issue Community **5**

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

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

### Material Issue Environment **6**

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

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

### Material Issue Government and Regulatory Institutions **7**

We are committed to maintain a close and cordial relationship with Government and relevant regulatory institutions and work towards achieving national goals.

- ➔ Fully comply with relevant regulations and guidelines in letter and spirit
- ➔ Contribute to the development of the industry and economy

# Management Discussion and Analysis

## Economic Review

### The Global Economic Climate

The key positive factors for the global economy were the reduction in oil prices and the promise of recovery of the US and the Greek economies. The key concerns centred on the recession in Russia, the slowdown of the Chinese economy and technical recession in Japan.

Investment growth in China declined in the third quarter of 2014, and leading indicators suggest that the slowdown will continue. This is likely to negatively affect China's regional trade partners including Sri Lanka.

Brent crude prices fell 46% in 2014 mainly due to oversupply in the market. Main factors that caused the oversupply were the slowdown of the Chinese economy and the increase in supply from the US.

The United States economy rebounded ahead of expectations after contracting in the first quarter of 2014. Unemployment declined, while inflationary pressures remained subdued. The IMF projects the growth of the US economy to exceed 3% in 2015–16. Growth in the US economy will help export businesses that target the US market.

The International Monetary Fund's downward revision of the 2015–16 growth forecast for the world economy to 3.5% and 3.7% highlights the fact that for the time being, the negatives outweigh the positives in the global economic climate.

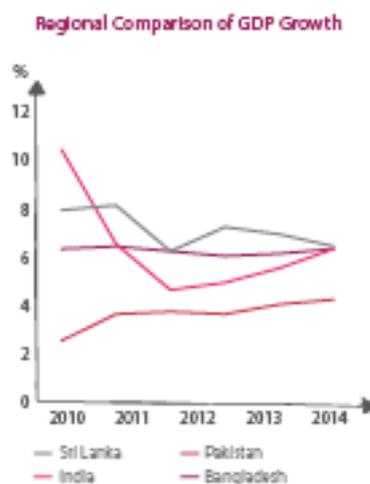
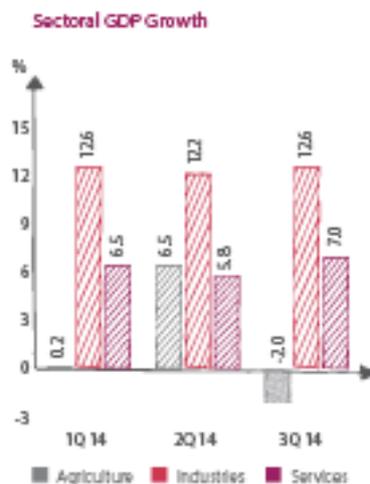
### A Local Story of Growth

GDP growth of Sri Lanka recorded growth rates of 7.6%, 7.8% and 7.7% for the first, second and third quarters of 2014 respectively. The Agriculture sector was affected negatively for most part of the year due to adverse weather conditions. The Industry sector, posted a growth of 12.4% in the first half of 2014 and maintained its growth momentum in the third quarter recording an expansion of 12.6%. The Industry sector was supported by significant growth in the Construction, Manufacturing and Mining and Quarrying sub sectors.

The services sector which constituted 58% of GDP grew by 5.8% YoY in the second quarter. Growth improved to 7.0% in the third quarter driven mainly by trade related subsectors, and service industries. Growth in the "Banking, Insurance and Real Estate" subsector recorded a moderate growth rate of 6.1% YoY in the first half of the year despite an easing of credit conditions.

### Impact on UA:

**GDP growth impacts UA positively as revenue growth benefits shareholders, customers and employees. However, the lack of consumption and credit growth had a knock on effect on the insurance sector as well.**



Despite impressive GDP growth figures, moderate consumption remained a concern. In order to combat this issue the CBSL adopted a relaxed monetary policy throughout the year which was supported by low inflation.

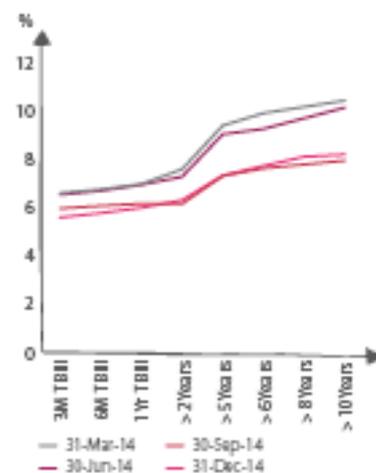
### Single Digit Interest Rates

Interest rates remained in single digit territory during the year due to CBSL's expansionary monetary stance adopted since 2013. Despite the drop in interest rates, private sector credit demand did not pick up to expected levels during the first half of 2014, partly due to banks cutting back on their pawning portfolios following uncertainties surrounding world gold prices. Private sector credit growth showed improvement in the second half of 2014 increasing by 6.5% YoY in November.

Policy rates were amended during the year through a 50bp cut in the Standing Lending Facility rate in January 2014, thereby placing the Standing Deposit Facility Rate at 6.50% and the Standing Lending Facility rate at 8.00%.

This policy rate adjustment did not see a cut in the Standard Deposit facility rate, thereby reducing the standing rate corridor from 200bp to 150bp, outlining the emphasis made by the Monetary Board to further ease credit conditions without a substantial downward impact on deposit rates. This was aimed to help secure the purchasing power of retirees dependent on interest income from fixed term deposits.

### Government Securities Yield Curve



### Impact on UA:

**Reduced interest rates result in low investment returns and thereby affecting profitability. On the other hand muted impact caused by policies meant to stimulate private sector credit meant more pressure on achieving top line targets.**

In September the Monetary Board took another step in this direction by limiting access to the Standard Deposit Facility to a maximum of three occasions a month.

In addition to policy rate changes, market driven interest rates will also be dependent on interest differentials between Sri Lanka and the US. While Sri Lanka has dealt commendably with the cutback of the US Fed's asset purchasing programme, an anticipated rise in the US Fed's reserve rates in 2015 can further reduce Sri Lanka's interest differentials, thereby curtailing its ability to raise foreign debt at attractive interest rates.

### Fiscal Policy with an Interim Twist

Sri Lanka managed to reduce its fiscal deficit from 9.9% in 2009 to 5.9% by 2013. In the 1<sup>st</sup> half of 2014, the fiscal deficit stood at 3.7% of the estimated GDP.

It should be noted however, that the deficit targets were maintained by controlling recurring expenditure rather than enhancing revenue. Tax revenue fell from 5.6% of GDP in June 2013 to 5.4% in June 2014, while expenses were brought down to 9.2% of GDP (from 10.0% in 2013).

Capital expenditure declined marginally in real terms following a reduction in capital transfers to public institutions and corporations, with both the CPC and CEB not recording losses proportional to historical levels. This led to significant reduction in bank borrowings by the state which complemented the expansionary monetary policy drive by helping to maintain a low inflationary set up.

### Impact on UA:

**Reduced taxes and lower fuel prices would translate into more disposable income in the hands of customers. Which could improve revenues for Insurance companies.**

One of the biggest challenges Sri Lanka has faced continuously on the fiscal side has been a falling "tax revenue as a percentage of GDP" figure, highlighting the fact that the country's tax base has increased at a slower pace vis a vis economic activity.

The interim budget put forward by the new government in January 2015 brought in a number of changes to the tax regime. Imposing of a super gains tax, a mansion tax, increasing the PAYE threshold and a one off levy on casino operators are a few such changes. Although the proposals suggest a decline in the budget deficit lack of clarity about how some of these proposals would be operationalised has brought in a sense of uncertainty. It must also be noted that some of

them would be one off taxes which will not address the issue of improving tax revenue as a percentage of GDP over the long term.

### Inflation Continues to Trend Downward.

Inflation continued to moderate in 2014 from 4.4% in January to 2.1% in December. Towards the latter part of the year the downward revision of electricity tariffs, and reduction in prices of LP gas and fuel supported this movement. Core inflation, which captures the underlying long-term inflation trend decreased from 4.4% in December 2013 to 3.5% in December 2014 on an annual average basis. The year-on-year core inflation, showed a mixed movement with low volatility, increasing from 2.1% in December 2013 to 3.2% in December 2014.

This low inflationary environment is expected to continue into 2015 given the reduction in the price of fuel and the essential items. However there could be upward pressure from demand pull factors if consumption picks up faster than expected.

### Impact on UA:

**Low inflation would translate into lower cost of running the business and more disposable income in the hands of customers. This could translate into higher profitability and more sales for insurance companies.**

### Higher Export Earnings

The external sector improved with continuous inflows being recorded in the Balance of Payments. Cumulative foreign exchange inflows to the country in the form of earnings from exports and tourism as well as workers' remittances strengthened the current account of the BOP during the first eleven months of 2014. This together with inflows to the financial account by way of foreign direct investments, inflows to the Colombo Stock Exchange (CSE) and private sector have supported the BOP to record a higher surplus.

Interest Rates vs. Inflation



### Impact on UA:

**Higher export earnings and increase in worker remittances would increase UA's business potential.**

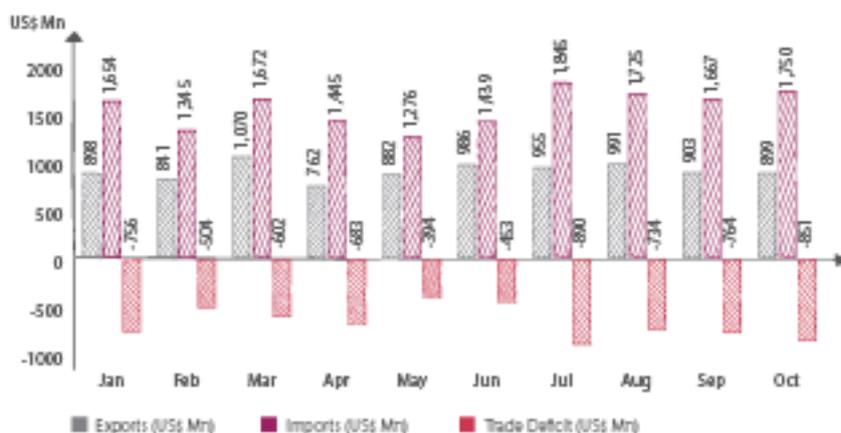
Export earnings on a cumulative basis increased by 7.5% (year-on-year) to USD 10.1 billion during the first eleven months of the year.

Expenditure on imports on a cumulative basis imports grew by 7.1% to USD 17,618 million during the first eleven months of 2014.

The trade deficit widened in November 2014 to USD 724 million in comparison to USD 538 million in November 2013. Accordingly, the trade deficit during the first eleven months of 2014 widened by 6.6% over the corresponding period in 2013.

Tourist arrivals grew at a healthy rate of 19.8% year-on-year, to 1,527,153 during 2014 with arrivals from India, UK and the China leading other markets.

External Trade Performance



# Management Discussion and Analysis

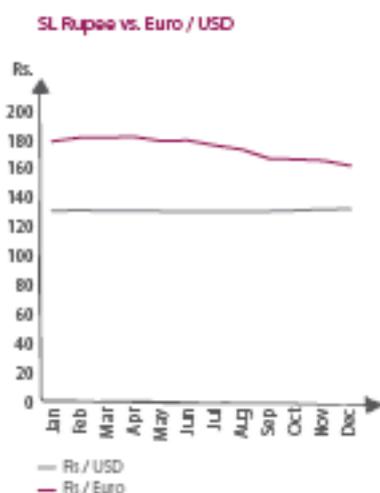
Workers' remittances increased by 9.1 %, year-on-year, to USD 619 million in November 2014 from USD 567 million in November 2013.

Despite the outflows on account of foreign debt service payments amounting to USD 2,054 million and IMF-SBA payments amounting to USD 704 million, Sri Lanka's gross official reserves continued to remain high at USD 8.3 billion as at end November 2014.

## A Relatively Stable Exchange Rate

Sri Lanka rupee remained stable against the US dollar with a marginal depreciation of 0.3 % by end 2014.

Since the beginning of 2014, the LKR has been through one of its least volatile phases, with monthly averages not exceeding the Rs. 131 per USD mark in the first half of 2014. This has been supported by a number of factors including the rise in, tea and textile export revenues, consistent inward worker's remittances, the reduction of the country's fuel bill, and the absence of persistent capital outflows. However it is worth noting that the LKR held up strongly during the tapering process carried out by the US Fed when compared to its counterparts.



## Impact on UA:

A stable exchange rate helps to keep the cost of imported goods steady. Further it would help UA cover risk with reinsurers more effectively.

## Market Performance

In 2014 the S&P SL20 crossed the 4,000 mark for the first time since its launch and market capitalisation reached Rs. 3 trillion closing the year

on Rs. 3,104.9 billion and the All Share Price Index (ASPI) crossed the 7,500 mark and closed the year on 7,298.95.

Daily average turnover increased by 71% over the previous year from Rs. 828 million in 2013 to 1.4 billion in 2014. Most notably, foreign purchases have been the highest in history, a record Rs. 106 billion as at 31<sup>st</sup> December 2014. Continuing its strategy of attracting high net-worth foreign investors to the market, the CSE in association with the Securities and Exchange Commission of Sri Lanka held Investor Forums in Singapore, London and New York.

Wide spread interest was seen among overseas institutional investors as indicated through the Capital Market Conference held in October; which showcased the diverse sectors of the capital market to over 80 international institutional fund managers and over 250 local industry participants.

The primary market remained active during 2014 mainly due to debt IPOs. During the year over Rs. 77.7 billion was raised through equity and debt IPOs, rights issues, and private placements. There were five equity IPOs, one equity introduction

and 20 debt IPOs. The five equity IPOs raised a total of Rs. 2.7 billion the highest since 2011.

## Impact on UA:

Good equity market performance helps increase investment returns in a low interest rate environment.

## Looking Forward

The start of 2015 was marked by a change in the political leadership of the country which was shortly followed by an interim budget which contained several positive as well as negative factors.

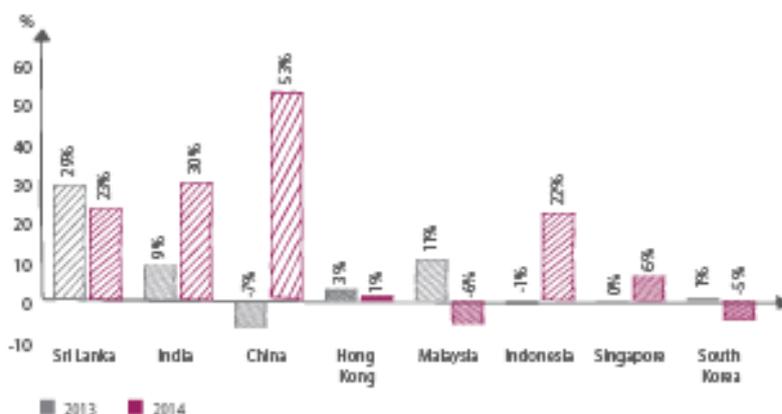
From a positive perspective businesses can expect increased volumes due to steps taken to boost consumption and increase disposable income. Reduction in oil prices and energy prices would translate to lower cost of production and operations for corporate entities. These factors should enable businesses to improve performance in 2015.

However, some changes in fiscal policy and retrospective taxation have brought in an unwelcome sense of uncertainty to the business climate.

## Stock Market Performance



## Colombo Stock Exchange vs. Regional Markets



## Strategic Planning and Performance Management

It is of paramount importance to have a very effective strategic planning and performance management system in place to stay ahead in this very dynamic business environment. Advancements of technology makes products, services and business processes obsolete in a matter of seconds making it crucial for organisations to be vigilant of their progress.

At Union Assurance we have a robust performance management system encompassing a comprehensive strategic planning process to set organisational direction and objectives. We take the aspirations of all stakeholders into account and have developed effective tools to monitor performance while managing risk in an effective manner.

### Strategic Direction and Corporate Objectives

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

the next five years and objectives for the planning year from all stakeholders' perspective. Based on these requirements, the Executive Committee reviews the relevance of the Company's vision and mission and analyses the competitive landscape, macro environment, and organisational strengths, weaknesses, opportunities and threats (SWOT analysis). Based on the findings, the Executive Committee identifies the issues and challenges for the plan period and formulates broad strategies and objectives.

Simultaneously, the Company conducts planning meetings at regional / distribution channel level as well as with all support functions. The strategic plans derived from these workshops are synchronised with the objectives determined by the Executive Committee at a broader planning forum comprising the Executive Committee and key representatives from the functional / distribution channels.

Once agreed, strategies and financial budgets are set and presented to the Board for approval.

An overview of the process is provided below.

*Advancement of technology makes products, services and business processes obsolete in a matter of seconds making it crucial for organisations to be vigilant of their progress.*

### Financials and Key Performance Indicators

The budgeting and strategic planning processes are interlinked. A budget indicates at very detailed level the Company's commitment to implement various initiatives to meet expectations of various stakeholders.

### Effective Implementation

The CEO and the Executive Committee review the strategic plan action items and budgets on a monthly basis and analyse variances between expected and actual results. The same information is also reviewed by the Board of Directors. Both parties use a dashboard with key performance indicators (KPIs) to monitor progress.



# Management Discussion and Analysis

The following table outlines UA's main lines of businesses, market differentiators, business strategy and highlights of performance against 2014 strategic priorities.

	Market differentiators	Business strategy	Strategic priorities	Highlights of performance
<b>Life Insurance</b>	➤ Balance sheet strength stability	Expand our presence in the Life insurance market in a cost effective manner by;	➤ Maintain growth momentum by expanding distribution reach in cost effective manner	➤ Life insurance premiums grew by 8%
	➤ Strong corporate governance framework	➤ Offering competitively priced protection products and long term savings products	➤ Launch new products and augment existing products in line with customer needs	➤ Profits increased by 11%
	➤ Comprehensive and competitive product range	➤ Enhancing the sales, customer servicing, underwriting and claims management skills of our people and	➤ Leverage technology to provide improved customer service and drive efficiency and effectiveness in all functions	➤ Implemented fully digitalised sales process
	➤ Training capabilities and facilities	➤ Building a strong brand in our chosen market segments	➤ Implement activities to enhance brand positioning as most trusted brand in life insurance industry	➤ Launched innovative product to target growing mass affluent customer segment
	➤ In-house actuarial support		➤ Manage lapsation	➤ Implemented tele-underwriting process
	➤ Strong distribution structure and brand			➤ Enhanced transparency by sending a copy of the proposal form back to customer
	➤ Web based sales force management system			➤ Enhanced resources and processes to improve premium persistency
			➤ Recorded substantial growth in bancassurance channel	
<b>Motor Insurance</b>	➤ Technical expertise	➤ Exploit profitable growth opportunities by offering competitively priced solutions to selected market segments	➤ Grow portfolio in profitable manner	➤ Managed portfolio to ensure improvement in claims ratio despite intense price competition
	➤ Strong distribution network and alliances	➤ Build strong relationships across multiple distribution channels	➤ Consistently improve service standards	➤ Recalibrated risk based pricing model to target profitable segments
	➤ Centralised management through integrated systems	➤ Provide consistent, high quality customer service	➤ Refine risk based pricing framework	➤ Expanded distribution reach in cost effective manner
	➤ Ability to leverage multiple IT platforms to enhance efficiency, effectiveness and customer convenience	➤ Launch new products and augment existing products in line with customer needs	➤ Improve IT platform to enhance customer service as well as control environment	➤ Enhanced customer service
	➤ Differentiated products and access to alternative distribution channels		➤ Generate volume from alternative distribution channels	➤ Developed a mobile app for motor insurance customers
				➤ Strengthened audit and control processes
			➤ Enhanced CSR activities to promote road safety which directly links to motor insurance business	
			➤ Enhanced training for technical and distribution staff	

	Market differentiators	Business strategy	Strategic priorities	Highlights of performance
<b>Non motor Insurance</b>	➤ Strong corporate image	Exploit profitable growth opportunities by;	➤ Leverage technology to improve service standards	➤ Reported improvements in claims ratios for most classes of business, despite intense price competition
	➤ Balance sheet strength and stability	➤ Offering a competitive range of products across all segments of the market	➤ Expand distribution capability in cost effective manner	➤ Implemented separate call centre to handle health insurance related policy inquiries and service claims
	➤ High level of technical expertise	➤ Building strong relationships across multiple distribution channels	➤ Leverage alternative channels to grow non motor segment	➤ Enhanced training activities covering technical and sales staff
	➤ Reputation for superior service among corporate clients	➤ Providing superior customer service and leveraging our underwriting and claims management skills, and	➤ Leverage business relationships with corporate clients, broker community and reinsurance arrangements to target profitable segments	➤ Leveraged relationships with key corporates and intermediaries to grow non motor segment in profitable manner
	➤ Reinsurance arrangements with highly rated reinsurance partners	➤ Leveraging structured learning and development initiatives to improve technical competencies of underwriting, claims and sales staff	➤ Focus on training to enhance knowledge of technical and sales staff as key differentiator	
	➤ High reinsurance capacity			
	➤ In-house risk engineering / survey capabilities			

### Principal Risks and Uncertainties Facing the Business

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

Challenge	UA's response	Update 2014
<p><b>Pressure on capital</b></p> <p>Insurers will have to ensure that they have adequate financial strength on a continuous basis. The concept of "risk based capital" will be the benchmark of regulators. The days when insurers could continue to remain in business by simply complying with minimum capital requirements are numbered.</p>	<ul style="list-style-type: none"> <li>➤ Maintain net assets in excess of minimum requirements</li> <li>➤ Monitor solvency position on a regular basis in order to maintain solvency at all times</li> <li>➤ Obtain annual verification of Life solvency position from independent actuary</li> <li>➤ Obtain regular updates regarding risk based capital models implemented in regional markets</li> </ul>	<ul style="list-style-type: none"> <li>➤ Participated in parallel run to assess likely impact of transition from current solvency regime to risk based regime which is expected to be implemented in 2016</li> <li>➤ Monitored material variances in solvency position on a quarterly basis</li> <li>➤ Monitored UA's solvency position vis-à-vis other insurers</li> <li>➤ UA's net assets as at December 2014 is Rs. 6.2 billion</li> <li>➤ Solvency position and Risk Based Capital (RBC) position for the year is provided on page 164</li> </ul>
<p><b>Pressure on volumes</b></p> <p>Fierce competition to increase volume and market share will prevail. Two avenues would be open to insurers: to be the least cost producer or to offer a differentiated product or service. The latter may appear easier. But developing new products is expensive and the advantage short lived since it can be quickly copied. Another option is to maximise customer retention. This can pay rich dividends since it is more cost effective to maintain current customers than target new ones.</p>	<ul style="list-style-type: none"> <li>➤ Implement cross functional teams to develop new products that meet customer needs, and can be sold and serviced effectively</li> <li>➤ Scan market to identify new product opportunities</li> <li>➤ Monitor Life insurance premium persistency and Non Life insurance renewal retention</li> </ul>	<ul style="list-style-type: none"> <li>➤ Launched Union Super Investor, targeting mass affluent customers</li> <li>➤ Constantly monitored and adjusted risk based pricing formula to balance volume with profitability</li> <li>➤ Monitored customer satisfaction levels related to processing motor claims and Life benefits / claims payouts</li> <li>➤ Recorded an improvement in Life premium persistency by launching centralised follow up processes</li> <li>➤ Monitored Non Life renewal retention ratios and formulated action plans where applicable</li> <li>➤ Invested in expanding distribution in cost effective manner</li> </ul>

# Management Discussion and Analysis

Challenge	UA's response	Update 2014
<p><b>Pressure on margins</b></p> <p>Intense competition for business and the presence of competitors of different shapes, sized and objectives will impact on the terms and conditions of insurance. Those who can adapt themselves to change will have the edge. Insurers will be driven to minimise their operating costs and raise performance standards to meet customers' rising expectations.</p>	<ul style="list-style-type: none"> <li>➤ Use IT as a key differentiator to improve service as well as efficiency and effectiveness</li> <li>➤ Initiate expense management initiatives</li> <li>➤ Rationalise products / pricing based on profitability objectives</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continuously leverage IT platforms to enhance convenience, transparency and efficiency for internal and external customers</li> <li>➤ Implemented company wide cost reduction programmes targeting specific expense items</li> <li>➤ Profit tested Life products</li> <li>➤ Updated motor insurance pricing structure</li> <li>➤ Reviewed options to outsource non core activities</li> <li>➤ Enhanced internal audit function to minimise claim leakage</li> </ul>
<p><b>Pressure on service</b></p> <p>In the context of increasing access to information and tougher competition, the customer will demand higher service standards. Technology will enable him to make comparisons quickly and accurately. High quality customer service will have to mean more than a customer service department. Customer care will have to be a state of mind and be accepted by all levels of management and staff.</p>	<ul style="list-style-type: none"> <li>➤ Increase learning and development initiatives to improve knowledge and capabilities of technical and sales staff</li> <li>➤ Constantly monitor service standards and take corrective action as appropriate</li> <li>➤ Inculcate a customer service culture across all levels of the organisation</li> <li>➤ Identify and implement cost effective technologies which will enhance services offered to external and internal customers</li> </ul>	<ul style="list-style-type: none"> <li>➤ Increased learning and development for all staff categories</li> <li>➤ Continued customer engagement initiatives and customer satisfaction surveys</li> <li>➤ Developed customised training programmes to educate staff regarding importance of customer service and adhering to UA's brand pillars</li> <li>➤ Implemented technology to enhance efficiency and effectiveness e.g. fully digitised the sales process for key Life products</li> <li>➤ Implemented separate call centre with dedicated resources to handle Non Life health related inquiries and claims</li> <li>➤ Enhanced resources to manage motor and non motor claims in cost effective manner</li> </ul>
<p><b>Pressure on reinsurance</b></p> <p>Insurers will have to closely examine their own risk transfer mechanism i.e. reinsurance. Reinsurance capacity will be in short supply. Losses incurred by reinsurers will result in changes to terms and reduced commissions. Insurers with bad results may find it difficult to obtain any reinsurance.</p>	<ul style="list-style-type: none"> <li>➤ Provide reinsurance partners with a balanced portfolio</li> <li>➤ Ensure reasonable retention levels</li> <li>➤ Monitor rating updates of reinsurance partners in a structured manner</li> <li>➤ Build long term relationships with reputed reinsurers</li> <li>➤ Monitor business results from a reinsurer's perspective</li> </ul>	<ul style="list-style-type: none"> <li>➤ UA's reinsurance programme continues to be led by highly rated international reinsurers</li> <li>➤ Enhanced number of reinsurance partnerships to tap emerging opportunities</li> <li>➤ Enhanced process of monitoring rating updates of key reinsurance partners</li> <li>➤ Continuously monitored business performance from the perspective of reinsurance partners</li> <li>➤ Obtained favourable terms in a win-win manner based on business performance</li> </ul>
<p><b>Pressure on organisations</b></p> <p>The emergence of new economic models and new entrants with greater financial resources, management and technical expertise and access to research and development and other technology transfers on a global scale will pose great challenges to local operators. Training of staff to meet the challenges of a rapidly changing and fiercely competitive business environment will have to be one of the key strategies adopted by insurers</p>	<ul style="list-style-type: none"> <li>➤ Blend traditional and alternative distribution models to create low cost distribution and operational models to compete with insurers with lower cost bases</li> <li>➤ Integrate learning and development as an essential part of day to day operations</li> <li>➤ Consciously focus on developing technical competencies of staff as key differentiator</li> </ul>	<ul style="list-style-type: none"> <li>➤ Enhanced IT platforms to expand distribution in cost effective manner while improving operational efficiency and effectiveness</li> <li>➤ Continuously provided staff with local and overseas training interventions to enhance their knowledge and exposure to global best practices</li> <li>➤ Implemented structured leadership programmes to enhance leadership competencies across all levels</li> <li>➤ Continued to provide structured training programmes to enhance technical knowledge of office as well as distribution staff</li> <li>➤ Reported good progress with several alternative distribution channels which generate volumes at lower cost than traditional channels</li> </ul>

Challenge	UA's response	Update 2014
<p><b>Pressure to attract and retain quality people</b></p> <p>The key drivers of the future will be the quality and commitment of our people. Success will depend primarily on the ability to attract, motivate and retain the best people</p>	<ul style="list-style-type: none"> <li>➤ Monitor employee satisfaction on regular basis</li> <li>➤ Increase employee engagement by conducting a bottom up strategic planning process including representatives from all functions to ensure buy in and commitment to deliver corporate objectives</li> <li>➤ Launch skip level meetings with staff</li> <li>➤ Implement talent management and succession planning programmes</li> </ul>	<ul style="list-style-type: none"> <li>➤ Recognised among the top 15 Great Places to Work by the GPTW Institute for the 2<sup>nd</sup> consecutive year</li> <li>➤ Implemented structured learning and development programmes for all levels of staff to address current business challenges and prepare for the future</li> <li>➤ Rolled out bottom up planning process obtaining feedback from around 500 staff members</li> <li>➤ Conducted 17 skip level meetings during the year</li> <li>➤ Enhanced videos and e-based learning capability to provide on demand training to office and field staff</li> </ul>
<p><b>Pressure on the use of information technology</b></p> <p>Insurers are entering an era where speed of response will be a key competitive differentiator. The organisations that will succeed will be those that can capture and exploit knowledge. Accelerated competitiveness will be a key issue, perhaps more important in the insurance industry than anywhere else. However, in the rush for technology, insurers will have to understand that IT can only be an enabler never the panacea</p>	<ul style="list-style-type: none"> <li>➤ Implement process to gather and analyse customer information</li> <li>➤ Leverage IT platforms to deliver on-line, real time service in cost effective manner</li> <li>➤ Invest in IT platforms which enable distribution channels to expand in cost effective manner</li> <li>➤ Create an IT savvy work force by constantly training staff on using technology to enhance productivity</li> </ul>	<ul style="list-style-type: none"> <li>➤ Implemented fully digitalised sales process for key Life products</li> <li>➤ Introduced cost effective schemes for office and field staff to purchase laptop and tablet computers to enhance their productivity</li> <li>➤ Enhanced training programmes and resources to encourage use of IT tools</li> <li>➤ Enhanced AS 400 and other IT platforms to minimise manual intervention, improve efficiency / effectiveness</li> <li>➤ Improved communication technology to increase engagement and disseminate knowledge in cost effective manner</li> <li>➤ Launched mobile / sms based applications to enhance service levels for internal and external staff</li> </ul>
<p><b>Pressure on intermediaries</b></p> <p>Insurers will have to make sure that the persons representing them in the front end of the business, including agents, sales representative and field officers, are well trained and equipped with the necessary skills to provide accurate advice to potential customers. These persons must be able to demonstrate that they can really add value through their intermediation</p>	<ul style="list-style-type: none"> <li>➤ Implement processes to attract quality people to UA</li> <li>➤ Enhance sales skills and technical competency on a continuous basis</li> <li>➤ Implement reward / recognition schemes linked to business volume as well as quality</li> <li>➤ Provide IT based tools to improve productivity and enhance their professional image</li> <li>➤ Create career paths to enable them to achieve their maximum potential</li> </ul>	<ul style="list-style-type: none"> <li>➤ Implemented assessment centre based recruitment processes to improve the quality of new recruits</li> <li>➤ Invested in technical, soft skills and leadership training for sales staff</li> <li>➤ Created reward / recognition schemes linked to business volumes as well as quality</li> <li>➤ Invested in digitalising key processes to enhance field staff productivity and efficiency</li> <li>➤ Revamped relevant training paths to ensure adequate training for all levels of field staff including back to track training for poor performers</li> <li>➤ Created incentive schemes and training interventions to motivate new recruits to be successful in the shortest possible time</li> <li>➤ Enhanced customer convenience / transparency initiatives to encourage new recruits to join the field force</li> </ul>
<p><b>Pressure from regulatory authorities</b></p> <p>The ultimate aim of regulation is to protect policyholders and ensure the viability of the industry. On the one hand regulators will have to ensure that insurers adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities. On the other hand, they will be required to play a proactive role in developing the market and promoting competition and innovation</p>	<ul style="list-style-type: none"> <li>➤ Work closely with relevant regulatory bodies</li> <li>➤ Work closely with other industry participants</li> <li>➤ Actively participate in regulatory / industry forums</li> <li>➤ Consult regulators prior to implementing key changes</li> <li>➤ Strengthen compliance process to ensure adherence to regulatory requirements</li> </ul>	<ul style="list-style-type: none"> <li>➤ Actively participated in parallel run to ascertain impact of moving to risk based capital framework from 2016 onwards</li> <li>➤ Ensured UA representation at all key industry forums</li> <li>➤ Strengthened regulatory compliance processes</li> </ul>

Progress against KPIs of Life insurance business is explained on pages 39 to 40 and performance against KPIs of Non Life business is explained on pages 54 to 55.

# Management Discussion and Analysis

## Group Financial Value Creation

### Group Financial Review

Union Assurance has shown steady financial performance over the years creating a sustainable positive impact to all our stakeholders. The following performance indicators bear evidence of the success story the Company has achieved over the past through transparent, accountable and ethical practices.

In compliance with the requirement to segregate Life and Non Life insurance businesses, the Non Life business was transferred to Union Assurance General Limited on 1 January 2015 consequent to the relevant legal procedures. Subsequent to the Non Life business transfer, the Group divested a 78% stake in Union Assurance General Limited to Fairfax Asia Limited on 1 January 2015.

In line with the relevant accounting standards, financial performance of Life and Non Life businesses have been classified as "Continuing Operations" and "Discontinuing Operations" in the statement of income. Assets and liabilities of Non Life business have been classified as "Assets held for sale" and "Liabilities held for sale", in the primary statement of financial position. For the readers ease of understanding values of assets and liabilities at group level have been considered for this review.

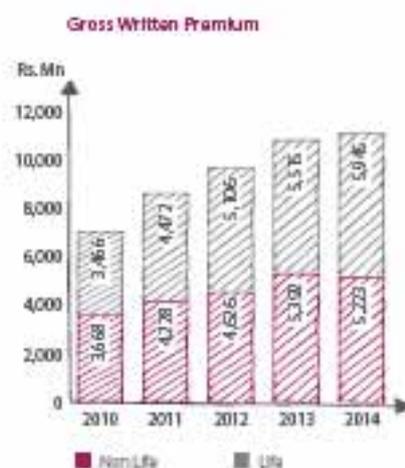
### Statement of Income

Combined Life and Non Life insurance gross written premiums increased by 2% from Rs.10.9 billion in 2013 to Rs.11.2 billion in 2014. Total net revenue recorded a growth of 13% from Rs.12.1 billion in 2013 to Rs.13.7 billion in 2014. Company profit for the year recorded a growth of 7% from Rs.1,123 million in 2013 to Rs.1,204 million in 2014. Group recorded a profit after tax of Rs. 1,204 million with the consolidation of the fully owned subsidiary Union Assurance General Limited.

Results overview (Rs. Mn)	2014	2013	2012	2011	2010
Gross written premium	11,168	10,907	9,733	8,700	7,133
Net earned premium	9,721	9,227	8,385	7,351	5,691
Net finance and other operating income	3,989	2,883	2,333	1,658	2,229
Net revenue	13,710	12,109	10,718	9,010	7,920
Net benefits, claims and expenses	(12,467)	(10,927)	(9,710)	(8,248)	(7,327)
Profit before income tax	1,243	1,183	1,008	762	593
Income tax expense	(39)	(59)	(87)	(67)	(81)
Profit for the year	1,204	1,123	921	695	512
Equity	6,211	5,117	4,309	3,247	3,169
Dividends	557	514	429	375	234

### Gross Written Premium

Life insurance premiums grew by 8% from Rs. 5.5 billion in 2013 to Rs. 5.9 billion in 2014 and Non Life premiums recorded a negative growth of 3% contributing to the overall 2% growth of gross written premiums.



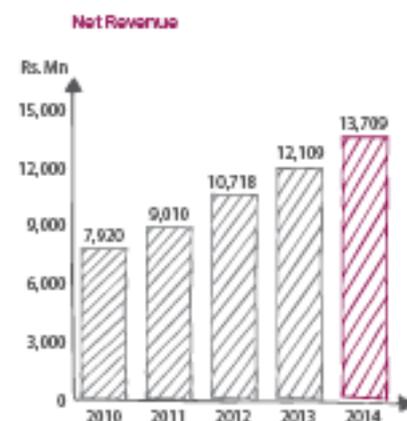
### Net Earned Premium

Net earned premium increased by 5% from Rs. 9.2 billion in 2013 to Rs. 9.7 billion in 2014. Life net earned premium increased by Rs. 383 million and Non Life net earned premium by Rs. 111 million.

During the year, Rs. 93 million (2013 - Rs. 833 million) and Rs. 44 million (2013 - Rs. 690 million) transferred to unearned premium reserve and unearned reinsurance premium reserve respectively. This is an accounting adjustment required to match Non Life insurance premiums over the period that insurance cover is provided.

### Total Net Revenue

Net revenue of the Company increased by 13% from Rs.12.1 billion in 2013 to Rs.13.7 billion in 2014. Growth in net revenue is mainly due to growth in net written premium of Life segment and growth in investment and other income.

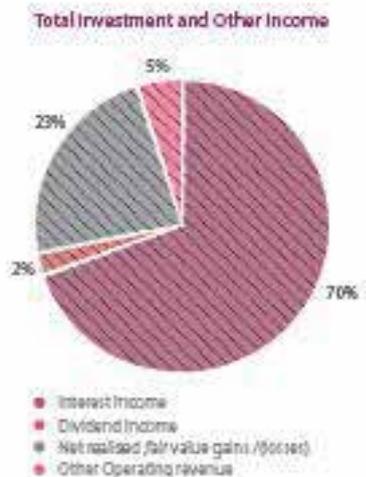


### Investment and Other Income

The investment income for the year by major categories is as follows;

For the year ended 31 December	2014 Rs:'000	2013 Rs:'000	% Change
Interest income	2,766,258	2,587,379	7
Dividend Income	98,735	65,762	50
Net realised / fair value gains	931,039	76,333	1,120
Other operating revenue	191,551	153,030	25
<b>Total</b>	<b>3,987,583</b>	<b>2,882,504</b>	<b>38</b>

Interest income from government securities account for 57% of interest income and investment in corporate debentures has generated interest income of Rs. 742 million. Our prudent investment decisions coupled with performance in the share market resulted in a significant growth in net realised and fair value gains.



### Net Benefits, Claims and Expenses

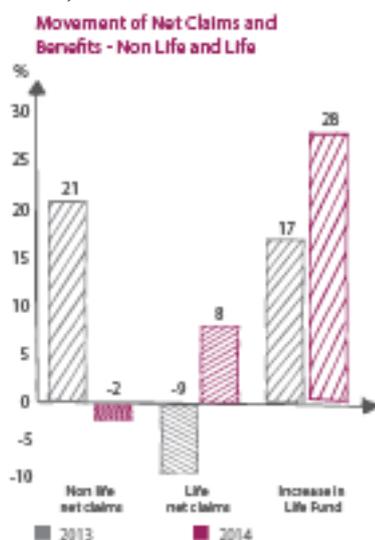
During the year net benefits, claims and expenses have recorded a 14% growth mainly driven by 17% growth in net benefits and claims, and 15% growth in underwriting and net acquisition costs.

For the year ended 31 December	2014 Rs.'000	2013 Rs.'000	% Change
Net benefits and claims	7,937,461	6,775,505	17
Underwriting and net acquisition costs (including reinsurance)	1,395,954	1,213,921	15
Other operating, depreciation and administrative expenses	3,133,353	2,937,329	7
<b>Total benefits, claims and expenses</b>	<b>12,466,768</b>	<b>10,926,755</b>	<b>14</b>

### Net Benefits and Claims

Insurance benefits and claims increased by 17% from Rs. 6.8 billion in 2013 to Rs. 7.9 billion in 2014 mainly driven by increase in change in Life insurance contract liabilities.

Change in Life insurance contract liabilities increased from Rs. 2.2 billion to Rs. 2.8 billion as a consequence of increase in investment and other income and increased business volumes. Non Life insurance claims (net of reinsurance recoveries) decreased by Rs. 63 million.



### Underwriting and Net Acquisition Costs

Underwriting and acquisition costs increased by 15%, mainly due to an increase in Life insurance commission expenses on account of higher business generated during the year.

### Other Operating, Depreciation and Administrative Expenses

Other operating and administrative expenses increased by 7% from 2013 mainly due to increased employee benefit expenses.

For the year ended 31 December	2014 Rs.'000	2013 Rs.'000	% Change
Employee benefits expenses	1,255,062	1,117,011	12
Administration and establishment expenses	1,243,384	1,162,984	7
Selling expenses	475,750	503,019	-5
Depreciation charge	159,157	154,315	3
<b>Total operating and administrative expenses</b>	<b>3,133,353</b>	<b>2,937,329</b>	<b>7</b>



The Group recorded 5% growth in profit before tax in 2014. Life insurance segment achieved a profit before tax of Rs. 881 million, a 11% growth over 2013.



### Earnings Per Share (EPS)

EPS for the year ended 31st December 2014 was Rs. 14.04, an increase from Rs. 13.11 recorded in 2013. This was due to Rs. 80 million (7%) increase in profits compared with 2013 while number of shares remained constant in both years.

### Dividends

UA recognises the importance of a clear, stable and coherent dividend policy. Dividend payments to shareholders depend on the Company's cash flow and capital position. The Directors declared a first and final dividend of Rs. 6.50 per share and the dividend payout amounts to Rs. 557 million for 2014. Dividend payout ratio is 46% in 2014 compared to 46% in 2013.

### Other Comprehensive Income

Other comprehensive income comprises gains or losses due to movement in fair value of the investments classified as available for sale (AFS), actuarial gain or loss on defined benefit plan and net gain or loss on revaluation of land and buildings. During the year other comprehensive

The Company continued with initiatives to leverage information technology to enhance productivity and business practices in order to optimise expenses.

### Profit Before Income Tax

The Group recorded 5% growth in profit before income tax in 2014. Life insurance segment achieved a profit before tax of Rs. 881 million, a 11% growth over 2013. Non Life insurance contribution decreased from Rs. 392 million to Rs. 361 million during the same period.

### Income Tax Expense

As per current tax regulations, Life and Non Life insurance businesses are taxed separately. The Company is taxed at the rate of 28%. Life insurance business generates tax losses as per existing tax regulations and current income tax charge is arising from the Non Life business. Income tax charge has decreased to Rs. 39 million from Rs. 59 million as a result of recognition of deferred tax on temporary differences.

### Profit for the Year

Group profit for the year increased by 7% from Rs. 1,123 million in 2013 to Rs. 1,203 million in 2014. As stated above, the main contributor to this growth came from the increase in profits from the Life insurance segment. The underlying return on average equity is 19%.

# Management Discussion and Analysis

income has increase by 262% mainly due to increase in gains from movement in fair value of investments classified as AFS. As a result total comprehensive income of the Company has recorded a 30% growth to Rs.1.6 billion from Rs.1.2 billion in 2013.

## Financial Position

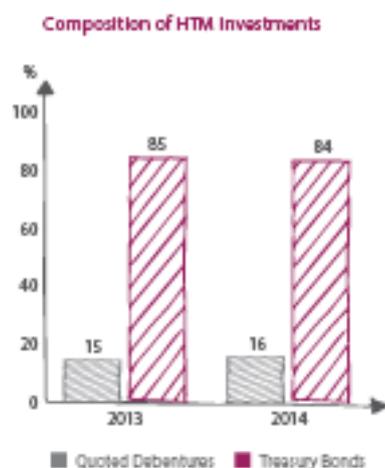
### Financial Investments

The investment portfolio which includes government securities, corporate securities, bank deposits and equity investments has increased by 21%, from Rs. 24.3 billion in 2013 to Rs. 29.4 billion in 2014. As per the current accounting standards, financial investments are classified in to four categories as mentioned below.

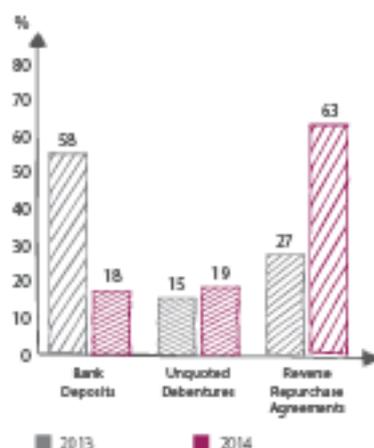
For the year ended 31 December	2014 Rs. '000	2013 Rs. '000	% Change
<b>Held to maturity financial assets (HTM)</b>			
Financial assets with fixed or determinable payments with fixed maturities which the Company intends to hold to maturity are classified as HTM	13,532,621	14,408,803	-6
<b>Loans and receivables (L&amp;R)</b>			
Financial assets with fixed or determinable payments that are not traded in an active market are classified as L&R	3,264,245	3,992,502	-18
<b>Available for sale financial assets (AFS)</b>			
Financial assets that are designated as available for-sale and those that are not classified in any of the previous categories are classified as AFS	8,575,135	3,530,880	143
<b>Financial assets at fair value through profit or loss (FVTPL)</b>			
A financial asset is classified as FVTPL if it is held for trading or is designated as such upon initial recognition	4,004,993	2,365,313	69
<b>Total financial investments</b>	<b>29,376,994</b>	<b>24,297,498</b>	<b>21</b>

Growth in AFS financial assets reflect investments made on corporate debentures and growth in financial assets classified as FTPL reflect new investments in equity shares during the year.

The accounting treatment with reference to the above financial instruments are explained in Note 221 to the financial statements.



### Composition of L&R Investments



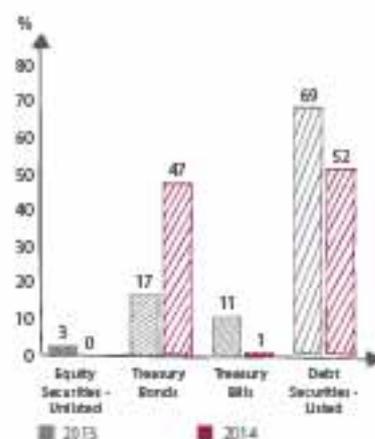
### Property, Plant and Equipment

Net book value of property plant and equipment in 2014 and 2013 were Rs.1.4 billion and Rs.1.5 billion respectively. Life business account for 92% of the value of property plant and equipment of which land and buildings amount to 79%.

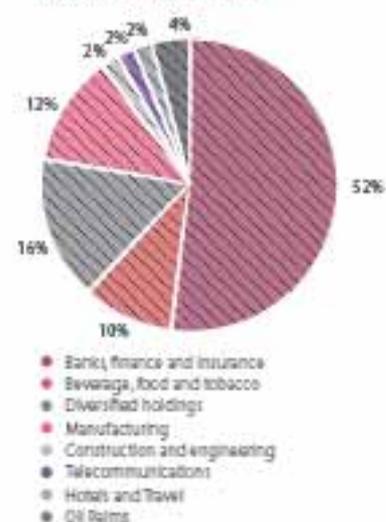
### Loans to Policyholders

As at 31st December 2014 total loans granted to active Life policyholders amounted to Rs. 661 million.

### Composition of AFS Investments



### Equity Investment - FVTPL



Net increase in loans granted during the year was Rs. 145 million.

### Reinsurance Receivable

Reinsurance receivables have increased by Rs. 157 million during the year mainly due to increase in reinsurance receivable of Non Life insurance business by Rs.177 million. Adequate provision has been made in the financial statements for reinsurance receivables where recovery is considered doubtful. Reinsurance receivable of Life insurance has decreased by Rs. 20 million.

### Premium Receivable

Premium receivable on Non Life insurance policies written during the year decreased by 10%.

### Life Insurance Provision

Following the annual valuation of Life policyholder liabilities, the Life insurance provision as at 31st December 2014 increased from Rs.17.5 billion in 2013 to Rs. 20.4 billion. The Life insurance provision includes Rs. 357 million unclaimed

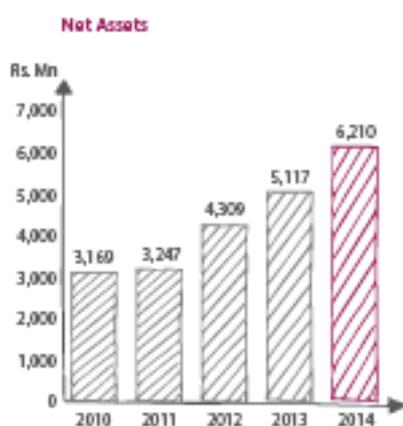
benefits due to policyholders. In addition, Unit Linked Insurance provision increased from Rs. 1.8 billion to Rs. 2.6 billion.

### Non Life Insurance Provision

Non Life insurance provision, which include net (after reinsurance) unearned premiums and gross (before reinsurance) outstanding claims increased by 6% from Rs. 3.4 billion in 2013 to Rs. 3.7 billion in 2014.

### Equity

Improved profitability resulted in equity increasing from Rs. 5.1 billion in 2013 to Rs. 6.2 billion in 2014.



### Solvency Margin

The solvency margin is an important financial indicator and a key benchmark for industry regulators. It measures an insurance company's ability to pay out claims when unforeseen events occur. In other words solvency margin indicates stability of an insurer's financial position.

UA always maintains a very healthy solvency margin providing strong assurance to its customers on the financial stability of the Company. Solvency margin of the life insurance business has increased to Rs. 3,452 million from Rs. 2,401 million reported in 2013. Non Life segment solvency margin has increased by Rs. 779 million to Rs. 1,800 million.

The details of solvency positions of each business segments are given in page 164.

### Cash Flow Analysis

The overall cash inflows from operating activities remained positive. Net cash from operating activities increased by 13%, from Rs. 3.9 billion in 2013 to Rs. 4.4 billion in 2014 mainly due to increased premium income.

Following the Rs. 463 million dividend payment to shareholders, cash and cash equivalents recorded a decrease of Rs. 76 million as at December 2014.

### Quarterly Performance at a Glance

Rs. Mn	FY 2014				
	Q1	Q2	Q3	Q4	Total
GWP					
Life	1,382	1,370	1,522	1,671	5,945
Non Life	1,361	1,274	1,118	1,470	5,223
<b>Total</b>	<b>2,743</b>	<b>2,645</b>	<b>2,639</b>	<b>3,141</b>	<b>11,168</b>
Net revenue	3,158	3,280	3,669	3,603	13,709
Total benefits, claims and expenses	3,022	3,180	3,574	2,691	12,467
Profit before tax	136	100	95	912	1,242
Profit after tax	124	91	91	899	1,204
Total equity	4,919	5,045	5,304	6,210	6,210

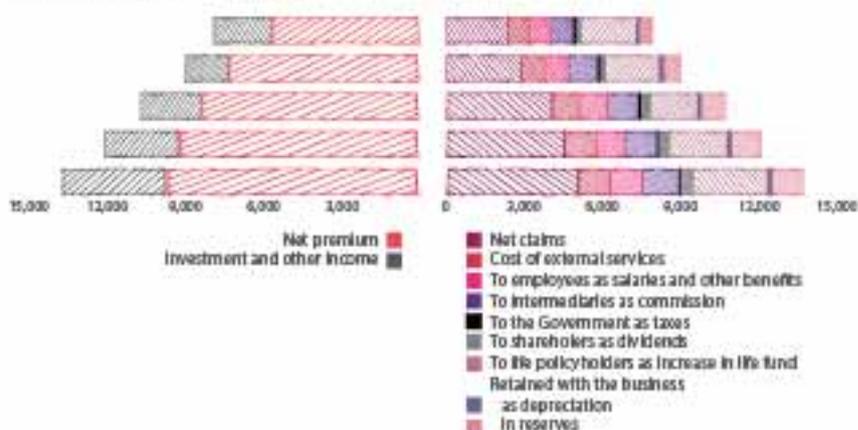
### Contribution to National Economy

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

The combined value generated through the sources of income from Life and Non Life insurance segments for the current year is Rs. 7,409 million. The income which has been distributed to the economy has shown an increase compared to the preceding year.

Statement of value added	2014	2013	2012	2011	2010	2009
<b>Rs. Mn</b>						
Net premium	9,721	9,227	8,385	7,351	5,691	4,882
Investment and other income	3,988	2,845	2,333	1,659	2,229	1,795
Net claims and benefits	(5,094)	(4,557)	(4,087)	(2,912)	(2,393)	(2,205)
Cost of external services	(1,206)	(1,200)	(1,038)	(965)	(879)	(921)
<b>Total value added</b>	<b>7,409</b>	<b>6,315</b>	<b>5,593</b>	<b>5,133</b>	<b>4,848</b>	<b>3,551</b>
To employees as salaries and other benefits	1,255	1,117	1,089	876	787	646
To intermediaries as commission	1,396	1,215	1,171	1,088	848	616
To the Government as taxes	39	59	87	67	81	67
To shareholders as dividends	514	429	375	234	188	122
To Life policyholders as increase in Life fund	2,843	2,218	1,806	2,044	2,123	1,618
Retained with the business						
- as depreciation / amortisation	159	154	143	129	108	82
- in reserves	1,203	1,123	921	695	512	401
<b>Total value added</b>	<b>7,409</b>	<b>6,315</b>	<b>5,593</b>	<b>5,133</b>	<b>4,648</b>	<b>3,551</b>

### Contribution to the National Economy



# Management Discussion and Analysis

GRI-G4  
G4-9

## Segmental Review - Life Insurance

### Life Insurance Operational Review

#### Global Trends in the Life Insurance Industry

As per Swiss Re (a global insurance and reinsurance provider), real growth in global in-force Life insurance premiums in the advanced economies is expected to rebound to 4% in 2014 and to approximately 3% in 2015, after declining 1.5% in 2013.

Emerging markets are expected to grow by 9-10% in 2014 and 2015. Investment returns will continue to remain at relatively low levels. Nevertheless, as reflected in the growth rates above, new product development, increased market penetration, improved distribution techniques and a focus on expense efficiencies is expected to create revenue and profit growth for Life insurers.

These internal dynamics are also catalysed by changes in global demographics with ageing populations requiring long term savings and health related solutions, which are best provided by Life insurers who have the capability and appetite to provide such products using advanced analytics and predictive underwriting techniques.

#### Local Life Insurance Industry

As per details published by the Insurance Board of Sri Lanka, there are 15 Life insurance companies operating in Sri Lanka. Three of these companies provide only Life insurance solutions, while the others provide both Life and Non Life insurance solutions. Seven of the latter set of companies have already segregated either their Life or Non Life insurance businesses into a separate legal entity, in line with the regulatory requirement to complete this process by February 2015. While this is not expected to increase the number of insurance providers in the market, increased focus on a single line of business may help to improve Life insurance penetration in Sri Lanka.

The Life insurance industry is expected to report a 9% growth increasing from Rs. 41 billion in 2013 to Rs. 45 billion in 2014. New business premiums are estimated to have grown by 10% to cross the Rs. 10 billion mark. Renewal premiums increased by 8% to Rs. 29 billion. There was a healthy demand for single (deposit) and group insurance products which grew by 8% to Rs. 3.8 billion and by 47% to Rs. 1.6 billion respectively.

It is expected that the top 5 insurers will account for 82% of the total market (2013 – 83%)

Data related to the Life insurance market, industry growth rate and UA's growth rate over the past five years is provided in the following table.

Life Insurance	2010	2011	2012	2013	2014 (e)
Market size (Rs. millions)	31,152	35,162	37,477	40,873	44,650
Market growth %	30	13	5	10	9
UA growth %	25	29	14	8	8

Source: IBSL annual reports and industry statistics

#### Industry Statistics

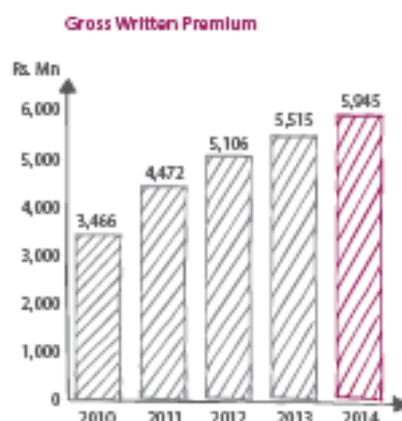
As depicted in the table below 552,436 new life policies were sold in 2013 an increase of 7% compared to 2012. According to available statistics 2.5 million Life insurance policies were in force as at December 2013 compared with 2.4 million in force policies in 2012. Despite the increase in new policies sold, Life insurance penetration as a percentage of the labour force decreased marginally from 29.1% in 2012 to 28.3% in 2013.

Life Insurance Statistics	2009	2010	2011	2012	2013
Number of policies sold	468,317	516,319	587,916	514,472	552,436
Number of in force policies	2,068,548	2,214,976	2,408,202	2,461,573	2,494,899
Penetration as a % of the labour force	25.6	27.3	29.2	29.1	28.3
Life premiums as a % of GDP	0.50	0.56	0.54	0.49	0.48

Source: IBSL annual report

In spite of increased economic activity and an ageing population which requires long term health and savings products, Life insurance premiums as a percentage of GDP declined from 0.49% in 2012 to 0.48% in 2013. This is in spite of the Life insurance industry processing over Rs. 12 billion in claims and benefits in 2013, an increase of 17% against Rs. 11 billion paid out in 2012.

The apparent contradiction in these statistics reflects the urgent need to raise awareness regarding the benefits of Life insurance among the broader population. Economic activity which creates disposable income across all segments of society is also a prerequisite for industry growth.



Despite the many initiatives taken by individual companies as well as industry and regulatory bodies, Sri Lanka lags the penetration levels achieved by many of its regional neighbours including India.

#### Distribution Channels and Market Segmentation

Tied agency continues to be the dominant distribution channel in the Life insurance sector, with other channels including bancassurance, telemarketing, worksite and web based direct distribution channels playing an active but somewhat lesser role. As per available statistics, there were 38,801 agents representing insurance companies as at December 2013, which was a 5% increase over 2012. Although data indicating the number of agents who provide Life or Non Life solutions is not available, it is reasonable to expect that the majority of such agents provide Life insurance solutions.

Of the non agency channels it is likely that the bancassurance channel (where insurers sell their products to bank customers on an exclusive or non exclusive basis) generates the most volumes. Over the recent past, several companies have enhanced their on-line presence and developed simple to purchase products combined with promotional activities targeting the young technology savvy workforce. There is also an increasing awareness and demand to create micro insurance solutions, with several companies already providing such solutions to varying degrees in proportion to their total portfolios.

### Life Insurance Products

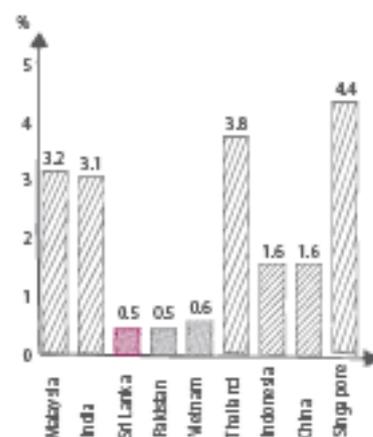
Life insurance customers have a choice of traditional participating and non participating products as well as unit linked Life insurance solutions.

Participating products are popular among customers who wish to share in the profits or losses incurred by Life insurers. Non participating products are sold to customers who prefer a degree of certainty with regard to their investments. More sophisticated customers may opt for unit linked products and choose their own investment options to augment their protection

needs. With interest rates at relatively low levels, increasingly aspirational customers are likely to switch their preference to the latter type of products, provided they offer an optimal level of return commensurate to risk.

The industry has a variety of products catering to the protection, savings / investment and health needs of customers across all life cycle stages. Basic products are augmented by "riders" to provide additional protection benefit to customers depending on their needs.

Insurance Penetration - 2013



### Progress against Strategic Objectives – Summary

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

2014 Priorities	Progress	Achievement
<b>Expand distribution in cost effective manner</b>		
Streamline selection process when recruiting distribution staff	<ul style="list-style-type: none"> <li>Implemented process to screen new recruits to both direct sales and leadership positions</li> <li>Implemented formal assessment centre based recruitment process to enhance quality of supervisory staff</li> </ul>	●
Expand distribution in cost effective manner	<ul style="list-style-type: none"> <li>Distribution structure was aligned to capitalise on new business opportunities</li> <li>Enhanced leadership competencies in selected regions</li> </ul>	●
Restructure distribution network to exploit business opportunities	<ul style="list-style-type: none"> <li>Set up formal review processes to ensure distribution resources generated results in line with potential</li> <li>Implemented process to allocate capital and recurring expenditure budgets based on past performance rather than expected performance</li> </ul>	●
Roll out suite of e-based sales tools to automate end to end sales process	<ul style="list-style-type: none"> <li>Digitalised the end to end sales process including automatic underwriting for non complex cases</li> </ul>	●
Enhance field coaching activities to ensure success of new recruits	<ul style="list-style-type: none"> <li>Strengthened process to ensure new recruits generate sufficient business volumes within first three months of service</li> <li>Strengthened leadership and field coaching support for new recruits</li> </ul>	●
Update web based sales force management system in line with above changes	<ul style="list-style-type: none"> <li>Web based sales force management system is updated / modified on an on going basis</li> </ul>	●
<b>Improve service standards</b>		
Review options to introduce tele underwriting capability	<ul style="list-style-type: none"> <li>Implemented with effect from August 2014</li> </ul>	●
Streamline lapse management process	<ul style="list-style-type: none"> <li>Implemented a process to centrally identify and follow up on probable lapses</li> <li>Provided resources to branch sales support staff to verify customer contact details to support above process i.e. contact customer in the event of likely default</li> <li>Actively promoted standing orders</li> <li>Increased average case size per policy, in line with analysis that smaller premium policies have a greater propensity to lapse</li> </ul>	●
Implement auto underwriting capability for non medical cases	Implemented	●
Initiate process to send proposal form back to the customer to avoid disputes and enhance transparency	Implemented	●
Upgrade customer portal	On hold, pending increase in number of customers registering on the portal	●

● Achieved      ● Partially Achieved

# Management Discussion and Analysis

2014 Priorities	Progress	Achievement
<b>Improve / enhance learning and development initiatives</b>		
Increase panel of regional trainers	Revamped / expanded regional training panel following formal assessment of capabilities and willingness to allocate time to this initiative	
Revamp initial training for new recruits	<ul style="list-style-type: none"> <li>▶ Induction for new recruits conducted on a zonal basis (previously decentralised to branches)</li> <li>▶ Training path updated to reflect business requirements</li> </ul>	
Leverage e-based training capability to increase training interventions	e-content is constantly updated in line with business requirements	
Develop video based training capability	Developed over 40 video based learning modules covering distribution, life operations, HR, finance and marketing	
Restructure function to devolve responsibility to zonal trainers	Reviewed and decided to retain existing structure to ensure that best practices are consistently applied across the distribution network	
Use medical experts to enhance knowledge regarding health related products to grow volumes	Implemented	
<b>Expand alternative channels and cross marketing activities</b>		
Deepen relationships with existing bank partners	Reported increased premium volumes as well as improvements in key performance indicators for all bancassurance partners	
Actively seek new partnerships	In progress	
Enhance training and development resources	<ul style="list-style-type: none"> <li>▶ Recruited a dedicated trainer for bancassurance channel</li> <li>▶ Conducted in-depth interviews with all stakeholders and revamped training programme for new as well as experienced staff</li> </ul>	
Develop distribution resources to increase average case size per policy sold	Implemented	
Improve leadership competencies	Leadership competencies enhanced through structured training programmes conducted by dedicated bancassurance resource	
Leverage web based sales tools to enhance productivity	Working towards ensuring that bancassurance channel will be 100% digital	
<b>Strengthen underwriting and claims management processes</b>		
Enhance technical knowledge of underwriting and distribution teams	<ul style="list-style-type: none"> <li>▶ Conducted regular knowledge sharing sessions to raise awareness regarding the importance of adhering to underwriting / claims management best practices</li> <li>▶ Completed medical and financial underwriting programme for technical staff</li> <li>▶ Completed underwriting / claims management related certification programme for the 2<sup>nd</sup> batch</li> </ul>	
Utilise Prophet system to implement actuarial control cycle	Leveraged Prophet to conduct the annual actuarial control cycle	
Leverage reinsurance partnerships to upgrade knowledge of internal staff	Participated in several local and international training programmes conducted by reinsurance partners, and disseminated knowledge among internal staff	
<b>Develop new products and augment existing products</b>		
Review options to develop products specifically catering to education need	Launched a product which requires customers to pay for a limited period, but enjoy Life insurance and other benefits over the long term. The product is suitable for a variety of investment / savings needs including education	
Review options to further improve health reimbursement rider	Improvements will be launched in 2015	
Consider feasibility of launching a product for direct / telemarketing channel	Reviewed feasibility and decided to postpone	

### Current Performance Against Objectives

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

Key performance indicator	What does it show?	Financial result	Comments										
Increase in gross written premium	The amount of business we were able to secure in terms of new business and renewals	<p><b>Increase In Gross Written Premium</b></p> <table border="1"> <caption>Increase In Gross Written Premium (%)</caption> <thead> <tr> <th>Period</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>8</td> </tr> <tr> <td>14 Plan</td> <td>10</td> </tr> <tr> <td>14 Act</td> <td>8</td> </tr> <tr> <td>15 Plan</td> <td>10</td> </tr> </tbody> </table>	Period	Value (%)	13 Act	8	14 Plan	10	14 Act	8	15 Plan	10	GWP was 8% higher than 2013, which was below the budgeted growth rate of 10%. GWP from traditional policies reported growth but unit linked policy sales were adversely impacted by a decline in new business
Period	Value (%)												
13 Act	8												
14 Plan	10												
14 Act	8												
15 Plan	10												
Increase in new business premium on an annualised basis	The amount of new business we were able to secure	<p><b>Increase In New Business Premium on an Annualised Basis</b></p> <table border="1"> <caption>Increase In New Business Premium on an Annualised Basis (%)</caption> <thead> <tr> <th>Period</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>14</td> </tr> <tr> <td>14 Plan</td> <td>20</td> </tr> <tr> <td>14 Act</td> <td>1</td> </tr> <tr> <td>15 Plan</td> <td>20</td> </tr> </tbody> </table>	Period	Value (%)	13 Act	14	14 Plan	20	14 Act	1	15 Plan	20	Despite a sizeable increase in the average case size per policy sold, annualised new business premiums were affected by lower productivity per advisor and the decline in new business sales from unit linked policies
Period	Value (%)												
13 Act	14												
14 Plan	20												
14 Act	1												
15 Plan	20												
Profit for the period	The total bottom line result for the period	<p><b>Profit for the period</b></p> <table border="1"> <caption>Profit for the period (Rs. Mn)</caption> <thead> <tr> <th>Period</th> <th>Value (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>791</td> </tr> <tr> <td>14 Plan</td> <td>863</td> </tr> <tr> <td>14 Act</td> <td>881</td> </tr> <tr> <td>15 Plan</td> <td>945</td> </tr> </tbody> </table>	Period	Value (Rs. Mn)	13 Act	791	14 Plan	863	14 Act	881	15 Plan	945	Profitability exceeded budget by a wide margin. Several initiatives have been taken to ensure the long term sustainability of the business and based on projections, it is likely that Life profits will continue to grow
Period	Value (Rs. Mn)												
13 Act	791												
14 Plan	863												
14 Act	881												
15 Plan	945												

# Management Discussion and Analysis

## Expenditure to Enhance Future Results

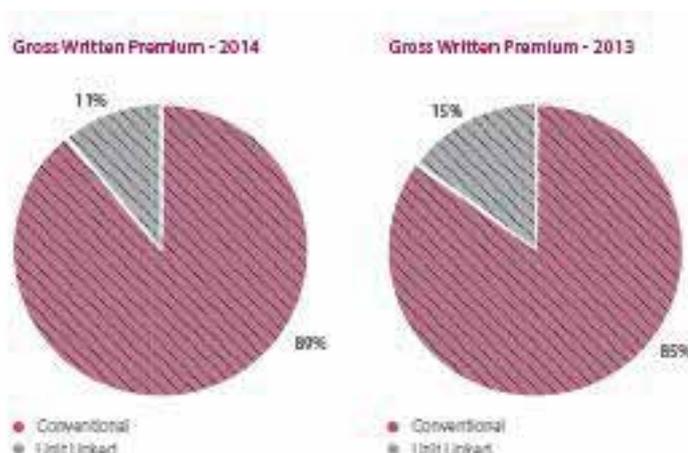
The annualised cost of increased sales staff, support staff, infrastructure, learning and development and brand development resources is as follows.

	Rs. Mn.
Sales staff	5.3
Support staff	4.0
Infrastructure	97.0
Learning and development	37.5
Brand development	89.4
<b>Total</b>	<b>233.2</b>

## Financial and Business Review

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

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

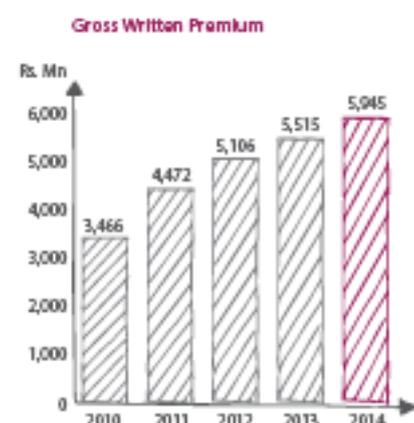


For the year ended 31 December	2014 Rs.'000	2013 Rs.'000	% Change
Gross written premium	5,945,499	5,515,063	8%
Net earned premium	5,617,435	5,234,521	7%
Finance and other operating income	3,327,580	2,224,618	50%
Net benefits and claims	(5,201,025)	(3,976,248)	31%
Underwriting and net acquisition costs (including reinsurance)	(1,115,834)	(968,181)	15%
Other operating and administrative expenses	(1,747,416)	(1,723,746)	1%
Surplus from Life insurance fund	750,000	612,000	23%
Net investment and other income not attributable to policyholders	167,623	207,074	-19%
<b>Profit for the year</b>	<b>880,740</b>	<b>790,964</b>	<b>11%</b>

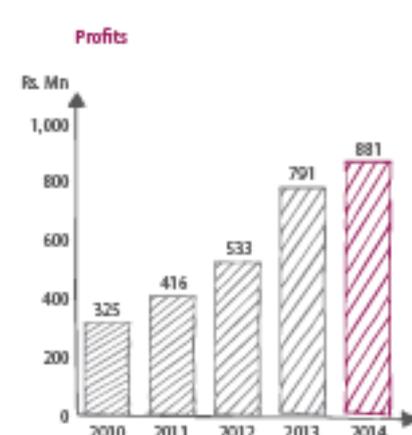
The total regular premiums grew by 14%, while GWP from bancassurance policies recorded a 43% growth and field staff sales force by 7%. As a result, the net written premium (after deducting premium due to reinsurers) increased by 7% from Rs. 5.2 billion in 2013 to Rs. 5.6 billion in 2014.

Following actuarial advice, Rs. 2.8 billion was transferred to the Life fund compared with Rs. 2.2 billion transferred in 2013, to reflect the liabilities to our Life policyholders. Claims, benefits and maturity payments increased from Rs. 1,042 million in 2013 to Rs. 1,333 million in 2014. This increase is mainly due to increase in maturity payments. Details of the claims and benefits payments are as follows;

Analysis of Claims and Benefits Rs.Mn	2014	2013	% Change
Death / disability	157	114	38%
Surrenders	281	214	31%
Stage payment	32	37	-14%
Maturities	856	672	27%
Annuity	6	5	20%
<b>Total</b>	<b>1,333</b>	<b>1,042</b>	<b>28%</b>

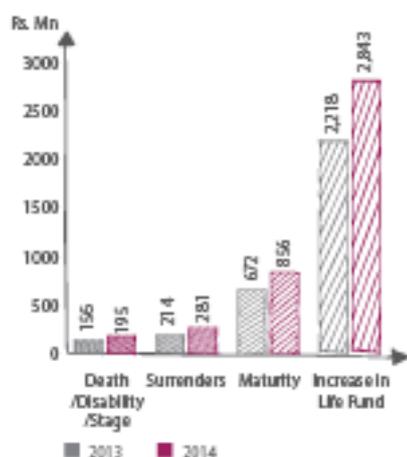


Life insurance premiums increased by 8% from Rs. 5.5 billion in 2013 to Rs. 5.9 billion in 2014. The growth was primarily driven by sales of traditional policies, which grew by 13%. Renewal premiums from unit linked products was in line with



expectations, but the product line recorded a year on year decline due to a drop in new business volumes. Five year compound growth rate stands at 14%.

### Movement of Net Claims and Benefits



Underwriting and net acquisition costs as a % of GWP has increased to 19% from 18% due to growth in first year premiums during 2014. Other operating and administrative expenses have increased marginally by 1% irrespective of the business growth of 8%, due to various initiatives taken to enhance efficiency of business operations.

As in previous years, the Life fund was actuarially valued in 2014. Following actuarial advice, Rs. 750 million was transferred to shareholders as profit from the Life business. This is a 23% increase over the Rs. 612 million profit reported in 2013. The actuary approved an increase in dividends to participating policyholders and declared a higher than guaranteed rate for non participating dividend based products as well. Following these adjustments the Life fund increased by 17% from Rs. 17 billion in 2013 to Rs. 20 billion in 2014.

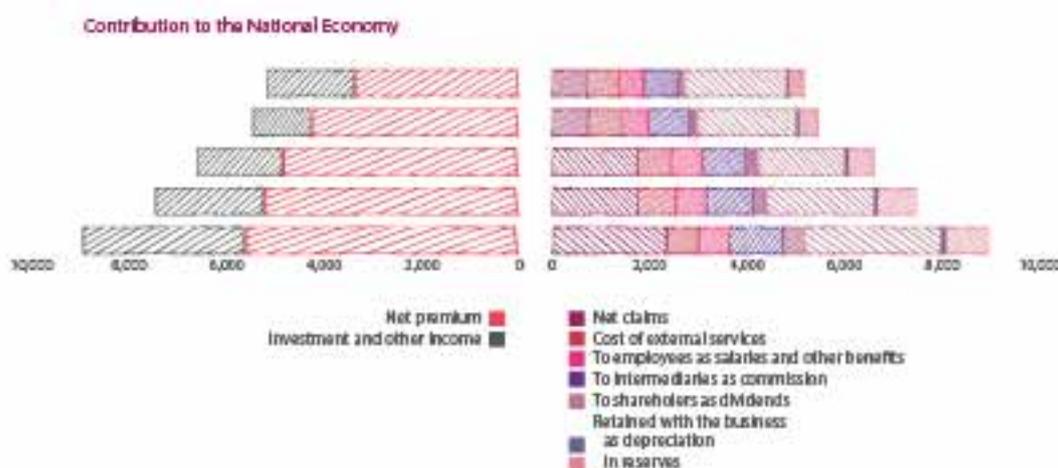
Life shareholders generated net investment and other income of Rs. 131 million. Including the life surplus, Life shareholders reported a profit after tax of Rs. 881 million which is 11% higher than the profits reported in 2013.

### Contribution to National Economy

The total value generated through the sources of income from the Life insurance segment for the current year was Rs. 5,929 million. The income has been distributed among shareholders, employees, government, intermediaries and policyholders.

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

Statement of Value Added - Life insurance Rs. Mn	2014	2013	2012	2011	2010	2009
Net premium	5,617	5,235	4,857	4,269	3,367	2,678
Investment and other income	3,328	2,225	1,745	1,202	1,807	1,375
Net claims	(2,358)	(1,758)	(1,767)	(748)	(715)	(562)
Cost of external services	(658)	(803)	(690)	(711)	(689)	(677)
<b>Total value added</b>	<b>5,929</b>	<b>4,898</b>	<b>4,145</b>	<b>4,012</b>	<b>3,770</b>	<b>2,815</b>
To employees as salaries and other benefits	634	608	633	539	505	376
To intermediaries as commission	1,116	969	891	819	676	504
To shareholders as dividends	362	248	224	149	110	66
To Life policyholders as increase in Life fund	2,843	2,218	1,806	2,044	2,123	1,618
Retained with the business						
- as depreciation / amortisation	93	64	58	45	31	16
- in reserves	881	791	533	416	325	235
<b>Total value added</b>	<b>5,929</b>	<b>4,898</b>	<b>4,145</b>	<b>4,012</b>	<b>3,770</b>	<b>2,815</b>



# Management Discussion and Analysis

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## Summary of Key Financial Data

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

Description Rs. Bn	2014	2013	% Change	Strategic Issues	Action Plans
GWP	5.95	5.51	8	Limited awareness regarding the benefits of Life insurance Lack of premium collection mechanisms resulting in high lapsation	<ul style="list-style-type: none"> <li>➤ Leverage distribution, actuarial, underwriting and marketing resources to grow volumes</li> <li>➤ Lobby regulators and financial institutions to implement mechanisms to facilitate collections e.g. direct debit system</li> </ul>
Premium ceded to reinsurers	0.33	0.28	17	Ensure high quality reinsurance support across business cycle Inadequate transfer of risk	<ul style="list-style-type: none"> <li>➤ Build relationships with reinsurers of international repute</li> <li>➤ Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>
Reinsurance receivables	0.06	0.08	(23)	Inability of reinsurers to meet their commitments due to insufficient financial strength	<ul style="list-style-type: none"> <li>➤ Build relationships only with reinsurers with a minimum rating of "A"</li> <li>➤ Monitor ratings on a regular basis</li> </ul>
Net benefits and claims	5.20	3.98	31	Ensure pricing is adequate to cover future claims payments Ensure delivery of guaranteed maturity value Minimise policy surrenders	<ul style="list-style-type: none"> <li>➤ Implement actuarial control cycle</li> <li>➤ Launch products with annual / minimal guarantees</li> <li>➤ Ensure constant communication with customers to minimise lapsation</li> </ul>
Insurance contract liabilities	23.05	19.33	19	Ensure value covers present and future Life policyholder liabilities	<ul style="list-style-type: none"> <li>➤ Conduct independent actuarial valuation at year end</li> <li>➤ Conduct mid year reviews internally</li> <li>➤ Increase internal actuarial resources and IT capability</li> </ul>
Other operating and administrative expenses	1.75	1.70	3	Manage expenses to ensure sustainability of business	<ul style="list-style-type: none"> <li>➤ Leverage IT and implement cost effective business model</li> <li>➤ Expand alternative distribution channels</li> <li>➤ Develop benchmarks to monitor / manage expenses</li> </ul>
Investment and other income	3.50	2.40	45	Low interest rate environment resulting low interest income Lack of long term investments	<ul style="list-style-type: none"> <li>➤ Diversify into other investments such as Corporate Debt</li> <li>➤ Diversify into property related investments</li> </ul>

## Opportunities and Threats

After assessing potential opportunities available for us and threats faced by our business, we have formulated responses to capitalise on available opportunities ahead of our competitors and to safeguard our business against likely threats.

The key opportunities identified for the Life insurance business are as follows;

Opportunity	UA's Response
Inadequate post-retirement medical and pension schemes in the context of an ageing population	Develop innovative investment and financial protection products to fulfil market needs
Growth potential across all customer segments fuelled by economic development / increased disposable income and relatively low penetration levels	Increase distribution, learning and development and communication resources to tap such business opportunities
Increasingly sophisticated customers requiring high quality advice and access to non traditional products	Leverage internal product development capabilities to launch products which meet evolving customer needs and improve acquisition and closing skills across all distribution channels

The threats faced by the business are outlined below;

Threat	UA's Response
Inadequate long term assets to match long term liabilities	Selectively diversify into long term assets other than government bonds, corporate paper, etc. (e.g. property, equities)
Threat of new entrants	Enhance brand visibility, distribution reach and service standards to maintain / grow position in Life insurance market
Lack of skilled staff to manage distribution and technical functions	<ul style="list-style-type: none"> <li>➤ Increase learning and development initiatives</li> <li>➤ Implement talent management programmes to enhance skill levels of high potential employees</li> <li>➤ Develop short / medium term strategies to bridge capability gaps</li> </ul>
Low interest rate environment and customer preference for products which offer "guaranteed" returns	<ul style="list-style-type: none"> <li>➤ Provide customised solutions which match customer needs</li> <li>➤ Manage investment portfolio in order to provide returns which benchmark with industry peers</li> <li>➤ Create awareness regarding new product structures which provide higher returns for customers willing to take a higher level of risk</li> </ul>
Arbitrary changes in government policy e.g. taxation etc.	<ul style="list-style-type: none"> <li>➤ Develop flexible business models which can navigate such changes and add value to all stakeholders in a sustainable manner</li> <li>➤ Actively partner with government agencies to highlight role played by Life insurers to provide solutions to socio-economic issues such as ageing population, inadequate post retirement financial resources, rising health care costs etc.</li> </ul>

### Snapshot of 2015 Priorities

Based on our 2014 performance, opportunities available and threats faced, strategic objectives formulated for 2015 are summarised as follows.

#### Expand Distribution in a Cost Effective Manner

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

- Streamline selection process
- Automate recruitment activities to enhance efficiency and effectiveness
- Enhance communication resources to actively promote role / opportunities for Life insurance advisors
- Enhance field coaching activities to ensure success of new recruits

#### Continuous Improvement in Service Standards

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

- Standardise / professionalise sales through digital transformation
- Implement special fast track service for high performers
- Enhance resources / communication channels between HO and branch sales support staff to improve quality across the value chain
- Implement / leverage best in class premium collection processes
- Continuously improve lapse management processes
- Enhance auto underwriting features and functionality to provide faster turnaround times to Life advisors and external customers
- Improve follow up processes with regard to pending proposals

#### Improve / Enhance Learning and Development Initiatives

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

- Enhance resources to train new advisors to use digital tools

- Combine distribution and learning and development resources to ensure that training interventions yield performance enhancements
- Improve soft skills of field staff members
- Improve success rate of new advisors by enhancing field coaching activities

#### Expand Alternative Channels and Cross Marketing Activities

In addition to the field agency distribution model we will continue to invest in building the bancassurance distribution channel and review options to grow alternative channels as well

- Deepen relationships within existing bank partners
- Actively seek new partnerships
- Continuously refine learning and development programmes in line with bank / targeted customer segments
- Improve leadership competencies in the channel
- Review internal processes, career paths and reward and recognition criteria to improve staff retention
- Review options to develop other distribution channels / models in line with global / regional best practices

#### Develop New Products and Augment Existing Products

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

- Re-launch unit linked product portfolio
- Review options to develop product specifically catering to education needs
- Review options to further improve health reimbursement rider
- Consider developing a specific product to be sold by new advisors

#### Strengthen Underwriting and Claims Management Processes

Underwriting and claims management are at the heart of our business. We need to constantly upgrade the skills and competencies of our people to ensure we accurately price risks and settle claims fairly

- Enhance technical knowledge of underwriting and distribution teams
- Utilise Prophet system to implement actuarial control cycle
- Enhance call centre resources to ensure customer queries are handled in a speedy and professional manner
- Leverage reinsurance partnerships to upgrade knowledge of internal staff

# Management Discussion and Analysis

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## Products

### Developing Products which Benefit Society

Our portfolio of products in the Life business is developed after careful analysis of the needs of the society we operate in. They cater to individuals and corporates alike. Customers have the option to select from a range of products which combine both investment and financial protection. Our products are designed to cater to various stages of a customer's life; e.g. single and working, married, planning for retirement etc.

### Keeping Customers Aware of Product Features

At UA we believe in educating the customer fully about the products we offer. With this in mind, we ensure that our brochures carry all the information needed for the customer to make an informed decision. Further we have a process to contact the customer once a purchase has been made to ensure that the customer bought the policy with a full understanding of the benefits and conditions.

### Responsible Delivery of Products

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

Products are developed after extensive analysis by a team comprising of operations, marketing and actuarial staff.

### New Products Launched in 2014

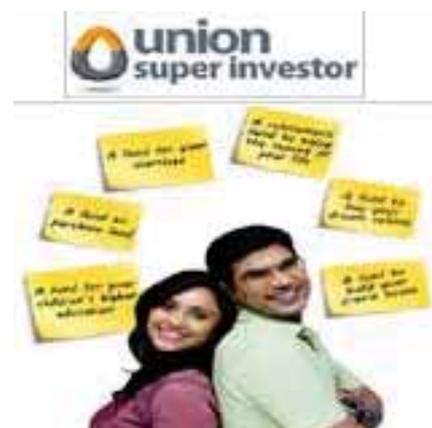
During the year UA launched a new investment plan with a shorter premium payment period to cater to customers who need the protection benefits of a traditional Life product without having to make a long term commitment. Union super investor policy has several unique features such as premium payment being limited upto 5 years, flexible policy period which can be decided by the customer, partial withdrawals after 10 years etc.

*"Launched Union Super Investor for short term investment returns in 2014."*



Investment Link Product

### Our Customer Centric Product Design Model



## UA Life Insurance Solutions

The full range of Life insurance products and additional covers available at UA are listed below;

Name of Product	Target Market	Special Features
 <p>Union Super Investor</p>	For individuals who opt for a short-term premium paying plan	<ul style="list-style-type: none"> <li>▶ Short - term premium paying term (upto 5 years)</li> <li>▶ Universal life type plan with dividend accumulation mechanism with individual investment accounts maintained for each policyholder</li> <li>▶ The policy provides a minimum guaranteed dividend at the start of each year with actual dividends accumulated at the end of each year</li> <li>▶ Flexible policy terms available from 10 to 30 years</li> </ul>
 <p>Union Challenger - Builder Plan</p>	For individuals with long term aspirations and / or commitments towards loved ones, having the possibility to build a substantial fund over a period of time	<ul style="list-style-type: none"> <li>▶ Unit linked investment solution allows the customer to choose his / her investment option</li> <li>▶ Ability to customise the solution to suit individual risk appetite and market conditions</li> <li>▶ Linked to three unique investment funds offering flexibility in terms of investment options and premium payment terms</li> <li>▶ Offers a selection of packaged benefits namely, life, health and waiver packages catering to the wide range of protection needs</li> <li>▶ Regular premium payments, premium top up and premium escalation benefit options are available</li> </ul>
 <p>Union Challenger – Booster Plan</p>	For individuals between 5 to 10 years prior to retirement and with a need to build a fund to generate sufficient income by the time they retire	<ul style="list-style-type: none"> <li>▶ Unit linked investment solution allows the customer to choose his / her investment option</li> <li>▶ Ability to customise solutions to suit individual risk appetite and market conditions</li> <li>▶ Premium payment term limited to 3 or 5 years Premium top up option available</li> </ul>
 <p>Union Challenger – Provider Plan</p>	For individuals who are approaching retirement and have a need for a regular income	<ul style="list-style-type: none"> <li>▶ A unit linked product with a single premium investment option</li> <li>▶ Ability to generate a regular income for a specified period while providing life protection</li> <li>▶ Option available to invest in additional funds to increase the pension benefit</li> </ul>
 <p>Union Life Advantage</p>	A generic Life insurance product that can cater to the needs of all customer segments	<ul style="list-style-type: none"> <li>▶ Universal life type plan with dividend accumulation mechanism with individual investment accounts maintained for each policyholder</li> <li>▶ The policy provides a minimum guaranteed dividend at the start of each year with actual dividends accumulated at the end of each year</li> <li>▶ By adding rider covers this plan could be further enhanced to suit individual needs</li> <li>▶ Flexible policy terms available from 10 to 30 years</li> </ul>
 <p>Union Sisumaga</p>	Parents with young children and potential parents	<ul style="list-style-type: none"> <li>▶ 124% of the sum assured is paid as an educational annuity</li> <li>▶ On death of the life assured the future premiums are waived and educational annuities trebled. If the death is due to accident, four times the sum assured is paid else, twice the sum assured is paid along with the bonuses</li> </ul>
 <p>Union Jayamaga</p>	Investors who look for steady / secure financial returns coupled with life cover	<ul style="list-style-type: none"> <li>▶ Sum assured increases by 5% every year during the policy term</li> <li>▶ Double the increased sum assured and bonuses are paid in the event of death</li> </ul>

# Management Discussion and Analysis

Name of Product	Target Market	Special Features
Union Jayamaga Plus 	Investors who look for a guaranteed financial return coupled with life cover	<ul style="list-style-type: none"> <li>➤ Sum assured increases by 10% every year during the policy term which is guaranteed</li> <li>➤ Twice the increased sum assured is paid in the event of death</li> </ul>
Union Parithyaga 	Individuals who look for an investment opportunity along with a life cover for an affordable premium	<ul style="list-style-type: none"> <li>➤ An endowment type of product which can be customised to the premium payment capacity of a customer</li> <li>➤ Premium paying terms available from 5 to 30 years</li> <li>➤ All additional rider benefits can be added to this policy</li> </ul>
Union Super Benefit 	Individuals who wish to have periodical payments instead of waiting until maturity	<ul style="list-style-type: none"> <li>➤ Part payments are made every three years while providing protection for the full sum assured in case of a death of the life assured</li> </ul>
Union Loan Protection 	Individuals who obtain credit facilities from financial institutions	<ul style="list-style-type: none"> <li>➤ Affordable one time premium</li> <li>➤ Settlement of capital outstanding on death</li> <li>➤ Payment of loan instalments in the event of total and permanent disability</li> </ul>

## Additional Covers

Following additional covers can be bundled with the policy to match the policyholder's requirements and benefits offered by the policy.

Description	Details
Accidental death benefit	A benefit which is paid in the event of an accidental death of the life assured. This benefit is available for policyholders at a nominal premium.
Total and permanent disability benefit due to an accident	This benefit will be paid as an annuity over a five year period in the event of total and permanent disability due to an accident.
Total and permanent disability benefit due to an accident or sickness	This benefit is designed to cover total and permanent disability of the life assured as a result of an accident or sickness. The benefit is paid as an annuity over a five year period.
Waiver of premium benefit	This benefit provides for a waiver of future premiums on the main benefits of the policy in the event of a total and permanent disability due to sickness or accident
Partial and permanent disability benefit	This benefit provides an additional payment, if the life assured becomes partially and permanently disabled as a result of an accident.
Level term benefit	This is an additional protection benefit that could be added to the basic policy by paying a relatively smaller premium. The sum assured is paid on death of the life assured (in addition to the basic sum assured) whether due to accidental or natural causes during the policy term.
Spouse rider benefit	This benefit provides a life cover for the spouse of the life assured at a nominal premium. The spouse may continue to have the cover throughout the policy term even after the death of the main life assured.
Funeral expenses benefit	Provides relief for the dependents of a deceased policyholder by paying a sum immediately on the death of the life assured.
Family hospital cash benefit	This cover provides a daily benefit for the family in the event of a hospitalisation of the policyholder in a government or a private hospital. If the assured requires treatment in an intensive care unit, the daily benefit is doubled.
Family income benefit	In the event of death of the life assured, this benefit provides a regular income to dependents, in the form of an annuity until the expiry of the policy term.

Description	Details
Union Suwamaga	This benefit provides a payment in the event of a critical illness such as cancer. The benefit is available for the life assured and spouse.
Comprehensive surgery benefit	This benefit covers all surgeries for the life assured and spouse. In the event of a surgery, the benefit is paid as a percentage of the sum insured and calculated depending on the severity of the surgery.
Child health benefit	This benefit provides a dual cover for children, namely hospital cash benefit and surgery benefit. The surgery benefit covers over 240 specified surgeries and the benefit is paid as a percentage of the sum insured. The hospital cash benefit provides a daily benefit in the event of a hospitalisation.
Union MediGuard benefit	A comprehensive medical insurance coverage for an insured and his / her family in case of hospitalisation in a paying ward of a hospital. Medical expenses occurring as a result of warded treatments due to various diseases and surgeries will be reimbursed subject to the sub limits applicable. In addition, this benefit provides coverage for 136 days care surgeries.

## Product Responsibility

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

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

Each UA employee is committed to fully satisfy customers by meeting or exceeding their needs and expectations through his or her attention to workmanship and performance. Sales personnel are responsible to communicate with customers, collect customer expectations, clarify, negotiate and obtain feedback while maintaining a very high standard of business ethics.

Our product responsibility lies within two main functions as follows;

- Sales
- After Sales

### Sales

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

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

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

## After Sales

As much as we are committed to generate sales, UA has always established integrity and objectivity in after sales processes as well. In line with this commitment, a customer satisfaction survey is conducted to make sure that customers needs are adhered to.

The objective of the customer satisfaction survey is to monitor and resolve any service related issues in a timely manner and improve service standards. This helps to retain customers and to keep their trust in the organisation.

We facilitate and encourage our customers to lodge complaints if unsatisfied with our products or services through the web portal. A complaint maybe lodged on a specific misconduct on policy, business issue or any technical issue.

# Management Discussion and Analysis

## Customers

With the vision to be the most sought after provider of insurance solutions, we place our customers at the forefront of our decision making process.

Serving over 223,800 Life customers across the country with varying demographic profiles, we strive to offer a diverse range of products to suite everyone's needs. We are always committed to listen to our customers and understand their individual needs so that we are able to exceed their expectations by providing high quality products and services with superior customer service.

The following diagram demonstrates our approach towards addressing key material issues of our customers.



### Provide Affordable, Quality Products and Services

Many of our customers have their own unique needs, which require us to develop close relationship in order to understand and respond to these needs. In each of the markets / regions that we are present we take in to account the market forces which cover both economic and sustainability factors in developing the product mix that we offer.

Each product is developed with extensive support from a qualified technical team including actuaries, finance professionals, operations, marketing and IT in order to ensure quality.

### Launch of Union Super Investor

This is a new Life insurance product which was created to address the changing needs of the customers. The need for such a product was identified by doing an analysis of customer expectations and review of products available in the market. Unique features of this product include among many others, the premium payment being limited to 5 years, ability for policyholder to choose the insurance period and partial withdrawals by customers after 10 years.

Details of our Life product portfolio is given on pages 47 to 48

### Provide Superior Customer Service and Service Enhancements

In the Life insurance business, customer service is of high importance. For the initiation of a policy to the event of a claim or maturity, we strive to provide customers with the best in class service. To this end we use latest technology to make our service procedures more lean and provide speedy service to the customers.

### Auto Underwriting

Auto underwriting is a process where policies are underwritten by the system without human intervention based on pre programmed parameters. This ensures consistency in the decisions made and reduces processing time.

During the year auto underwriting was introduced for Advantage policies. This would be rolled out gradually to other policies in the future.

### Union Pay Easy

With the convenience of the customers in mind we have tied up with multiple service providers to open a wide array of payment channels to our customers. The latest addition to this is Mobitel mCash.

The following table gives a list of such payment channels

	Standing Orders	Internet Banking	ATM	Tele Banking	Over the Counter	Credit Card	mCash	Pay Easy
Sampath Bank	✓	✓	✓	✓	✓	✓		✓
Nations Trust Bank	✓	✓	✓	✓	✓	✓		
Hong Kong and Shanghai Banking Corporation	✓	✓	✓	✓		✓		
Hatton National Bank	✓				✓			
Bank of Ceylon	✓	✓			✓	✓		
People's Bank	✓				✓			
Mobitel							✓	
Commercial Bank	✓	✓	✓		✓			
Keells Super					✓	✓		
DFCC Vardhana Bank	✓				✓			
National Savings Bank					✓			
Union Bank	✓	✓		✓	✓			
Standard Chartered Bank	✓	✓						
Abans					✓			

### Digital Proposal Submission

This process which started in 2013 enables the advisor to submit the proposals digitally through Digital Advisory Toolkit (DAT).

The DAT allows Life insurance advisors to complete and submit the financial needs analysis, quotation and proposal forms digitally using a smart device such as a Tablet. This minimises the time taken to issue a new Life policy and has provided convenience to the customer as well as the advisor.

### Customer Portal

The customer portal launched initially in 2013 has proven to offer convenience and transparency by allowing customers to view their policy details online and carry out certain functions such as; premium payments, generation of premium statements and claims intimation.

### Maintained Service Standards Through Customer Service Units

To ensure that UA continuously provides a service to its customers, which is the best in the industry, pre-agreed service standards are constantly monitored via a workflow system which is integrated with the core Life insurance systems. The workflow based system was extended for unit linked products and operations. The recently established customer service unit (CSU) also started its operations in line with the service standards applicable for that operation.

### Follow Up on Policies with Delayed Premium Settlement

With the objective of understanding our customer better and to customise the service offered to them, we have initiated a programme of calling customers on delayed premium payments, from the branch level.

### Dispatching Proposal form with Policy Document

With the intention of improving transparency, which is a key pillar of the Union Assurance brand we have started a process of sending back a copy of the proposal form to the customer along with the policy document. This helps to assure the customer that the policy issued in line with his / her requirements.

A summary of actual versus expected service standards during 2014 is as follows;

Customers	Function	Expected Service Standards	Achievement in 2014
New business	Underwriting decision making - new proposals	100% by 2 days	98%
	Policy dispatching	100% by 5 days*	60%
Policyholder servicing	Minor alterations	100% by 1 day	100%
	Policy assignment and reassignment	100% by 1 day	95%
	Bank standing orders	100% by 2 days	100%
	Revivals	100% by 2 days	99%
	Major alterations	100% by 2 days	99%
	Responding to customer letters	100% by 2 days	93%
Claims	Maturities and advance payments	100% by 2 days	99%
	Death, disability and hospital cash claims (No further investigation required)	100% by 3 days	97%
	Death, disability and hospital cash claims if further investigation is required	100% by 14 days	96%
	Policy loans	100% by 2 day	100%
	Queries on claims	100% by 2 days	95%
Call centre	Handling of inbound calls	95% from presented calls	98%
	Answering calls (within service level)	90% of the inbound calls to be answered within 20 seconds	96%
	Abandoned calls	Total abandoned calls to be below 5%	2%
Customer service unit	Meeting the needs of walk-in customers	15 minutes	95%
Group Life	New business quotations - employer / employee groups	Data given in soft format – same day	99%
		Data given in hard format – 2 days	100%
	New business quotations - affinity and other special groups	4 days	99%
	Completion of cover for large groups	3 days	100%
	Issuing of the policy	3 days	90%
	Commission payments to agents / brokers	7 days of receipt of premium	92%

# Management Discussion and Analysis

Customers	Function	Expected Service Standards	Achievement in 2014
Unit linked operations	Underwriting decision making – new proposals	100 % by 2 days	99%
	Policy dispatching	100 % by 5 days	98%
	Effecting top-up premium	100 % by 3 days	100%
	Fund switching	100% by 3 days	100%
	Premium redirection	100 % by 2 days	100%
	Benefit changes / inclusions	100 % by 2 days	100%
	Minor alterations	100 % by 2 days	92%
	Bank standing orders	100 % by 1 day	100%
	Responding to customer letters	100 % by 2 days	95%
	Revivals	100 % by 2 days	**
	Regular withdrawals	100 % by 4 days	100%
	Surrenders	100 % by 4 days	96%
	Partial withdrawals	100 % by 4 days	99%

\* Policy dispatching process was changed from September in order to send a copy of the proposal form along with the policy. The new process takes average of 8 days and the overall service level achievement considering the 8 days period from September is 88%.

\*\* No Unit Linked revivals were received in 2014.

## Settlement of Claims Fairly and Speedily

Systems and procedures are constantly being streamlined to ensure that claims are processed speedily. Our achievement of this goal is quite evident in the table above.

In the insurance business one finds situations where some claims do not fall within the framework of the terms and conditions of the policy and must then be repudiated. In such instances the Company clearly states the reasons for the repudiation and informs the customer by letter that 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 Board of Sri Lanka.

## Obtain Timely Feedback

At Union Assurance, we have consistently improved the quality of our customer service and strive to be the benchmark of the industry. We firmly believe that price is not a long term differentiator, but that the customers will look to partner with an insurance company which consistently offers them trust, convenience, respect and transparency.

## Complaint Management Procedure

In our commitment to deliver superior customer service we give high importance to all the customer complaints that we receive.

Customers are able to send their feedback / complaints to us in writing, via our customer service hotline (+94 112428099) or to our call centres. All such feedback is uploaded to our online customer feedback system (CFS).

These complaints are then reviewed at a weekly CFS committee meeting with the participation of senior management and necessary action is taken. These meetings commenced with effect from 11<sup>th</sup> August 2014 and till 31<sup>st</sup> December 2014, and 14 such meetings were held.

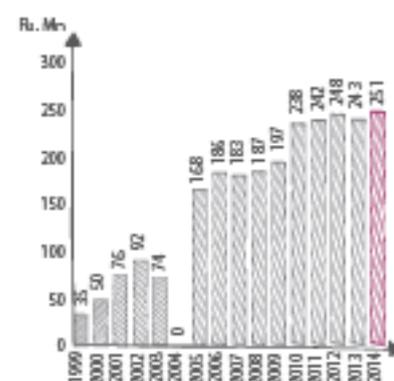
The table below depicts the total customer complaints received during 2014 and the progress on resolving the complaints;

Description	No.
Received	1,198
Resolved	1,043
In progress	155

## Customer Privacy

In order to ensure safety of information provided by our customers, we do not use their information for any other purpose other than for the purpose it was meant for. Our data centre management System was accredited with ISO/IEC 27001:2005 certification ensuring confidentiality, integrity and availability of information. Controls over data security are described in the corporate governance section of this report on page 126.

History of Bonuses to Life Policyholders



## Segmental Review - Non Life Insurance

### Global Trends in the Non Life Insurance Industry

Non Life insurance premiums generally mirror economic activity. As per Swiss Re, the global economy is expected to strengthen modestly in 2015 led by the US. The outlook for the Euro zone is less certain, while growth in the UK, Japan and China is expected to slow down.

Non Life insurance premiums in the advanced markets are forecast to rise by 1.7% in real terms in 2015, and emerging markets are expected to record a growth of 8%. There has been significant pricing pressure especially on property / catastrophe lines in the recent past fuelled by increased capital inflows from investors seeking alternative / higher rates of return as well as relatively benign global weather conditions. Nevertheless, price declines are expected to moderate in the 2015 renewal cycle. The prospects for casualty prices are better. Several innovations are also likely in this line of business considering the increased awareness of cyber security / data breaches etc.

Global insurers are expected to respond to the continued soft market cycle by focusing their attention on generating efficiencies from technology platforms and using social media and other channels to target new customer segments. In addition, there is an expectation of increased mergers and acquisitions as insurers as well as reinsurers respond to price competition by creating greater economies of scale.

The recent announcement that Partner Re and Axis Capital (2 reinsurers based in Bermuda) were merging to form a USD 11 billion global property and casualty reinsurance company which would rank as the 5<sup>th</sup> largest in the world adds further impetus to the consolidation theory.

### Local Non Life Insurance Industry

The Non Life insurance market is estimated to have grown by 4% from Rs. 56 billion in 2013 to Rs. 58 billion in 2014. The motor segment reported a growth of 5%, while the non motor segment grew by 1%. The growth in motor insurance premiums could be attributed to the increase in new vehicle registrations particularly towards the latter part of the year. Non motor premium growth was driven mainly by increases in medical and property insurance premiums.

As per IBSL annual report 2013, there were 21 insurance companies operating in Sri Lanka. Of these 6 companies provided only Non Life

Non Life Insurance	2010	2011	2012	2013	2014 (e)
Market size (Rs. billion)	35,101	43,331	51,835	56,236	58,441
Market growth (%)	5	23	20	9	4
UA growth (%)	14	15	9	17	-3

Source: IBSL annual report and industry statistics

### Industry – Business Mix

Motor insurance continues to be the dominant line of business accounting for approximately 62% of the total market as at December 2014. The class wise distribution of business is reflected in the table below;

Class wise Distribution of Business (%)	2010	2011	2012	2013	2014 (e)
Fire	14	12	14	15	15
Marine	4	4	3	3	3
Motor	60	63	62	61	62
Accident and liability	22	21	21	21	20
Total	100	100	100	100	100

Source: IBSL annual report and industry statistics

The growth in motor and health insurance premiums have resulted in an increase in premiums retained by insurers. As per table below, premium retained as a percentage of total GWP increased from 72% in 2009 to 83% in 2013.

	2009	2010	2011	2012	2013
Premium retention as a % of GWP (overall)	72%	79%	82%	82%	83%

Source: IBSL annual report and industry statistics

insurance services and 12 companies provided both Life and Non Life insurance services. As at date 7 of the 12 companies which operated as composite companies have formed separate legal entities to handle either their Life or Non Life operations. Whilst this would not increase the number of players in the industry, it is expected that this segregation would create greater transparency and lead to better pricing and discipline in a fiercely competitive market place.

In terms of intermediaries, brokers play a dominant role in the Non Life segment accounting for 22% of the industry volume as at December 2013 (2012 - 23%).

The size of the Non Life market, industry growth rate and UA's growth over the past 5 years is as

follows. It is estimated that the top 5 insurance companies accounted for 69% of the total market in 2014 (2013 - 71%).

### Industry - Underwriting Margins

Underwriting profitability which is one of the main sources of income for Non Life insurers could be analysed by computing the combined ratio, which is the addition of the claims and expense ratios. These ratios are computed by dividing the insurers' claims and expenses respectively by the net earned premium (NEP). A company's NEP reflects the premium an insurer has retained, adjusted for the duration (period of the risk).

As reflected in the table below, the industry combined ratio deteriorated marginally in 2013, mainly due to an increase in the expense ratio.

Net Combined Ratio (%)	2009	2010	2011	2012	2013
Net claims ratio	69%	61%	64%	61%	59%
Net expense ratio	53%	40%	38%	39%	43%
<b>Net combined ratio</b>	<b>122%</b>	<b>101%</b>	<b>102%</b>	<b>100%</b>	<b>102%</b>

Source: IBSL annual report

# Management Discussion and Analysis

## Summary of Progress Against Strategic Priorities

Progress against the 2014 strategic objectives as highlighted in the previous annual report is summarised as follows;

Priorities	Progress	Achievement
<b>Expand distribution especially in retail segment</b>		
Expand distribution in cost effective manner	➤ Restructured retail distribution channels to focus on profitable business opportunities	
	➤ Reported growth in selected segments of the portfolio	●
	➤ Enhanced internal processes to improve service to field staff	
	➤ Revised variable incentive schemes to motivate higher performance	
Implement further improvements to web based sales force management system	➤ Implemented system improvements to monitor outstanding premiums, quality of business portfolio and sources of business generated	●
Use learning and development as a key differentiator to enhance distribution effectiveness	➤ Restructured training path to suit new recruits and enhance knowledge of experienced sales staff	
	➤ Leveraged e-learning platform	●
	➤ Revamped familiarisation programme	
	➤ Conducted train the trainer programmes and certified zonal trainers as well	
Update web based motor and non motor sales tools	➤ Revised risk based pricing model in line with company objectives	
	➤ Enhanced features and functionality of web based sales tools to improve convenience without compromising controls	●
<b>Develop alternative distribution channels</b>		
Expand alternative distribution channels in cost effective manner	➤ Reported growth from several alternative channels	●
Rationalise existing and new business opportunities	➤ Reviewed all channels in line with volume and profit targets	
	➤ Increased resources to channels with greater potential	●
	➤ Restructured channels where volumes do not reflect potential	
Cross sell products between traditional and alternative distribution channels	➤ Implemented monitoring processes to ensure alternative channel products were sold as value added services to key corporates	●
	➤ Reviewed options to enhance alternative channel products in line with customer requirements	
<b>Continuous improvements in service standards</b>		
Leverage non motor claims web flow system to improve claims settlement process	➤ Implemented and on going	●
Maintain customer satisfaction levels	➤ Satisfaction regarding motor claim settlements tracked on a monthly basis	●
Leverage customer feedback to improve renewal retention ratios	➤ Cross functional team appointed to identify root causes of renewal leakage	
	➤ Renewal leakage related information shared among distribution and technical teams on a regular basis	●
	➤ Action to secure key renewals formulated by cross functional teams and implemented as appropriate	

● Achieved    ● Partially Achieved

Priorities	Progress	Achievement
Implement dedicated call centre to handle health insurance related claims and queries	➤ Implemented	
Implement one stop shop for sales staff to access underwriting and technical resources	➤ Reviewed requirement and implemented alternative solutions for managing service gaps. Progress with these changes being monitored before implementing fully fledged one stop shop	
<b>Develop new products and augment existing products</b>		
Update web based sales tools in line with customer requirements and market dynamics	Refer previous updates	
Review options to continuously add value to corporate and retail clients	➤ Launched several business promotions bundling value added services to tap retail distribution channel opportunities	
	➤ Set up formal reviews with key corporate clients to identify and respond to their specific business requirements	
Tailor make solutions based on risk management requirements of large corporates	➤ Leveraged relationships with reinsurance partners to develop tailor made solutions for selected corporate clients	
	➤ Educated key clients regarding risk mitigation strategies specifically related to their industry	
<b>Strengthen underwriting processes</b>		
Implement structured programmes to enhance technical knowledge of technical and distribution staff	➤ Implemented basic as well as advanced technical training programmes for sales and non sales staff	
	➤ Implemented process to continuously educate distribution staff regarding underwriting best practices	
Strengthen underwriting controls to prevent leakage	➤ Implemented analytics based internal audit programme	
	➤ Strengthened internal audit processes	
Expand reinsurance panel and leverage their global expertise to upgrade staff capabilities	➤ Enhanced in house resources to expand treaty and facultative reinsurance relationships	
Review options to centralise document storage	Reviewed and decided not to implement	
Translate key policy terms and conditions to Sinhala and Tamil to enhance transparency	Completed in line with regulatory requirements	
<b>Strengthen claims management processes</b>		
Enhance knowledge and competencies of staff in structured manner	Formal training programmes conducted on a regular basis	
	New areas of leakage shared with key staff to prevent recurrence	
Work with reinsurers, loss adjusters and other industry professionals to reduce claims leakage and enhance customer service	On going	
Leverage relationships with selected motor vehicle repairers to reduce leakage and improve customer satisfaction	Implemented processes to obtain regular feedback regarding pricing, service standards etc. of preferred partner network	
Use non motor claims workflow system to monitor / manage claims service and outgo	On going	

# Management Discussion and Analysis

## Current Performance Against Key Performance Indicators (KPIs)

The key performance indicators used to manage the Non Life insurance business and the rationale for their use is outlined below;

Key performance indicator	What does it show?	Financial result	Comments										
Increase in gross written premium	The amount of business we were able to secure	<p><b>Increase In Gross Written Premium</b></p> <table border="1"> <caption>Increase In Gross Written Premium (%)</caption> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>17</td> </tr> <tr> <td>14 Plan</td> <td>13</td> </tr> <tr> <td>14 Act</td> <td>-3</td> </tr> <tr> <td>15 Plan</td> <td>4</td> </tr> </tbody> </table>	Year	Value (%)	13 Act	17	14 Plan	13	14 Act	-3	15 Plan	4	We were not able to achieve the budgeted GWP for the year, due to our conscious decision to focus on writing risks which generated premiums that at a minimum meet claims and other direct expenses.
Year	Value (%)												
13 Act	17												
14 Plan	13												
14 Act	-3												
15 Plan	4												
Net combined ratio	Our underwriting profit margin. A ratio less than 100% represents an underwriting profit and vice versa	<p><b>Net Combined Ratio</b></p> <table border="1"> <caption>Net Combined Ratio (%)</caption> <thead> <tr> <th>Year</th> <th>Value (%)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>107</td> </tr> <tr> <td>14 Plan</td> <td>104</td> </tr> <tr> <td>14 Act</td> <td>105</td> </tr> <tr> <td>15 Plan</td> <td>105</td> </tr> </tbody> </table>	Year	Value (%)	13 Act	107	14 Plan	104	14 Act	105	15 Plan	105	The net combined ratio is in line with the previous year and marginally higher than budget mainly due to variable expenses which are linked to performance, and hence not budgeted.
Year	Value (%)												
13 Act	107												
14 Plan	104												
14 Act	105												
15 Plan	105												
Profit for the year	The final bottom line result for the year	<p><b>Profit for the year</b></p> <table border="1"> <caption>Profit for the year (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>13 Act</td> <td>332</td> </tr> <tr> <td>14 Plan</td> <td>291</td> </tr> <tr> <td>14 Act</td> <td>322</td> </tr> <tr> <td>15 Plan</td> <td>252</td> </tr> </tbody> </table>	Year	Value (Rs. Mn)	13 Act	332	14 Plan	291	14 Act	322	15 Plan	252	Profit for the year recorded a favourable variance against the budget.
Year	Value (Rs. Mn)												
13 Act	332												
14 Plan	291												
14 Act	322												
15 Plan	252												

## Analysis of Business Segments

UA's Non Life business comprises of the following classes of business:

- Accident and liability
- Fire
- Marine
- Motor



### Accident and Liability

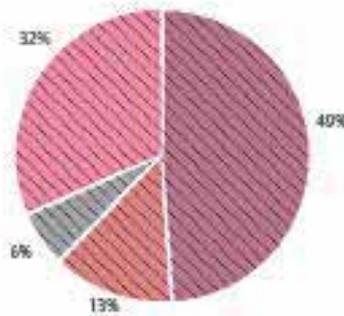
Accident and liability GWP contributes 32% of the total Non Life premium generated by UA (2013 – 29%). The class comprises mainly surgical and hospitalisation related insurance for corporate clients. Personal accident, travel and workmen's compensation premiums also account for a significant share of GWP.

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

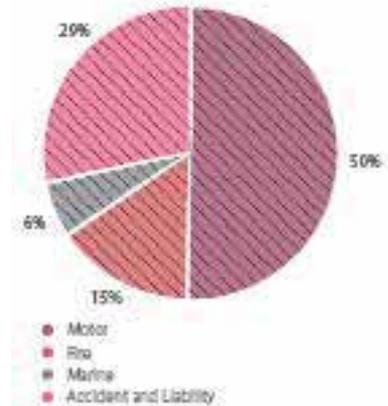
Accident and Liability	2010	2011	2012	2013	2014 (e)
Market size GWP (Rs. millions)	7,641	9,123	10,949	11,947	12,066
UA GWP (Rs. millions)	939	1,196	1,410	1,534	1,646
Market growth (%)	7%	19%	20%	10%	1%
UA growth (%)	59%	27%	18%	9%	7%
UA market share (%)	12%	13%	13%	13%	14%
UA rank	3	3	3	3	3

Source: IBSL annual report and industry statistics

GWP Mix - 2014



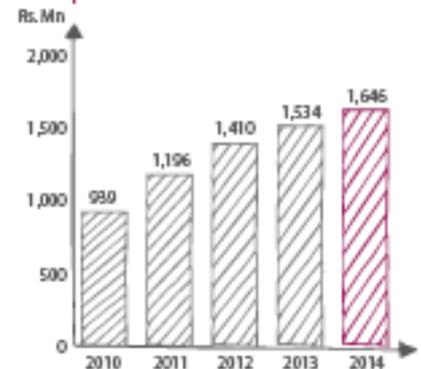
GWP Mix - 2013



As per table above, accident and liability class of business has reported a CAGR of 12% over the last 5 years compared with UA's CAGR of 15% over the same period. It is estimated that UA ranks as the 3<sup>rd</sup> largest accident and liability insurer in the market.

The full range of products / covers offered under this class of business is provided on pages 65 and 66.

UA Accident and Liability GWP over past 5 Years



## Alignment of Strategic Objectives

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

Strategic Objective	Activities
Expand distribution especially in retail segment	<ul style="list-style-type: none"> <li>➤ Reported 7% growth despite price competition</li> <li>➤ Retail products contributed positively to growth momentum</li> <li>➤ Expanded distribution channels offering travel insurance products</li> </ul>
Develop alternative distribution channels	<ul style="list-style-type: none"> <li>➤ Non traditional distribution channels continued to report positive growth and margins</li> <li>➤ Non traditional products sold via traditional channels as value added services</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>➤ Created separate call centre to handle health related inquiries and claims</li> <li>➤ Strengthened resources to service travel insurance product</li> </ul>
Develop new products and augment existing products	<ul style="list-style-type: none"> <li>➤ New product development and customised solutions for corporate clients yielded a 9% growth in surgical and hospitalisation premiums despite price completion</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>➤ Achieved growth while improving claims ratios</li> <li>➤ Enhanced internal control environment to segregate key functions and introduce job rotation</li> <li>➤ Dedicated call centre resources to handle claims and policy inquiries expected to reduce claims leakage</li> <li>➤ Implemented formal reviews of existing portfolios to avoid escalation in claims expenses</li> </ul>

# Management Discussion and Analysis



## Fire

The fire class of business which contributed 13% of UA's total Non Life premiums (2013 – 15%) comprises mainly of property / machinery all risk covers, electronic / computer insurance and fire commercial insurance which are predominantly tailor made solutions for corporate clients. The product range includes home and shop insurance policies which cater to the personal and SME segments of the market.

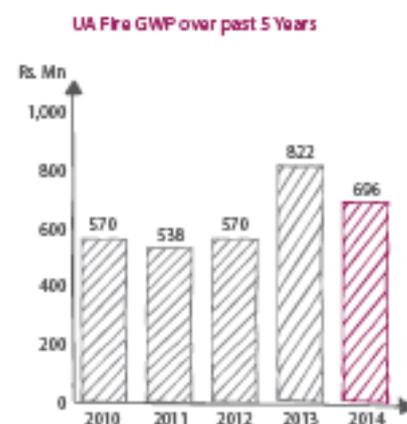
As per table below, the fire class of business has reported a CAGR of 14% over the last 5 years compared with UA's CAGR of 5% over the same period. It is estimated that UA ranks as the 5<sup>th</sup> largest property insurer in the market.

The full range of products / covers offered under the fire class of business is provided on pages 65 to 66.

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

Fire	2010	2011	2012	2013	2014 (e)
Market size GWP (Rs. million)	5,012	5,379	7,460	8,341	8,511
UA GWP (Rs. million)	570	538	570	822	696
Market growth (%)	-29%	7%	39%	13%	2%
UA growth (%)	-11%	-6%	6%	44%	-15%
UA market share (%)	11%	10%	8%	10%	8%
UA rank	4	4	4	3	5

Source: IBSL annual report and industry statistics



## Alignment of Strategic Objectives

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

Strategic Objective	Activities
Expand distribution mainly in retail segment	<ul style="list-style-type: none"> <li>➤ Developed targeted training programmes to enable sales staff to tap business opportunities</li> <li>➤ Synergised retail and corporate distribution team relationships to target large scale infrastructure projects</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>➤ Conducted portfolio reviews for selected clients</li> <li>➤ Leveraged industry specific knowledge to educate corporate clients regarding the optimal risk coverage to purchase</li> </ul>
Develop new products and augment existing products	<ul style="list-style-type: none"> <li>➤ Developed tailor made solutions for corporate clients</li> <li>➤ Continuously reviewed product features, coverage and pricing points vis-à-vis competitor products and made suitable amendments</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>➤ Strengthened technical knowledge of sales and non sales staff via structured training programmes</li> <li>➤ Participated in knowledge sharing seminars / workshops conducted by industry professionals</li> <li>➤ Negotiated improved terms and conditions from panel of treaty reinsurers</li> </ul>

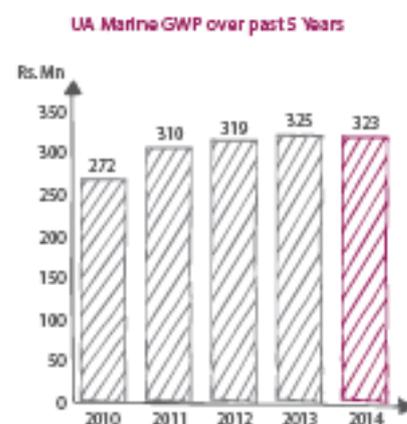


## Marine

The marine portfolio which contributed 6% of UA's total portfolio (2013 – 6%) consists mainly of covers provided to corporate customers. Opportunities for marine insurance are dependent on import and export trade volumes. Hence, any changes either positive or negative in trade flows has a direct correlation with marine business volumes.

As per table below, marine class of business has recorded a CAGR of 5% over the last 5 years compared with UA's CAGR of 4% over the same period. It is estimated that UA ranks as the 3<sup>rd</sup> largest marine insurer in the market.

The full range of products / covers offered under this class of business is provided on pages 65 to 66.



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

Marine	2010	2011	2012	2013	2014 (e)
Market size GWP (Rs. million)	1,499	1,691	1,673	1,768	1,801
UA GWP (Rs. million)	272	310	319	325	323
Market growth (%)	4%	13%	1%	6%	2%
UA growth (%)	19%	14%	3%	2%	-1%
UA market share (%)	18%	18%	19%	18%	18%
UA rank	3	3	2	3	3

Source: IBSL annual report and industry statistics

## Alignment of Strategic Objectives

The following table indicates how the marine line of business contributed to achieving the strategic objectives of the Non Life business.

Strategic Objective	Activities
Expand distribution especially in retail segment	<ul style="list-style-type: none"> <li>➤ Leverage IT based solutions to grow marine business through alternative distribution channels in cost effective manner</li> <li>➤ Aligned sales incentives to promote marine and other profitable Non Life classes</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>➤ Conducted portfolio reviews for selected clients</li> <li>➤ Leveraged industry specific knowledge to educate corporate clients regarding the optimal risk coverage to purchase</li> </ul>
Develop new products and augment existing products	<ul style="list-style-type: none"> <li>➤ Developed tailor made solutions for corporate clients</li> <li>➤ Continuously reviewed product features, coverage and pricing points vis-à-vis competitor products and made suitable amendments</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>➤ Strengthened technical knowledge of sales and non sales staff via structured training programmes</li> <li>➤ Participated in knowledge sharing seminars / workshops conducted by industry professionals</li> <li>➤ Negotiated improved terms and conditions from panel of treaty reinsurers</li> </ul>

# Management Discussion and Analysis



## Motor

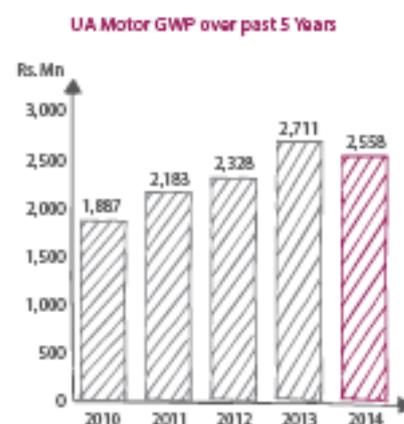
The motor class of business contributed 49% of UA's total Non Life premiums (2013 – 50%). However, from an industry perspective, motor insurance is estimated to account for 62% of the total GWP (2013 – 61%). With all insurers offering motor insurance solutions, this segment is one of the most price competitive in the Non Life industry. Nevertheless, as depicted below, the segment has reported an 15% CAGR over the past

5 year period. UA's CAGR over the same period is 8%, as the Company continues to apply a selective underwriting approach to balance growth while maintaining underwriting margins. It is estimated that UA ranks as the 5<sup>th</sup> largest motor insurer in the market.

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

Motor	2010	2011	2012	2013	2014 (e)
Market size GWP (Rs. Million)	20,949	27,138	31,753	34,180	36,062
UA GWP (Rs. Million)	1,887	2,183	2,328	2,711	2,558
Market growth %	17%	30%	17%	7%	6%
UA growth %	8%	16%	7%	16%	-6%
UA market share %	9%	8%	7%	8%	7%
UA rank	4	4	5	5	5

Source: IBSL annual report and industry statistics



## Alignment of Strategic Objectives

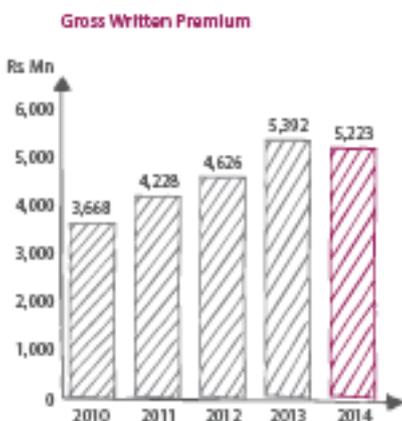
The following table indicates how the motor line of business contributed to achieving the strategic objectives of the Non Life business.

Strategic objective	Activities
Expand retail and alternative distribution channels	<ul style="list-style-type: none"> <li>➤ Motor GWP growth recorded a year on year decline of 6% as UA repriced several lines of business based on claims experience</li> <li>➤ However, targeted segments continued to report growth and improvements in claims ratios</li> <li>➤ Embedded structured and on going training to develop technical competencies among distribution staff</li> <li>➤ Alternative channels recorded year on year growth despite price competition</li> </ul>
Continuous improvement in service standards	<ul style="list-style-type: none"> <li>➤ Enhanced resources to process claims in a speedy and efficient manner</li> <li>➤ Enhanced IT tools to ensure that relevant documents are received by claims handlers in a timely manner</li> <li>➤ Continued to monitor customer satisfaction with regard to claims settlements and implemented improvements based on feedback received</li> <li>➤ Decentralised issuance of key documents to avoid delays when posting documents from head office</li> </ul>
Develop new products and augment existing products	<ul style="list-style-type: none"> <li>➤ Constantly reviewed UA's prices and coverage vis-à-vis key competitors and launched innovative value additions / benefits which meet customer needs without compromising underwriting profit margins</li> </ul>
Strengthen underwriting and claims management processes	<ul style="list-style-type: none"> <li>➤ Reported an improved claims ratio compared with previous year</li> <li>➤ Implemented processes to monitor underwriting leakage and take corrective action in a speedy manner</li> <li>➤ Regularly updated risk based pricing formulas to pursue business opportunities without compromising claims ratios</li> <li>➤ Enhanced technical knowledge of motor assessors in a structured manner</li> </ul>

### Expenditure to Enhance Future Results

The annualised cost of increased investment in infrastructure, learning and development resources and brand development is as follows;

	Rs. Mn.
Infrastructure	43.0
Learning and development	11.4
Brand development	42.2
<b>Total</b>	<b>96.6</b>



Premium ceded to reinsurers as a percentage of GWP decreased from 23% in 2013 to 20.5% in 2014. This was consistent with UA's strategy of growing retail business volumes and retaining more risks within the balance sheet.

Net written premium (amount of premium retained by the Company after deducting premiums paid to reinsurers) was Rs. 4.1 billion and broadly in line with the 2013 achievement. Net earned premium (net written premium adjusted for premium attributable to future risk periods) recorded a marginal increase to end the year at Rs. 4.1 billion.

The claims ratio (computed as a % of net claims over net earned premium) improved significantly as a result of management adopting a disciplined approach to accepting risks, the claims ratio of the Company declined from 70.1% in 2013 to 66.7% in 2014. Most classes of Non Life business contributed to this decline.

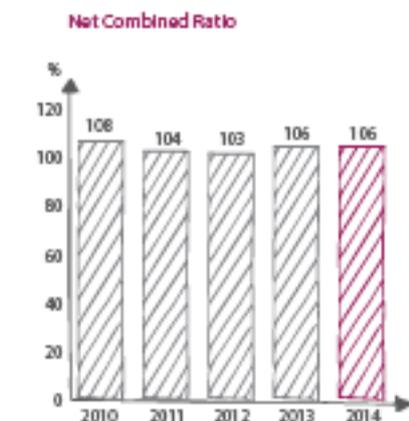
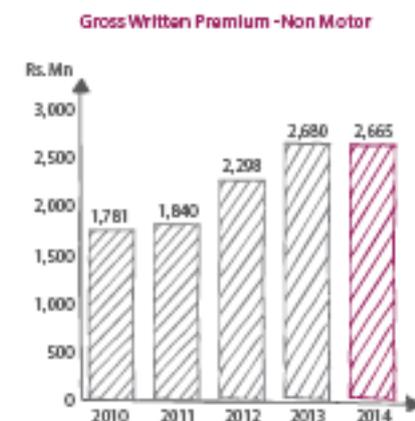
The net expense ratio of 40.6% in 2014 (computed as a % of commission and overhead expenses over net earned premium) was higher than the 36.6% reported in 2013. However, excluding one off expenses (relating to company) and variable expense linked to the segregation of the performance, the ratio is 36.9%.

### Financial and Business Review

The industry remains intensely price competitive across all classes of Non Life insurance business. UA was able to leverage the professionalism of the distribution and technical teams as well as our reputation for customer service to sustain its position.

For the year ended 31 December	2014 Rs:'000	2013 Rs:'000	% Change
Gross written premium	5,222,645	5,391,712	-3%
Net earned premium	4,103,636	3,992,334	3%
Net claims incurred	(2,736,436)	(2,799,257)	-2%
Underwriting and net acquisition costs (including reinsurance)	(280,120)	(245,740)	14%
Other operating and administrative expenses	(1,385,937)	(1,213,583)	14%
Policy fee income	65,426	51,605	27%
<b>Underwriting loss</b>	<b>(233,431)</b>	<b>(214,641)</b>	<b>9%</b>
Investment and other income	594,577	606,281	-2%
Income tax expense	(38,824)	(59,199)	-34%
<b>Profit for the year</b>	<b>322,322</b>	<b>332,441</b>	<b>-3%</b>

Non Life GWP for the year was Rs. 5,223 million with a negative growth of 3% over last year (2013 – 17%) mainly due to one off policies issued to a large scale development project in 2013. Excluding these policies, Non Life business has recorded a 2% growth over last year. Accident (including medical) class has reported a growth compared to last year with other classes indicating negative growth rates. Five year compounded growth of the Non Life business stands at 9%.



The combined ratio which is the key measure of underwriting profitability (total of the claims and expense ratios) of 107.3% in 2014 was higher than the 106.7% reported in 2013. This is reflected in the underwriting result which deteriorated from a Rs. 215 million loss in 2013 to Rs. 233 million loss in 2014. Without the one off / variable expenses mentioned above the combined ratio shows a significant improvement and reported at 103.6%.



Premium from the motor segment accounted for 49% of the total premium (2013 – 50%). Health insurance contributed a further 24% of the premium volume (2013 – 21%).

# Management Discussion and Analysis



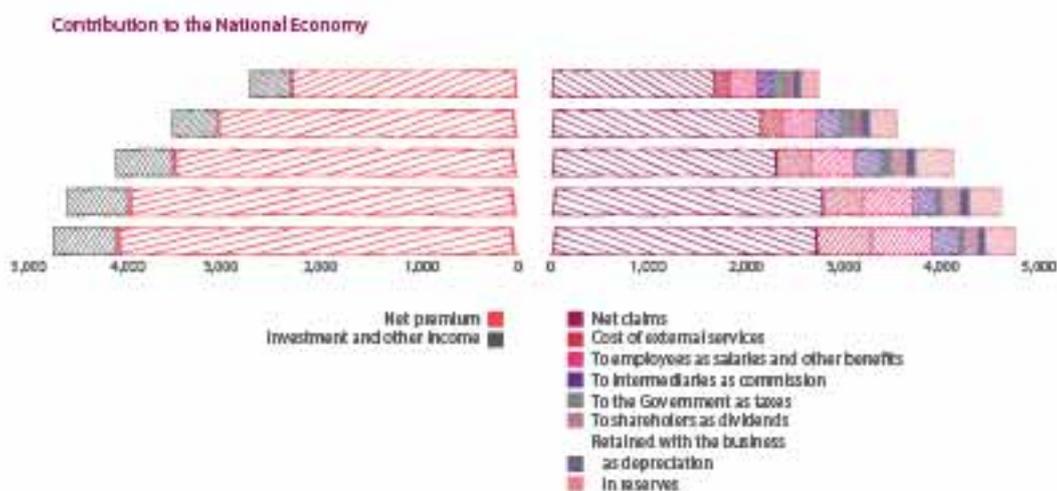
Investment and other income recorded a marginal decline due to the low interest rate environment that prevailed during 2014. The Company took several steps to manage day to day cash flows which resulted in an improvement in the premium collection period.

The increase in underwriting losses and decrease in investment income in 2014 resulted in a decrease in profit before tax from Rs. 392 million in 2013 to Rs. 361 million in 2014. However, profit after tax decreased marginally by 3% from Rs. 332 million to Rs. 322 million in 2014 due to a decrease in Income tax charge by Rs. 20 million resulting from recognition of deferred tax on temporary differences.

## Contribution to National Economy

The total value generated through the sources of income from Non Life insurance segment for the current year is Rs. 1,480 million. The value generated has been distributed to our stakeholders who include employees, government, agents and shareholders.

Statement of Value Added-Non Life insurance Rs. Mn	2014	2013	2012	2011	2010	2009
Net premium	4,104	3,992	3,528	3,083	2,323	2,203
Investment and other income	660	621	588	456	422	420
Net claims	(2,736)	(2,799)	(2,320)	(2,165)	(1,678)	(1,643)
Cost of external services	(548)	(397)	(348)	(254)	(190)	(244)
<b>Total value added</b>	<b>1,480</b>	<b>1,417</b>	<b>1,448</b>	<b>1,120</b>	<b>878</b>	<b>736</b>
To employees as salaries and other benefits	621	509	456	337	282	270
To intermediaries as commission	280	246	280	269	173	112
To the Government as taxes	39	59	87	67	81	67
To shareholders as dividends	152	181	151	85	78	56
Retained with the business						
- as depreciation / amortisation	66	90	85	84	77	65
- in reserves	322	332	388	279	187	166
<b>Total value added</b>	<b>1,480</b>	<b>1,417</b>	<b>1,448</b>	<b>1,120</b>	<b>878</b>	<b>736</b>



## Summary of Key Financial Data

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

Description Rs. Bn	2014	2013	Change (%)	Strategic Issues	Action Plans
GWP	5.22	5.39	(3)	Intense price competition resulting in unviable pricing and UA having to walk away from business	<ul style="list-style-type: none"> <li>➤ Offer differentiated products in terms of service</li> <li>➤ Manage claims and expenses to deliver target price points</li> <li>➤ Develop multiple distribution channels to compete for business</li> </ul>
Premium receivable	1.55	1.73	(10)	Risk of non payment of premium Cash flow implications of not receiving premiums on timely basis	<ul style="list-style-type: none"> <li>➤ Strict implementation of premium warranty clause</li> <li>➤ Increase credit control resources</li> <li>➤ Review and modify credit control practices in light of increased volumes</li> </ul>
Premium ceded to reinsurers	1.07	1.26	(15)	Ensure high quality reinsurance support across business cycle Inadequate transfer of risk	<ul style="list-style-type: none"> <li>➤ Manage underwriting and claims processes to ensure positive contribution to reinsurance partners</li> <li>➤ Formalise reinsurance arrangements based on business requirements and monitor implementation</li> </ul>
Reinsurance receivables	0.59	0.42	40	Inability of reinsurers to meet their commitments due to insufficient financial strength	<ul style="list-style-type: none"> <li>➤ Build relationships only with reinsurers with a minimum rating of "A"</li> <li>➤ Monitor ratings on a regular basis</li> </ul>
Net claims	2.73	2.79	(2)	Manage claims leakage Manage underwriting results by ensuring that pricing is adequate to cover ultimate losses	<ul style="list-style-type: none"> <li>➤ Set up audit function / review claims procedures to minimise leakage</li> <li>➤ Develop management information to monitor pricing, claims experience</li> </ul>
Insurance contract liabilities	3.65	3.44	6	Ensure accuracy of reserves	<ul style="list-style-type: none"> <li>➤ Obtain actuarial sign off of unexpired risk reserve and incurred but not reported (IBNR) claims reserves</li> </ul>
Other operating and administrative expenses	1.38	1.21	14	Manage expenses to ensure sustainability of business and deliver competitively priced solutions	<ul style="list-style-type: none"> <li>➤ Leverage IT and implement cost effective business model</li> <li>➤ Expand alternative distribution channels</li> <li>➤ Develop benchmarks to monitor / manage expenses</li> </ul>
Investment and other income	0.59	0.61	(2)	Low interest rate environment resulting low interest income Limited ability to absorb volatility in equity markets	<ul style="list-style-type: none"> <li>➤ Diversify into other investments such as Corporate Debt</li> <li>➤ Set cut loss and take profit limits for the equity portfolio periodically measure investment income against plan</li> </ul>

# Management Discussion and Analysis

## Opportunities and Threats

After assessing potential opportunities available for us and threats faced by our business, we have formulated responses to capitalise on available opportunities ahead of our competitors and to safeguard our business against likely threats.

The key opportunities for the Non Life business are as follows;

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

The threats faced by the business are outlined below;

Threat	UA's Response
Intense price competition due to relatively large number of insurers competing to create scale	<ul style="list-style-type: none"> <li>➤ Leverage low cost distribution and servicing options to provide value for money solutions</li> <li>➤ Focus on improving technical competencies of distribution and underwriting teams to provide risk management advice as key differentiator</li> <li>➤ Maintain underwriting discipline and walk away when premiums are not commensurate with risk exposure</li> </ul>
Lack of technical and distribution resources to tap growth opportunities in sector	Invest in necessary learning and development of technical and distribution staff

## Snapshot of 2015 Priorities

Based on our 2014 performance, opportunities available and threats faced, strategic objectives formulated for 2015 are summarised as follows.

### Expand Distribution to Grow GWP in a Profitable Manner

- Expand distribution channels in a cost effective manner by developing traditional as well as alternative distribution models in line with business potential
- Review options to distribute Non Life products through Life insurance advisors following regulatory changes which will permit Life advisors to sell Non Life products
- Enhance IT infrastructure to ensure consistent management and monitoring of such channels

- Use learning and development as a key differentiator to attract distribution resources and enhance their knowledge
- Update web based sales tools in line with business requirements

### Improve Service in Cost Effective Manner

- Integrate core and web based applications to enhance convenience for internal and external customers
- Implement mobile phone based claims settlement process for small ticket non motor claims
- Implement payment gateway for motor insurance customers to settle premiums on-line
- Enhance underwriting resources to provide speedy solutions to distribution teams spread throughout the island

### Improve Underwriting Profitability by Strengthening Underwriting and Claims Management Practices

- Centralise motor underwriting decision to ensure consistency and minimise leakage
- Streamline risk based pricing model
- Review options to outsource non core activities
- Continue to provide technical training in structured manner to underwriting and distribution staff

## Products

We have a range of packaged policies designed specifically to meet the diverse needs of individuals and clients involved in SME / commercial segments. In addition, we also provide tailor made solutions to corporate clients based on specific requirements.

### Our Customer Centric Product Design Process

At UA customer satisfaction plays a vital role in achieving our overall business objectives. Therefore all business activities and processes within UA are designed and aligned to meet customer expectations. Product design and development is one such process. A systematic process has been implemented within UA to identify the specific needs of the customer and product development is always initiated with comprehensive market research. The product is then developed based on a feasibility study which considers underwriting, claims management and distribution potential. When designing, recommending and distributing products to customers, UA ensures that at all times ethical standards and sustainability policies are adhered to.



### Corporate Insurance Products

Product Category	Product Value/ Target Market	Covers Offered
Property Insurance	Broadly provides protection for assets of a business against many risks and contingencies.	<ul style="list-style-type: none"> <li>➤ Union fire insurance</li> <li>➤ Business interruption insurance</li> <li>➤ Contractor's all risk insurance</li> <li>➤ Erection all risk insurance</li> <li>➤ Machinery breakdown insurance</li> <li>➤ Electronic equipment insurance</li> <li>➤ Boiler and pressure plant insurance</li> <li>➤ Goods in cold storage</li> <li>➤ Tea factory insurance</li> <li>➤ Overseas terrorism cover</li> <li>➤ Union shop protector</li> <li>➤ Union hoteliers combined</li> <li>➤ Burglary insurance</li> <li>➤ Cash in transit</li> <li>➤ Union asset protector</li> <li>➤ Plate glass insurance</li> <li>➤ Fidelity guarantee</li> </ul>
Motor Insurance	Covers loss or damage to commercial vehicles as well as damages caused to third parties. Also covers vehicle fleets.	<ul style="list-style-type: none"> <li>➤ Union motor star</li> </ul>
Employee related	Provides the required protection for employees against accidents and illnesses.	<ul style="list-style-type: none"> <li>➤ Union travel freedom</li> <li>➤ Surgical and hospital expense</li> <li>➤ Employee life style protector</li> <li>➤ Union personal accident</li> </ul>

# Management Discussion and Analysis

Product Category	Product Value/ Target Market	Covers Offered
Personal liability	Provides protection against claims arising from injuries or damages to other people or their property due to negligence	<ul style="list-style-type: none"> <li>➤ Public liability insurance</li> <li>➤ Product liability insurance</li> <li>➤ Professional indemnity</li> </ul>
Marine	Cover loss or damage to cargo, vessels or goods in transit whilst being transported by sea, air or road.	<ul style="list-style-type: none"> <li>➤ Cargo imports and exports</li> <li>➤ Inland transit</li> <li>➤ Goods in transit</li> <li>➤ Stock throughput</li> <li>➤ Produce in transit</li> </ul>

## Personal Insurance Products

Product Category	Product Value/ Target Market	Covers Offered
Motor insurance	Covers loss or damage to insured vehicle as well as damages caused to third parties	<ul style="list-style-type: none"> <li>➤ Union motor star</li> </ul>
Home insurance	Designed to meet the insurance requirements of house owners	<ul style="list-style-type: none"> <li>➤ Union home protector</li> <li>➤ Union fire insurance</li> <li>➤ Electronic equipments / insurance</li> </ul>
Travel insurance	Provides customers peace of mind covering predicaments when travelling overseas such as loss or damage to property or even life	<ul style="list-style-type: none"> <li>➤ Union travel freedom</li> </ul>
Personal accident	Offers financial relief in case of death or bodily injury as a result of an accident	<ul style="list-style-type: none"> <li>➤ Union araksha</li> </ul>
Health insurance	Designed to compensate for the entire family for medical and surgical expenses incurred due to hospitalisation or as an out-patient and accidental death	<ul style="list-style-type: none"> <li>➤ Union family health net</li> </ul>

## Product Responsibility

Customers want and expect high-quality service, especially as they focus on getting good value for money in a difficult economic environment, and will be willing to spend more only for an excellent service experience.

Each UA employee is committed to fully satisfy customers by meeting or exceeding their needs and expectations through his / her attention to workmanship and performance. Sales personnel are responsible to communicate with customers, understand their expectations, clarify and negotiate terms and conditions while maintaining a very high standard of business ethics.

Our product responsibility lies within two main functions;

- Sales
- After Sales

### Sales

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

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

### After Sales

After sales service refers to various processes in place to ensure customers are satisfied with the services we provide after obtaining a product from us. The needs and demands of the customer is fulfilled so that they generate a positive word of mouth as this plays an important role in promoting brands and products in the current environment.

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

A customer satisfaction survey is conducted to understand to which extent we have met customer needs. The objective of the survey is to monitor satisfaction levels with regards to our motor claims settlement process. This helps to retain customers and to keep their trust in the organisation. A customer could always access UA's online portal for services, queries and complaints, and a team has been entrusted with attending to all customer calls on a 24/7 365 day timeline.

# Customers

The core reason for our existence is to serve our customers. Hence a critical element of our strategy is to identify and meet the needs and wants of our customers in the best possible way.

We serve more than 167,499 Non Life customers across the country. The demographic profiles of our customers and the products we offer vary across our operations, but in all our markets, we are committed to listen to our customers and understand their individual needs in order that we are able to exceed their expectations by providing high quality products and superior customer service including settling due claims in a speedy manner

The following diagram demonstrates our approach towards addressing key material issues of our customers.



## 1. Provide Affordable, Quality Products to Meet Customer Expectations

The success of our business depends on the extent to which we reach and listen to our customers in understanding their needs. All products that are designed within UA are initiated after considering customer needs. The design process does not compromise on any of the sustainability aspects and care has been taken to ensure sustainability of the Company over the long term.

### Mobile Technology Based Surgical Product

A mobile technology based surgical and hospitalisation product was launched during the year partnering with one of the leading mobile telecommunication service providers in the country. This product offers a daily coverage for a very nominal amount which could be added to the mobile phone bill, making it very affordable and convenient.

### Reassessment of Product Portfolio in Line with Changing Customer Requirements

During the year we reviewed our Non Life product portfolio along with pricing terms and conditions to ensure that products we offer are comparative or better than competing products in the market.

More details of our Non Life product portfolio is given on pages 65 to 66.

## 2. Providing Superior Customer Service

Our reputation is a reflection of what customers think and say about our service. Our competitive advantage in the market place has been maintained due to our superior customer experience that we have continued to provide over 27 years. We are pioneers in the insurance industry in adopting the latest technology to provide superior service to our customers.

### Union Motor App

Confirming our position as a trailblazer in the Insurance sector, UA has gone one step further to bring convenience to customers by launching its first ever mobile App. The Motor App is designed to provide easy access to valuable information

to all motorists and non-motorists alike. The App is able to indicate the location of the closest fuel station, police station, hospital, bank, ATM, garage, supermarket, etc; from any part of the country. This app is available in Sinhala, Tamil and English, making it user friendly and intuitive.

In addition, the app has several options specific to existing and potential UA customers. Through the app, customers have the ability to check the status of their claims, obtain a quote, and contact the nearest UA office, at their convenience.

### Separate Call Center for Surgical and Hospitalisation (SHE) Claims

In order to accommodate the growing need for surgical and hospitalisation insurance covers by both corporates and individuals, UA established a dedicated call centre to manage inquiries in relation to this area of business. The facility has made it very easy for customers to interact with Union Assurance.

### Motor Welcome Call

Welcoming customers on board, clarifying their queries explaining the benefits they are entitled to and the limitations of the policy are the main objectives of this process. Through this UA is able to provide more assurance to our valued

customers to ensure that they have purchased the right product.

### Decentralised Motor Card Printing Process

UA has decentralised its motor card printing process to selected branches cutting out the waiting time till the motor cards are dispatched from head office. Customers now have the convenience of collecting their insurance cards from the relevant branch after settling the premium due.

### Service Through Training

UA continued to conduct structured training programmes for underwriting and claims management staff to enhance their knowledge and keep them updated regarding the latest regional and global best practices and trends in the industry. It is expected that this training will

have a direct and positive impact on customer service as staff with enhanced knowledge will be able to identify customer needs and provide solutions with more confidence in a speedy manner. The details of the training sessions conducted during the year are mentioned in the "Employee" section of this report.

## 3. Settle Claims in a Fair and Speedy Manner

The duty of every insurance solutions provider is to pay customer claims fairly and as quickly as possible. Claims intimation is the point at which the customer comes into direct interaction with the Company and experiences the quality of service.

### Paying Claims Fairly

An inevitable predicament faced by all insurance companies is that all claims do not fall within the framework of the terms and conditions of the policy and must then be repudiated. At UA, such claims are first referred to a claims review panel chaired by the General Manager operations.

Customers who remain dissatisfied with a particular decision are directed to the Insurance Ombudsman. The Insurance Ombudsman is a body established by the Insurance Association of Sri Lanka with the concurrence of the Insurance Board of Sri Lanka to resolve disputes between

# Management Discussion and Analysis

customers and insurance companies. As a member of the Insurance Association of Sri Lanka, UA participates fully in this system. During the year under review, 53 cases were referred to the Insurance Ombudsman. In 12 of these, the Company settled its customers based on the Ombudsman's decision.

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

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

The Company continues to review the number and value of outstanding claims for each class of Non Life business. Outstanding claims are regularly followed up either directly with the customer or via the intermediary, to ensure speedy resolution and settlement.

## Enhanced Version of Photo Upload Application for Motor Technical Assessors

This enhanced version of the photo upload application enables motor technical assessors to provide a superior service to UA customers at the accident site. This makes taking and uploading of photos of the accident as easy as never before.

## On the Spot Claims Settlement Process

UA continued to provide "Garage On The Spot" and "Speed Cash" claims settlement facilities for its customers. Once the claim value is agreed, customer receives an sms at the garage or the accident site itself, which he / she can produce at any Commercial Bank branch and withdraw the claim value in cash, over the counter. This system of claims settlement process ensures that any motor claim below Rs.50,000/- is settled within a few minutes.

## On-line Claim Tracking System

This system enables corporate clients and insurance brokers to view the progress of claims on-line. They could log onto the system via UA's corporate website. With its user friendly approach and design, customers could access following information.

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

## ▶ Age analysis of unsettled claims

### Enhanced Workflow Based Claim Tracking System

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

### Increased Reach and Mobility of Motor Assessors

Speedy settlement of claims revolves around the ability to deploy people to the scene or the accident site. UA has strengthened this area by having a panel of 65 assessors with experience, competency and specialisation in the area of motor claims. Use of GPS technology has enabled us to deploy assessors to accident sites in a speedy and efficient manner.

## 4. Obtain Timely Feedback to Understand Expectations

Identifying the expectations of customers is vital to the business since it is only by this process that UA can ensure that customer loyalty and sustainability can be maintained. Structured and systematic processes have been initiated to align customer expectations with the Company's objectives and this has helped UA to achieve its long term objective of sustainable growth.

### Customer Satisfaction Surveys

Customer satisfaction surveys were conducted throughout 2014 to monitor satisfaction levels with regard to UA's motor claims settlement process, motor call centre service levels and the service standards of the assessors. A structured questionnaire has been developed for this purpose, covering the entire process commencing from the first interaction the customer has with the motor assessor at the accident site up to receiving the settlement payment. This survey is conducted by an internal research unit attached to the marketing division.

### Increase Renewal Retention

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

Lost renewals are closely monitored and customer feedback regarding non-renewals are tracked and analysed to identify areas for improvement.

The following tables depict the level of satisfaction customers have expressed compared with previous year and their intention to renew policies with us.

Satisfaction Level (%)	2014	2013
Good	97	81
Average	2	16
Poor	1	3
Total	100	100

Intend to Renew	2014	2013
Yes	95	85
No	4	2
Not Decided	1	13
Total	100	100

## 5. Complaint Management Process

Customers are able to send their feedback (including complaints) to us, via the customer complaint hotline +94 112428099 or our call centre +94 112428080. All such feedback is uploaded to our on-line customer feedback system to manage and monitor the progress of such complaints.

### Customer Feedback System

The following table depicts total number of complaints lodged in our system during the year 2014 and the status of same.

Status	No. of Complaints
Received	24
Resolved	24
In progress	00

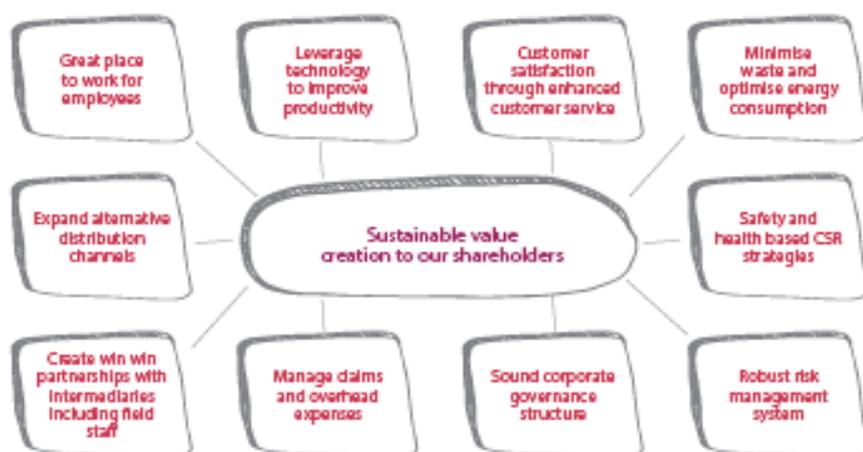
## 6. Customer Privacy

In order to ensure safety of information provided by our customers, we do not use their information for any other purpose other than for the purpose it was meant for. Our data centre management system was accredited with ISO/IEC 27001:2005 certification ensuring confidentiality, integrity and availability of information. Controls over data security are described in the Corporate Governance section of this report on page 126.

## Shareholders

With the development of sustainability reporting, more and more investors are becoming socially responsible, taking companies' environmental, social, and governance standards into account in their investment decisions. In the light of this heightened interest, it is more important than ever before for companies to understand the relationship between sustainability and shareholder value.

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



### Increase Return on Investment

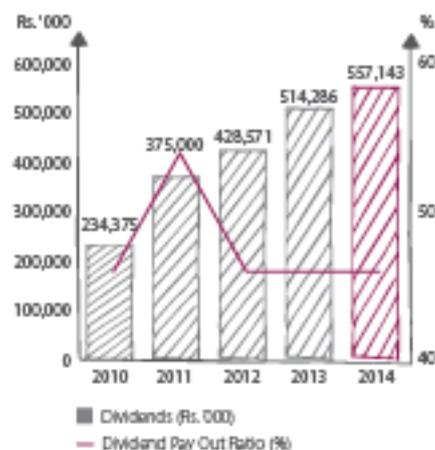
#### Achieved a PAT of Rs. 1.2 billion

Total net revenue increased by 13% from Rs. 12.1 billion reported in 2013 to Rs.13.7 billion in 2014. Profit after tax increased from Rs. 1,123 million in 2013 to Rs. 1,203 million in 2014 recording a growth of 7%

#### Stable DPS

The Board of Directors has recommended a dividend of Rs. 6.50 per share for approval by the shareholders at the AGM. The dividend payout from 2014 profits will amount to Rs. 557 million.

#### Dividend vs Dividend Payout



# Rs. 14.1Bn

Market capitalisation increased by 58% from Rs. 8.9 billion in 2013 to Rs. 14.1 billion in 2014.

### Financial Performance Indicators

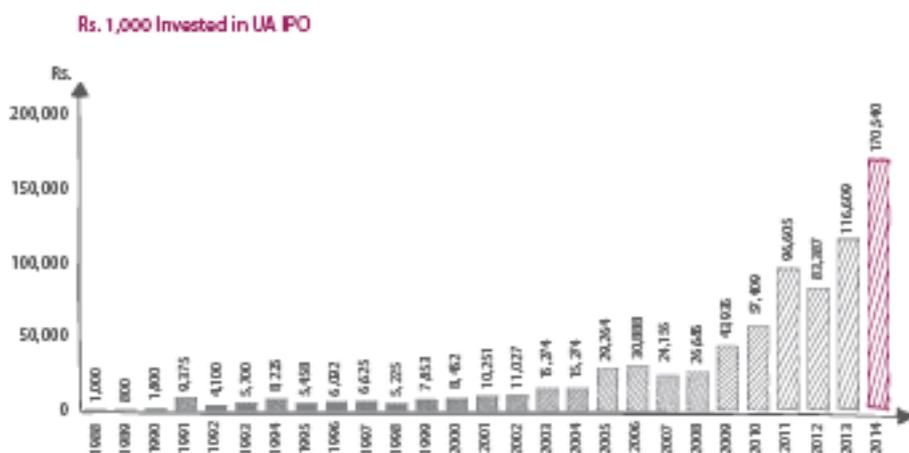
	2014	2013
<b>Gross written premium</b>		
Total amount we received from Life and Non Life customers as payments for their insurance policies	Rs.11.2 billion	Rs.10.9 billion
<b>Net profit</b>		
Profit after tax attributable to ordinary shareholders from Life and Non Life insurance businesses	Rs.1,203 million	Rs.1,123 million
<b>Return on net assets</b>		
Net profit attributable to ordinary shareholders as a percentage of net assets as at year end	19%	22%

### Shareholders

	2014	2013
Earnings per share (Rs.)	14.04	13.11
Share price at year-end (Rs.)	164	104
Dividends per share (Rs.)	6.50	6.00
Market capitalisation (Rs. billion)	14.1	8.9
Price earnings ratio (times)	11.68	7.93

# Management Discussion and Analysis

The Company recorded an Earnings Per Share (EPS) of Rs.14.04 giving a price earnings (P/E) ratio of 11.68. An investment of Rs.1,000 at UA's IPO is now valued at Rs. 170,540.



The details of shareholder information are provided on pages 286 to 291 of this report.

## Sustainable Business Performance

### Risk Management Initiatives

The Company has a robust risk management framework with a Risk Management Committee (RMC) chaired by the CEO. All functions are represented by relevant senior management staff. The objectives of the committee are to identify risks which will impact UA's performance and implement suitable mitigation / management strategies. The Company's overall risk grid was compiled by summarising the divisional risk grids. The objective of this bottom up approach was to obtain feedback from staff involved in operations as they have a better understanding of risks associated with day to day business practices and challenges, and to capture such risks in the process. The RMC provides detailed information on company risks to the Board Audit and Compliance Committee who in turn report to the Board of Directors. An overview of UA's risk management process is provided on pages 156 to 163.

### Business Continuity Planning

The Business Continuity Plan (BCP) is an essential part of any organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time. We have an effective business continuity plan developed with the support of an external consultancy firm to ensure that our Company is well prepared to respond to any disaster situation, minimising any potential economic, social and

environmental impact. During the months of June and September 2014, the business continuity plan was tested under different test scenarios to ensure robustness of the plan.

### Strategic Planning and Performance Management

The Board has implemented a strong performance management system encompassing a detailed strategic planning process linked to sustainable objectives for the Company. These objectives are then distilled into key performance indicators which are monitored on a regular basis at line management, senior management and Board levels. The details of the Company's strategic planning and performance governance framework are provided on page 29.

## Reliable and Timely Information to Shareholders and Public

### Publish Comprehensive Reliable Information to Shareholders

We, as a responsible corporate citizen, make every endeavour to share reliable and comprehensive information with our stakeholders. In recognising our unrelenting commitment to transparency in financial reporting, our 2013 annual report won several accolades at the annual report awards ceremony conducted by The Institute of Chartered Accountants of Sri Lanka, including bronze award for corporate governance disclosures, bronze award for management discussion and analysis disclosures and silver award in the insurance sector for the best annual report.

### Timely Submission of Quarterly and Annual Financial Statements

During the year the Company published all its quarterly and annual financial statements with all required disclosures in line with the statutory submission dates. The financial reporting calendar for 2015 is provided on page 166.

### Shareholder Communication Policy

In line with best corporate governance practices, we have a shareholder communication policy in place to ensure that they have ready and timely access to all information of the Company that should be publicly available. The shareholder communication policy of UA is given on page 71.

### Best in Class Governance and Assurance Corporate Governance

The Board of Directors is responsible to shareholders for creating and delivering sustainable shareholder value and is conscious that a strong corporate governance framework is critical to maintain investor trust and business integrity.



"CA Sri Lanka Annual Report Awards - 2014"



"National Business Excellence Awards - 2014"

During the year, the Company continued to review its governance structures in the context of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. We also comply with the Rules on Corporate Governance published by the Colombo Stock Exchange.

Several aspects of the governance process were improved during the year, a summary of which is given on page 120.

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

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

The details of the overall governance structure is provided on page 120 of this report.

## Shareholder Communication Policy

### 1. Objective

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

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

## 2. Communication with Shareholders

### a. Shareholders' meetings

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

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

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

Shareholders' meetings are held at a convenient location where the Chairman of the Company, Chairmen of Board committees, Directors and representatives of the external auditors would be present and are available to answer questions from shareholders.

### b. Financial and other reporting

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

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

### c. Corporate website

The Company's website ([www.unionassurance.lk](http://www.unionassurance.lk)) provides information on the Company, including shareholder communications.

In addition, the annual report, quarterly financial statements, announcements and circulars of the Company are posted on the website, relevant press releases are also made available on the Company's website to facilitate communication between the Company, shareholders and the investment community.

Shareholders will receive certain shareholder specific communication, such as notices of general meetings and accompanying papers, circulars and annual reports from the Company by post.

### d. Investment market communication

In this regard, Directors and employees of the Company who have contacts with investors, analysts and media are aware of the disclosure obligations and requirements under the Company's "Policy on Handling of Confidential and Price-sensitive Information, and Securities Dealing".

## 3. Communication with the Company

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

Company Secretary: 011- 2306245 ☎

Chairman of the Company: 011 – 2306112 ☎

Investor relations Hot line : 011- 2428502 ☎

E mail: [investorrelation@ualink.lk](mailto:investorrelation@ualink.lk)

Postal: Union Assurance PLC, Union Assurance Centre, 20, St. Michael's Road, Colombo 3, Sri Lanka

### Responding to shareholders' queries

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

### Process to make all Directors Aware of Major Issues and Concerns of Shareholders

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

## 4. Shareholder Privacy

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

## People

### Employees

**For the second consecutive year we were chosen as one of the 15 best companies to work for in Sri Lanka by the GPTW institute.**

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

#### Our Progress Against Key Material Issues

To develop a sustainable business, it is important to attract, retain and develop appropriate skills. In doing so, proper understanding of the expectations of our employees and taking every possible effort to reasonably meet their needs is key to developing a sustainable relationship with them. The following diagram demonstrates our approach on addressing key material issues of our employees.



#### 1. Recruitment, Selection and Staff Strength Diversity and Equal Opportunities

Diversity brings fresh ideas, perspectives and experiences in a welcoming environment where everyone has the opportunity to fully participate. We consider it is vital to respect the individuality of every person working with us and to embrace the opportunities that diversity in the workplace brings. Diversity and an inclusive workplace are critical to our company and we are taking extensive measures to ensure that the attitudes of openness and inclusivity are embedded at every level of UA.

This is why at UA we;

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

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

#### Equal Opportunities for Men and Women

New Employee Hires	2014		2013	
	No. of New Hires	As a % of Average Staff	No. of New Hires	As a % of Average Staff
Male	136	75%	177	80%
Female	44	25%	45	20%
<b>Total</b>	<b>180</b>	<b>16 %</b>	<b>222</b>	<b>19%</b>

We use mass media, web and social media advertisements, internal referrals, career fairs and university / professional institutes placement schemes to communicate available job opportunities. Short-listed applicants, based on minimum requirements are interviewed by a panel of interviewers and details of potential candidates are kept in the database for further reference.

*We seek to empower our people to make a positive difference....*

#### Diversity Across all Levels

Men and Women in the Work Place	2014		2013	
	Men	Women	Men	Women
CEO and General Managers	6	3	6	3
Assistant General Managers	9	2	9	1
Senior Managers	29	10	31	8
Managers and Assistant Managers	271	47	305	52
Executives	284	87	293	83
Non Executives	220	166	207	159
<b>Total</b>	<b>819</b>	<b>315</b>	<b>851</b>	<b>306</b>

More than two thirds of the employees are less than forty years old. Our youth population has been given many opportunities and they have a considerable representation in the executive and the managerial levels.

UA has maintained a healthy balance between youth, experience and recognise opportunities for youth.

Age Group	Executive Committee		Assistant General Managers		Senior Managers		Manages and Assist. Managers		Executives		Non Executives		2014 Total
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
30 and below	0	0	0	0	0	0	36	8	122	28	164	140	498
31-40	0	1	1	1	7	6	125	14	119	31	19	15	338
41-50	2	1	4	1	18	4	97	16	38	18	21	8	229
51-60	4	1	4	0	4	0	13	9	5	10	16	3	69
<b>Total</b>	<b>6</b>	<b>3</b>	<b>9</b>	<b>2</b>	<b>29</b>	<b>10</b>	<b>271</b>	<b>47</b>	<b>284</b>	<b>87</b>	<b>220</b>	<b>166</b>	<b>1,134</b>

### Geographical Diversity of Workforce

Province	No. of Employees		Percentage of Total	
	Male	Female	Male	Female
Northern	12	4	1%	1%
North Central	59	6	7%	2%
North Western	13	2	2%	1%
Eastern	12	2	1%	1%
Central	65	16	8%	5%
Western	141	29	17%	9%
Uva	36	12	4%	4%
Sabaragamuwa	13	1	2%	0%
Southern	52	14	6%	4%
Head office	416	229	51%	73%
<b>Total</b>	<b>819</b>	<b>315</b>	<b>100%</b>	<b>100%</b>

### Induction and Familiarisation

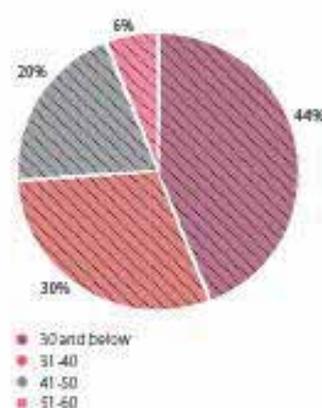
An important feature in this process is to ensure that new recruits acquire an understanding of the culture of the organisation, the organisational structure and the framework within which the Company operates.

New recruits go through a two day mandatory induction programme and recruits to the senior management level goes through a learning arrangement on the key operational aspects of the Company which is spread over five days. On a needs basis, a further nine days of familiarisation

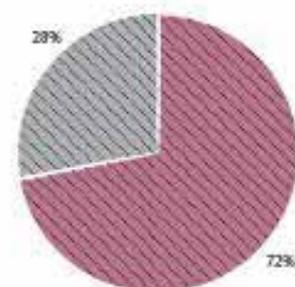
on Life and Non Life insurance is provided to equip recruits with the basic foundation required to get them started on the job. A "Buddy" concept is practiced to ensure effectiveness of the integration process of new recruits. The table given below indicates the number of induction programmes conducted and the hours covered.

	2014	2013
No. of Programmes	12	12
No. of hours	6,264	5,986

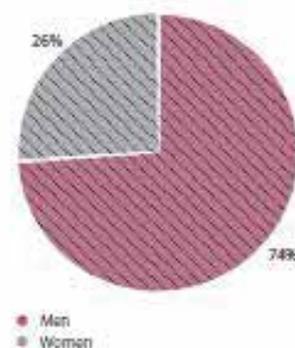
Age Analysis of Staff



Employee Diversity - 2014



Employee Diversity - 2013



# Management Discussion and Analysis

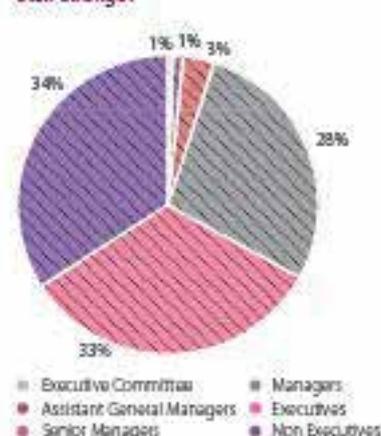
## Employee Turnover

UA takes serious account of its employee turnover which is the process of replacing one employee with another for any reason. The rate of attrition is a concern to UA as employee turnover could impact the service standards the Company has committed to and it can also be a costly expense.

Employee Turnover by Age and Gender	2014		Total	2013		Total
	Male	Female		Male	Female	
Less than 30	53	48	101	74	24	98
31-40	73	7	80	79	9	88
41-50	46	2	48	34	0	34
51-60	7	7	14	3	0	3
<b>Total</b>	<b>179</b>	<b>64</b>	<b>243</b>	<b>190</b>	<b>33</b>	<b>223</b>

Employee Turnover by Region	2014		Total
	Male	Female	
North	5	2	7
Eastern	1	2	3
Southern	19	4	23
Western	102	47	149
Central	15	2	17
Uva	18	2	20
North Central Zone	18	4	22
North Western Zone	1	1	2
<b>Total</b>	<b>179</b>	<b>64</b>	<b>243</b>

Staff Strength



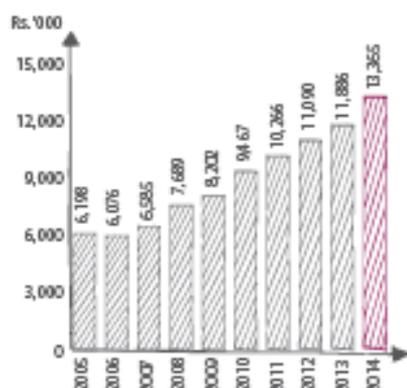
## Staff Strength

As at 31 December 2014, UA had an employee strength of 1,134 engaged in sales and non-sales related functions at Head office and at our regional offices across the island. Out of the total, 61% relates to non sales with the balance representing the sales staff.

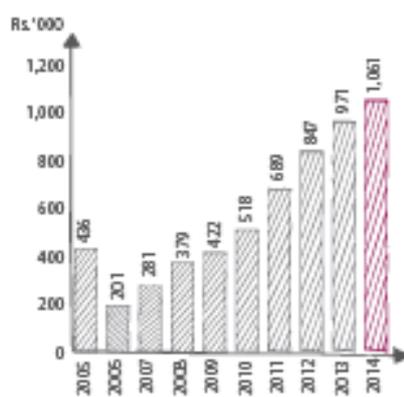
As at 31 December 2014	2014	2013	2012	2011	2010	2009	2008
Executive Committee	9	9	10	9	9	9	10
Assistant General Managers	11	10	8	7	7	8	9
Senior Managers	39	39	34	33	31	29	27
Managers and Assistant Managers	318	357	352	338	332	315	264
Executives	371	376	376	330	340	300	279
Non Executives	386	366	308	292	270	288	313
<b>Total</b>	<b>1,134</b>	<b>1,157</b>	<b>1,088</b>	<b>1,009</b>	<b>989</b>	<b>949</b>	<b>902</b>

Enhancing employee productivity is key to achieving sustainable objectives of the Company and hence UA continues to invest in programmes which increase staff productivity.

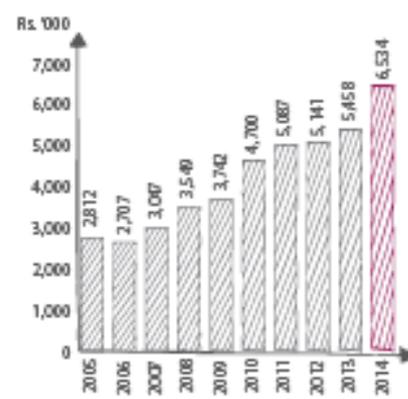
Revenue per Employee



Profit per Employee



Value Added per Employee



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

Tenure of Service	Executive Committee		Assistant General Managers		Senior Managers		Managers and Assist. Managers		Executives		Non Executives		2014 Total
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	
5 and below	2	1	2	1	14	3	159	17	213	34	167	133	746
6-10	3	1	3	1	4	5	73	10	54	29	15	23	221
11-15	0	1	2	0	6	1	16	8	6	5	2	1	48
16-20	0	0	1	0	3	0	13	2	5	8	15	2	49
Above 20	1	0	1	0	2	1	10	10	6	11	21	7	70
<b>Total</b>	<b>6</b>	<b>3</b>	<b>9</b>	<b>2</b>	<b>29</b>	<b>10</b>	<b>271</b>	<b>47</b>	<b>284</b>	<b>87</b>	<b>220</b>	<b>166</b>	<b>1,134</b>

## 2. Training and Development

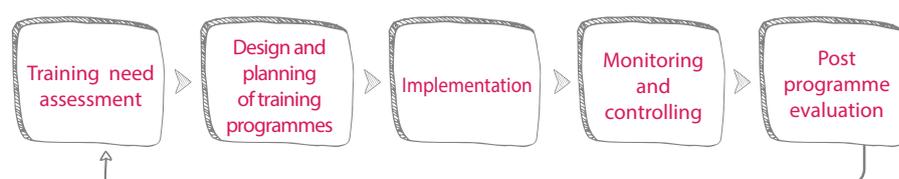
Building a high performing team through training, development and education provides immense benefits to the organisation by way of increased productivity, knowledge, loyalty and ability to add value. Our aim is to focus on training which can significantly improve our human capital. One key factor in employee motivation and retention is that all employees want to grow and develop their career enhancing skills. At UA we believe that providing such opportunities to employees is one of the strongest drivers of motivation. During the year, we continued to invest in our people. The range of training encompassed technical, functional, language, information technology and general management.

### Training and Development Cycle

We use a wide variety of training resources and programmes locally and internationally to suit the needs of the office as well as the field staff. The costs incurred include the in-house panel of trainers and related expenses. The total training and development expense for 2014 is tabulated as follows.

Investment in Learning and Development	2014 Rs. Mn	2013 Rs. Mn
In-house training	6	26
External training	2	2
Conferences	3	3
Overseas training	11	7
Insurance and professional education	25	16
Professional membership fees	2	1
<b>Total</b>	<b>49</b>	<b>55</b>

*We use a wide variety of training resources and programmes locally and internationally....*



The following table provides the training programmes initiated in line with our strategy during the year.

Training Programmes and Training Hours	2014			2013		
	External	Internal	Total	External	Internal	Total
Number of programmes	128	178	306	111	125	246
Number of training hours	5,013	14,528	19,841	6,752	21,414	28,166

A total of 26 in-house training programmes and 29 external programmes including 7 overseas programmes were carried out during the year. The total learning days achieved against the previous year are given below;

Category	2014		2013	
	Benchmark	Actual	Benchmark	Actual
Managers	6	20	6	14
Executives	4	13	4	7
Non executives	3	13	3	6

Types of training and training hours by employee category

Training Hours	Senior Management	Executive	Non-executive	Total
No. of employees	58	682	378	1,118
No. of training hours	1,581	9,841	8,444	19,866
Average no of training hours per employee	27	14	22	64

# Management Discussion and Analysis

## Support for Professional Education

UA has a strong culture which helps employees pursue professional education in insurance and other job related courses. This professional examinations assistance scheme supported 147 members in 2014 (2013 - 164).

## Internal Certification Programmes

UA has developed several flagship certification programmes in order to enhance knowledge and skills of staff on key processes and to enable them to take up better career opportunities as outlined below;

### 1. Certificate in General Insurance Underwriting Practice (CIGIUP)

This certification process is designed for the Non Life insurance technical and underwriting staff. The certification is awarded upon completion of specified training modules. During the year, 41 branch underwriting staff members were certified as CIGIUPs.

### 2. Advanced Certificate in General Insurance Underwriting Practice (ACIGIUP)

This certification process was launched for senior technical and underwriting staff. The certification is awarded upon completion of specified advance training modules and field assignments.

### 3. Certificate in Life Insurance Practice (CILIP)

This certification programme was developed for technical sales support staff in Life insurance to enhance their knowledge of Life insurance practices. To be certified, each person has to pass a written exam and participate in group assignments as per the curriculum.

## Leadership and Public Speaking

### Union Assurance Toastmasters Club - Reach the Top

Union Assurance Toastmasters Club was chartered in 2009/2010, and has since provided a national/international level platform for Union Assurance employees with a flair for public speaking. Since receiving its charter, the UA Toastmasters have progressed from strength to strength.

In the year 2013 / 2014, the club received the highest level of recognition from Toastmasters International by winning the title of President's Distinguished club. In addition, for the first time since receiving its charter, the UA Toastmasters also had the honour of winning the Golden Gavel, Beat the Clock, Smedley and the Talk Up Toastmasters awards during the year.



Our Toastmasters

The UA Toastmasters club has played a pivotal role in helping them develop their communication and leadership skills. There are 41 registered members and many other visiting members are benefiting from this programme.

### Overseas Exposure

UA continued to provide overseas exposure to staff members as an essential element of the training and development process. 23 employees attended overseas training programmes during the year.

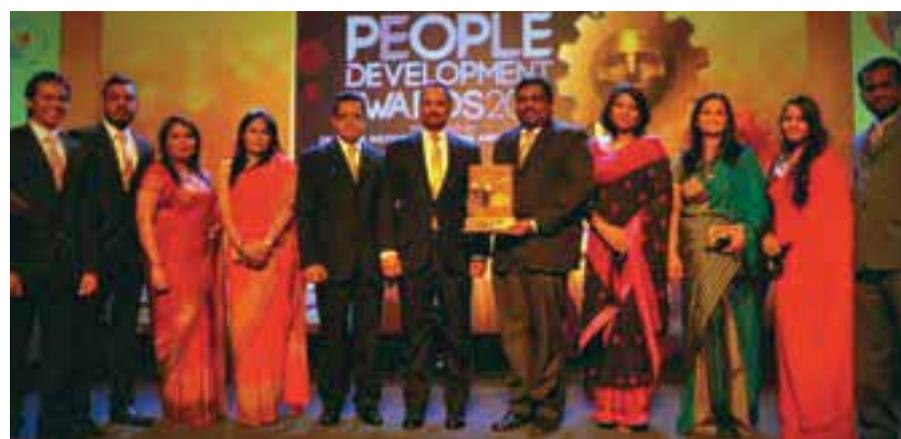
Overseas Training	2014		
	Male	Female	Total
Life division	2	3	5
Marketing and Distribution	7	1	8
Human Resources	-	1	1
Information Technology	4	-	4
Actuarial	1	4	5
<b>Total</b>	<b>14</b>	<b>9</b>	<b>23</b>

### Sri Lanka Institute of Training and Development Awards

Union Assurance bagged the Gold award for people development in Category 1 at the award ceremony organised by the Sri Lanka Institute of Training and Development (SLITAD) .

23 companies were recognised for people development in 3 distinct categories at this event.

The award is testimony of the Company's commitment to provide unique training and development opportunities for staff at all levels in a structured manner.



"SLITDA People Development Awards"

## 3. Performance Management (Career Committee)

UA has implemented a systematic performance management system where each employee's performance is assessed based on fairness and equality.

Employee's performance against the set objectives is first assessed by his / her immediate supervisor and his / her recommendations provided. Following this process, all recommendations of executive and above category are presented to a career committee comprising senior management from different departments. Based on the recommendations received, this committee assesses the performance of employees and provides final recommendations on performance along with their feedback as a committee. Subsequently, individual feedback sessions are held to communicate the final performance rating and career committee feedback to relevant staff members. Feedback sessions are conducted by the individual's immediate supervisor in the presence of a member from the respective career committee in which his / her performance was discussed.

### Remuneration Policy

The objective of the remuneration policy is to attract, motivate and retain qualified and talented individuals that the Company needs in order to achieve its strategic and operational objectives, whilst acknowledging the societal context around remuneration and recognising the interests of UA's stakeholders. As per the Remuneration Committee report, the key remuneration policy principles are as follows:

- Total remuneration is set at a level that can attract, motivate and retain high quality talent

- Remuneration is commensurate with each employee's level of expertise and contribution and is aligned with the Company's performance
- Executive remuneration is set so that a significant portion is linked to performance
- The performance related element of remuneration is designed and tailored to align the, employees' and main stakeholders interests
- Remuneration levels are based on industry and market surveys
- Initial compensation and benefits are decided based on individual knowledge, skills and competencies and remuneration policies. Individual employee performance is reviewed twice a year, through a mid-year one-on-one performance appraisal process and a more formal career committee performance evaluation at year end

#### Benefits for Employees

UA offers various benefits to its employees based on the category and job responsibilities other than benefits defined by relevant regulations. These include;

- Medical benefits, Life Insurance cover including personal accident cover, hospitalisation cover, family cover and critical illness cover
- Vehicle loans at concessionary interest rates
- Festival advances and child educational assistance
- Access to hotels managed by JKH group at concessionary rates
- Study leave and professional education assistance
- Reimbursement of selected professional memberships / subscription payments
- Performance related bonus
- Tab loans / mobile connections

#### 4. Employee Engagement

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

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

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



"Values Walkway"

#### Provide a Great Place to Work

**Employee Survey:** UA was recognised for the second consecutive year as a Great Place to Work via a survey, across many banking and financial institutions as well as multinationals, public listed companies and organisations. The survey was conducted by the Great Place to Work® Institute. More than 5,000 employees from various industries participated in the survey.

Among the 15 great companies in the study this year, employee pride in the organisation they work for, a feeling of camaraderie among colleagues, management's ability to run the business and feeling accepted within the Company rated high. As per the survey, Union Assurance is comparable with and in some instances better than many of the best multinational companies in the world.

**Management Meetings:** Open, transparent communication plays a vital role in our strategy to engage with our employees. The Company conducts management meetings every other month to discuss business developments, Company activities and progress against plans. This information is then cascaded to every employee by the respective departmental / branch manager. This forum allows employees to raise questions and concerns and make suggestions, as well as enable the management to gather insights from staff on the issues and opportunities they believe need to be addressed.

**Strategic Planning Process:** We continued the practice of conducting an interactive strategic planning process involving representatives from all functional areas including the head office and distribution network across the country. Planning sessions were initiated for the year 2014 and over 500 persons directly participated in the planning discussions.

# Management Discussion and Analysis



Strategic and tactical action plans discussed at these meetings in addition to the standard planning forums are ratified by the executive committee and formally presented for approval by the Board of Directors. We obtained new ideas and areas for improvement from four batches of Union Transformers (employees in the 25 to 35 age bracket) individual participated. The Company also allowed the employees to send their suggestions via the Intranet and all suggestions were analysed to understand possibility of implementation.

**Coffee with CEO:** This initiative was launched to provide an opportunity for staff to directly interact with the CEO and discuss any matters related to their area of work.

It is also an opportunity for staff to interact with team members from other functions to clarify any issues and appreciate their points of view. Staff are encouraged to share their ideas regarding new products and service enhancements as well.

Matters discussed are referred to relevant divisions for successful closure and is subject to a close follow-up process to ensure that employee



comments and concerns (voice of the employee) is given due consideration.

**Use of Text Messages (sms):** UA continued to use text messages to update employees with latest news related to Company decisions, events etc; UA also operates an email account where any employee can send in suggestions / ideas.

**Social Media such as "Facebook":** To encourage staff to connect with the Company through their Facebook accounts, many competitions were launched during the year.

**Smart Managers Forum:** UA launched this forum during the year to provide more opportunities for employees at assistant manager and above categories to engage with senior management to contribute towards achieving organisational objectives.



"Tour de Citrus"

## Union Hobby and Adventure Society (UHAS):

The core objective of this unique initiative was to bring together employees with mutual interest on the following five areas to provide them with an opportunity to interact with each other.

- Fitness and biking
- Glamour
- Photography
- Dog Lovers
- X box and gamers

### Fitness and Biking

Fitness and biking club currently functions with 15 members with 10 regular bikers riding during weekends and at times during the evenings on weekdays. UA bikers organised a "Night Ride" for the first time in the city and completed 15 miles. UA bikers also participated at the "Tour de Citrus" organised by Citrus hotel. The journey commenced from Kollupitiya up to Citrus Hotel Waskaduwa.

### Glamour

The Glamour club of UHAS organised a "Glamour Day", the session was mainly for the female staff in order to educate them on the importance of personal grooming.

### X Boxers and Gamers

UHAS organised a gaming competition where over 50 gamers participated in 5 teams. The event was organised as a live computer gaming session.

### Photography

UA Photographic club organised a photography day in association with "Photo Technica". The club also organised a presentation on "The Art of Photography" conducted by Mr. Priyantha Abeysundara (professional artist and photographer).

### Dog Lovers

UHAS Dog lovers club organised an online photo competition where dog lovers had an opportunity to publish photo of their pets on the UHAS blog. The best 3 photos were selected by a panel of judges and gifts were awarded to the pets. The club also conducted a "Puppy Adoption Day" in collaboration with "Embarck".

## 5. Employee Health and Safety

UA follows various national and international guidelines on workplace health and safety. These directives set out general principles to maintain and enhance workers' occupational safety and health. We have initiated a range of activities related to health and safety to ensure we have a very safe place to work.

- Fire drills: abrupt fire drills are initiated to educate employees on how such a situation should be handled

- Vitality and work: various initiatives launched to ensure proper work-life balance as indicated under "Grate Place to Work" section
- Working environment: we have provided our employees proper workplace layouts and other facilities in compliance with accepted health and safety measures.
- Incidents at work: we have a very systematic process in place to record and monitor occupational incidents and to take preventing actions.

Further UA conducts selective programmes to educate and create awareness on serious diseases such as HIV / AIDS. UA also has engaged an institute to provide confidential counselling support should any employee require this service.

#### Employee Representation on Health and Safety Committees

No special committees have been formed, however our human resource and logistics departments have taken efforts to safeguard and address concerns of health and safety of the employees.

#### Union Health Camp

A health camp was conducted for all employees at Head Office and Motor Centre. Employee above forty years had the opportunity to get a free medical check-up sponsored by the Company while the other employees received a special discount on the fee.

### 6. Rewards and Recognition

We understand the importance of our employees knowing that they are viewed as valuable assets of the organisation. With a right reward and recognition system, we strive to create and reinforce a positive self-image in our employees.

#### Service Champions

The objective of the "Service Champions" reward scheme is to select and reward the most outstanding employees in support services units and to distinguish high performers. As such they are used as role models. 138 members were recognised under this scheme in this year annual award ceremony.

#### Employee Recognition Schemes

UA has implemented several strategies to recognise sales and non-sales staff. Recognition schemes for sales staff are based on achievement of targets and quality of business generated. Non sales staff are recognised for the contribution made to significant company initiatives, value addition in their respective functions and the scheme is open to individuals and teams.

During the year, 60 non sales staff members (2013 - 54) have been nominated under the non-sales employee recognition scheme, for contributing to initiatives which enabled UA to differentiate itself from competition, launch new products, enhance customer service and streamline training and development activities.

#### Superior Performance and Recognition (SPAR)

UA's spot recognition programme provides line managers with the opportunity to grant instant rewards to their staff whenever an action is deemed "worthy" and "rewardable". It is the quickest, easiest and most convenient way to reward employees when there is a need to make a visible acknowledgement of their contribution. In the year 2014, 134 employees were recognised with SPARS.

#### Variable Bonus Scheme

UA has implemented a variable bonus scheme to recognise the relative contribution of all staff to achieve corporate objectives. Under this scheme, staff involved in the Life or Non Life businesses would receive their year-end variable bonuses based on the achievements of that particular line of business as well as their individual performance. Staff members involved in support service activities would receive half their bonus from each line of business.

### 7. Leadership Development / Talent Management

#### Manager Par Excellence

Manager Par Excellence programme was a tailor-made programme for Assistant Manager to Assistant General Manager levels. The programme was conducted over a four month period covering eight classroom sessions. 12 Assistant Managers, 13 Managers, one Senior Manager and 1 Assistant General Manager participated in this programme. Following areas were covered in the classroom sessions:

- Personal effectiveness
- Leadership and management
- Coaching and mentoring
- Managing and leading change
- Creativity and innovation
- Communication and presentation skills
- Negotiation skills
- Decision making skills

A business etiquette session was also conducted by a reputed hotel chain culminating in a five course dinner.

#### Exercise Magnum Opus

This was the culmination of the Manager Par Excellence programme and created to incorporate classroom based leadership and team building learning into an outdoor adventure based exercise with the focus on experiential learning. All tasks and activities were conceptualised with key management learning in mind. 22 managers in 4 teams participated in this unique adventure based event.

The programme was held over a period of two days with an overnight stay in a beautiful jungle setting which concluded with an enjoyable talent show entitled "UA's Got Talent". The participants travelled over 100 kms using varying modes of transport to reach the final rendezvous. The exercise was conducted in collaboration with a reputed organisation with extensive experience in conducting outbound programmes.



"Exercise Magnum Opus"

# Management Discussion and Analysis

## The Ladder Project

The purpose of this training programme was to develop young UA staff members to face the challenges of a modern work environment. The facilitators built a long term relationship with the executives and worked through a series of challenging scenarios to build on their personal and leadership capabilities. Executives met with the coaches once a month over duration of four months. Participants had to complete assignments with distinction passes to achieve the title "UA LADDER CLIMBER" which reflects qualities such as positive learning attitude, resilience, self-awareness, increased confident and winning attitude.



"The Ladder Project"

## Executive Development

This development programme conducted exclusively for executives was on a voluntary basis where interested staff could apply and enrol on their own. Those who enrolled had to carry out an on-line self-study program for three months and appear for a MCQ test and obtain 50% marks to proceed to the final phase. The final phase was a four day residential programme where all the preparatory learning were put to test. Out of 44 participants who enrolled for this program, 14 participants successfully completed the final phase.

## Union Transformers

"Union Transformers 2", is a special training programme on ethics, morals and etiquette conducted by external and internal facilitators for all staff members below 30 years of age.

## Succession Planning

A strong succession plan is vital for the long-term sustainability of business operations. A succession plan can also help identify key resources from

## 8. Work Life Balance

Work life balance is a concept which looks at proper prioritisation of "work" (career and ambition) and "lifestyle" (health, pleasure, leisure, family and spiritual development / meditation). UA emphasises on work life balance to create a productive and a happy set of employees who spend quality time at work as well as with their family and friends.

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

**UHAS Avurudu Pola 2014:** UHAS organised an Avurudu Pola in association with the Recreation club at the head office car park. Employees had the chance to purchase electronic items / cosmetics / clothes / footwear and much more on special rates. The staff also had the chance to experience traditional avurudu games and to taste rasa keveli.



"Avurudu Pola"

## Cadet Manager

This novel programme was initiated to attract dynamic graduates to take up leadership positions in distribution where each individual would undergo an extensive training programme and once successfully completed would operate as a regional manager. The program is structured in a manner where it promotes team work, business analysis and crisis management which are very essential in managing very dynamic teams to realise the business potential of respective areas.

within the organisation that can be trained and mentored to elevate their role in the future. The objective of UA's comprehensive succession plan for staff above manager level was to fill most or all key appointments internally and also to ascertain development needs of possible successors. The effort revealed a wealth of information with the assistance of the respective General Managers to effectively implement some of the decisions to ensure greater career opportunities for existing staff members.

**UA Wellness Project:** UA launched "UA Wellness Project" which consisted of a variety of activities for employees to maintain a healthy lifestyle. zumba, yoga, karate, weekly walk and 21 Days Weight Reduction Challenge was introduced. The initiative was extended up to regional level with the support of zonal managers, regional managers and other Branch staff members.

**Yugayen Yugayata:** The recreation club organised "Yugayen Yugayata" singing competition. The theme of this competition was "Different eras in the local music industry". More than 100 staff members from all divisions participated at the event.



"Yugayen Yugayata Singing Competition"

**UA Recreation Club:** UA's recreation club organised several events to foster camaraderie among staff. These events provided an opportunity for our staff to relax, have fun, and develop team spirit and network with others. In addition, the recreation club contracted several leading establishments to provide goods and services at special rates and easy payment terms to our staff. Other key activities in the recreation club calendar included the Wesak lantern and Christmas tree competitions as well as Wesak bakhthi gee and Christmas carols.

## 9. Compliance (Internal Policies and External Regulations)

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

### Retirement Benefits

We comply with the Employees' Provident Fund (EPF) Act No. 15 of 1958 and the Employees' Trust Fund (ETF) Act No. 46 of 1980. Accordingly, UA contributes 12% of an employee's basic salary

to the Employees Provident Fund and 3% to the Employees Trust Fund on a monthly basis. Further, UA complies with the regulation on payment of Gratuity Act No. 12 of 1983, where all permanent employees who have completed 5 years of uninterrupted service are entitled to receive a retirement benefit which is equivalent to half a month's basic salary into the number of years in service. The defined benefit contribution liability is externally valued by Mr. M Poopalanathan professional valuer of Messrs. Actuarial and Management Consultants (Pvt) limited. The total defined benefit contribution liability for the year ending December 2014 is Rs. 197 million (2013 Rs. 186 million).

Year ended 31 December	2014 Rs '000	2013 Rs '000
EPF – Employer	90,748	83,721
EPF – Employee	60,498	55,814
ETF – Employer	22,687	20,930
<b>Total</b>	<b>173,933</b>	<b>160,465</b>

### Resignations, Terminations and Transfer Policy

We have designed a comprehensive HR manual which addresses resignation, termination and transfer of employees. Employees may resign from the Company subject to the terms and conditions set in their appointment letters, while retirement of employees would be at the age of 55. The Company conducts exit interviews prior to employees leaving the Company, in order to identify reasons for their exit and to strengthen HR practices if necessary. Where applicable relevant compensation is provided based on existing labour regulation and company policies.

### Human Rights at the Workplace

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

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

### Non Discrimination, Child Labour, Forced and Compulsory Labour

The Company has a strong mechanism to avoid discrimination when recruiting, promoting and granting recognition. During the period, there were no incidents reported on such cases. At UA, our policy is to recruit employees above 18 years and to comply with local regulations on child labour. No incidents were reported on forced labour.

### Grievance Management Process

UA has a very effective grievance handling process in place.

UA acknowledges that as an equal opportunity employer, a grievance handling procedure will provide opportunities to employees who are aggrieved by alleged unfair, unjust or inequitable practice to seek redress without prejudice to the complainant.

The Company has implemented an online grievance handling system where employees could present their case in an anonymous manner. This will trigger a notice in the form of an email to the relevant officers. After careful evaluation of the issue it is communicated to the individual/s affected and solutions are provided in an effective and efficient manner.

### Open Door Policy

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

### Whistle Blowing

The Company has set up formal procedure as well as confidential hot line capabilities on our website for whistle blowing on matters of misconduct. The disclosure is usually by an employee within the Company, to the public or to those in authority in respect of mismanagement, corruption, illegality, or some other wrongdoing made by a person or a group of people in the Company. The whistle blowing policy is made active within the Company and has been communicated to all members of staff to enable any member to raise issues with the management and / or the Board, in order to identify and resolve potential issues at an early stage.

### 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

# Management Discussion and Analysis

all business contracts should be awarded on merit, that corruption is not acceptable, and that no improper influence should be exerted when transacting business.

**Anti-corruption procedure:** Our anti-corruption procedure is designed to ensure that everyone at UA observes the highest levels of integrity and is not involved in any corrupt activities. The guidelines make it clear that the Company and its individual Directors, officers and employees, could be held liable for any direct or indirect involvement in corrupt practices.

All employees are expected to understand and adhere 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 manager has a deep understanding in respect of the content, scope and importance of this policy
- They should exhibit adherence of the policy in their behaviour

There were no misconduct reported during the period 2014.

## Field Staff

Our field staff members are an integral part of the Union family. They act as the link between our customers and the Company in delivering the promise of trust. Hence, we provide them with adequate training and development opportunities, structured sales tools and techniques that enhance their productivity and professionalism. We also strive to create a rewarding career with internal and international rewards and recognition schemes. The following diagram demonstrates our approach to addressing key material issues applicable to the field staff.



### 1. Learning and Development

We continue to develop our field staff by providing adequate training and development opportunities. The progress we have made during the year in terms of training hours for each category of staff is summarised below;

Training for Field Staff Life and Non Life	2014			2013		
	Average Cadre	Total Training Hours	Per Capita Training Hours	Average Cadre	Total Training Hours	Per Capita Training Hours
Regional and sales managers	446	19,649	44.1	555	21,864	39.4
Advisors	4,530	252,800	55.8	4,326	298,880	69.1
Bancassurance / support staff	836	41,747	49.9	243	26,104	107.4
Unit leaders	652	31,709	48.6	627	37,528	59.9
<b>Total</b>	<b>6,464</b>	<b>345,905</b>	<b>48.6</b>	<b>5,751</b>	<b>384,376</b>	<b>66.8</b>
<b>Total including e-learning and distance learning</b>	<b>6,464</b>	<b>388,426</b>	<b>60.1</b>	<b>5,751</b>	<b>477,801</b>	<b>83.0</b>

Training resources were aligned with the distribution structure which was expanded in 2014, thus providing everyone easy and quick access to learning and development opportunities. The table below details the zone wise training programs carried out.

Zone	2014		2013	
	No. of Programmes	No. of Participants	No. of Programmes	No. of Participants
North	91	1,842	107	2,399
North Central 1	34	762	44	1,484
North Central 2	17	376	0	0
Central 1	60	1,675	66	2,220
Central 2	60	1,353	0	0
Western 1	29	997	21	764
Western 2	42	1,174	25	680
North Western	25	716	15	730
Uva	50	1,429	57	1,512
Eastern	64	1,114	56	954
Southern 1	43	1,422	63	2,315
Southern 2	25	614	0	0
Metro 1	13	274	5	217
Metro 2	14	894	12	466
Metro 3	8	252	3	102
Common Events	139	5,000	144	5,140
<b>Total</b>	<b>714</b>	<b>19,894</b>	<b>618</b>	<b>18,983</b>

Life and Non Life training focused on technical, soft skills, motivational and professional coaching and a minimum of five days of training needed to be completed by field staff in all categories. However, average training hours per employee for Life and Non Life were 68.45 and 31.25 respectively.

#### Product Training

With the launch of "Union Super Investor", a high volume of quality training was required for successful implementation. With this in mind, Learning and Development (L&D) conducted a train the trainer programme and product training for sales staff as well as special refresher sessions on selling techniques was conducted as indicated below;

Product Training	No. of Participants	No. of Programmes
Life products training	1,770	81
Union Medi-Guard	773	16
Union super investor	2,502	46
Union challenger	359	18
Special refresher sales training	1,014	30
Train the trainer programme	474	27

#### Sales Training

In order to enhance the selling skills of our field staff, we have conducted continuous development programmes on selling skills. During the year 1,272 field staff members have undergone sales skill development programmes.

#### Online Examinations

To build knowledge of the technical side of e-learning and to make the process of examinations easy and convenient, promoting of the online examination for the "Know Our Life Products" programme was carried out with great intensity.

Examination	Participants
IBSL on-line assessment	103
Know our Life products	06
Digital advisor toolkit (DAT) assessment	14
<b>Total</b>	<b>123</b>

#### Enhanced Training Structure Through e – Learning

"Learn Easy" is an e-learning system made available to each and every Union Assurance field and office staff member. The Learn Easy system is set to take over close to 70% of the training requirements of the organisation. Field staff can access the system at anytime from anywhere and utilise courses created by training professionals. Various reading materials are made available on the system's digital library in text, audio and video form.

The system provides an e-learning workshop and case study based learning and includes a variety of knowledge enhancing information that is useful for a person engaged in the industry that is fast evolving.

E-learning and Distance Learning	2014			2013		
	Average Cadre	Total Training Hours	Per Capita Training Hours	Average Cadre	Total Training Hours	Per Capita Training Hours
Life sales advisor	3,844	26,478	6.9	2,956	36,266	12.0
Life field and sales management staff	652	308	0.5	276	2,041	7.0
Branch Managers and above	228	112	0.5	69	2	-
Non Life sales and non-sales staff	1,453	15,624	10.8	1,084	35,658	33.0
<b>Total</b>	<b>6,177</b>	<b>42,521</b>	<b>6.9</b>	<b>4,385</b>	<b>73,967</b>	<b>17.0</b>

# Management Discussion and Analysis

## Training for Bancassurance Sales Staff

A structured training programme was launched with dedicated training resources to enhance product knowledge and sales skills of bancassurance sales staff. This resulted in improvement in all key value drivers of the business including the use of digital tools within the sales cadre.

Programmes	No. of Programmes	No. of Participants	Total Learning Hours
IBSL training	4	170	3,384
Bancassurance induction programme	8	194	12,968
Service mindset and product refresher	1	28	448
Bancassurance leader's competency development	3	53	584
<b>Total</b>	<b>16</b>	<b>445</b>	<b>17,384</b>

premiums over one million. During the year company was able to conduct 19 training and coaching programmes for prospective advisors and as a result 537 advisors have been qualified as "Millionaire circle" members.

## Digital Advisor Toolkit (DAT)

The Digital Advisor Toolkit (DAT) of UA is the only comprehensive digital solution available in the local insurance industry. The DAT was designed to be compatible with laptops, tablet PCs and smart / mobile phones.

It is a useful tool when carrying out sales presentations and allows sales persons to customise the product offering to suit the customer's requirements. Through the resource

## 2. Enhance Productivity and Professionalism

### Brilliant Starter

This initiative was launched by L&D unit with the intention of enhancing the confidence and competencies. The objectives of this initiative are to develop new advisors to work independently and to maintain productivity after the first three months of their career and to inculcate the habit of need-based selling. During the year, 455 new Life advisors have been recognised as Brilliant Starters.

### Brilliant Starter Leader

This initiative was launched to motivate Unit Development Officers to focus on quality recruitment and to develop new advisors to become Brilliant Starters. The selection criteria to be recognised as a Brilliant Starter Leader, is to recruit three new advisors during the first four months and develop them to achieve the assigned minimum target.

### Leadership Academy

The Leadership Academy continues to develop sales leaders to deliver the Company objectives and navigate the rapid changes taking place in the industry. Four sessions were conducted which included a series of practical leadership development sessions in addition to class room based training. During the year the 3<sup>rd</sup> batch of the academy commenced with 36 participants.



"Brilliant Starter Programme"

Digital Proposals	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Total proposals	8,485	5,267	7,359	4,765	5,476	5,811	6,722	5,968	6,020	5,965	5,636	5,282
Digital proposals (DP)	413	289	480	486	887	1,260	1,469	1,351	1,553	1,527	1,502	1,538
DP as % of total proposals	5%	5%	7%	10%	16%	22%	22%	23%	26%	26%	27%	29%

## Millionaire Circle

"Millionaire Income Table" (MIT) was replaced with "Millionaire Circle" to groom Life advisors with high potential to achieve personal new business

centre which is integrated into the DAT solution, the advisor is able to access the latest corporate information that can be instantly shared with the customer. If the customer requires further time to

assess the solution presented, the DAT allows the advisor to email a PDF version of the quote to the customer.

In addition being able to submit proposals online, enhanced the sales advisors' productivity and value.

During the year, 1,571 advisers and leaders have successfully completed the required training and are now using the DAT in the field. Ten new modules were included to the DAT during the year to enhance its usability.

During the year, 42,521 learning hours were successfully completed by advisors, field managers, branch managers, sales and non-sales staff using the e-learning modules. As a result of the above e-learning and distance learning, field staff were able to produce 29% of new Life proposals in the month of December using the DAT.

### Certification Programmes

These programs began in 2008 with the intention of issuing certificates to advisors and unit leaders who had completed specified training modules and had consistent business performance. During the year 792 advisors and 33 unit leaders were certified.

### Certified Investment Planner (CIP)

This certification programme was introduced to enhance the technical knowledge and professionalism of field staff in relation to unit linked products. Potential candidates were selected based on their business performance and sales experience. The certification is awarded upon successful completion of an examination after two day training programme. In total 1,604 (during the year 260) CIPs have been certified including sales and regional managers.

### Certified Sales Professional (CSP)

This certification programme was introduced for Non Life sales officers to recognise their outstanding business performance. Certified Sales Professionals need to achieve their sales targets for six consecutive months and complete the required training programmes to be qualified for this designation. In total 75 sales officers have been certified as CSPs during the year.

### Adventure Based Training

An adventure based training programme on team building was designed and conducted for 54 top performing Non Life sales officers. The intention of this programme was to reward hard work as well as to increase productivity by encouraging a high level of teamwork.

## 3. Rewards and Recognition

### Sales Awards

UA paid tribute to 90 top achievers in 2014 for their 2013 performance at the annual awards night, the most anticipated and spectacular event

in the UA calendar. This year's event was themed "A Sterling Performance Beyond the Silver towards Gold." These sales professionals met stringent sales objectives as well as service standards and emerged as the best of the very best.

All annual award top achievers with their family members were facilitated with a family outing organised at Cinnamon Bay - Beruwela.

### Overseas Tours

UA offers overseas tour opportunities for top performing Life and Non Life sales staff based on targets achieved. During the year, 472 Life sales staff members and 60 Non Life sales staff members toured Malaysia.



"LIMRA Winners"

### Million Dollar Round Table (MDRT)

UA has been promoting the prestigious Million Dollar Round Table (MDRT) Award to our sales force for ten consecutive years. In 2014, the Company was able to produce



"Annual Awards Night"



"Family Outing of Top Achievers"

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

We continue to encourage field staff to qualify for Life Insurance Marketing and Research Association USA Awards (LIMRA). In 2014, 15 advisors were recognised with a LIMRA International Award for Productivity (IAP) while 14 advisors were recognised with the LIMRA International Quality Award (IQA).

14 MDRT qualifiers. MDRT members demonstrate exceptional professional knowledge, strict ethical conduct and outstanding client service while being recognised internationally as "the standard of sales excellence" in the Life insurance and financial services business.



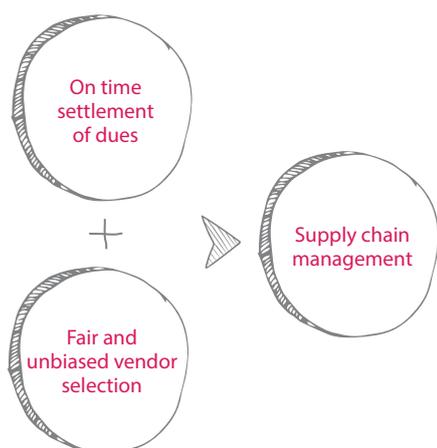
Our Best Sales Staff

## Suppliers and Business Partners

### Suppliers

Importance of supply chain management has steadily increased with firms recognising the benefits of collaborative relationships within and beyond the organisation. Our suppliers form part of the quality of delivery that we have promised our customers. This is particularly true for suppliers who come into direct contact with our customers in addition to the suppliers who provide goods and services to UA, enabling us to function effectively.

For us supply chain is the total system of products, services and information from suppliers right through to our people, including activities, information, and resources involved in designing, developing and delivery of a product or service to our customers. Therefore suppliers are a critical link in our supply chain. The following diagram illustrates our approach on addressing key material issues of our suppliers.



### On Time Settlement for Supplies

As an ethical business organisation, we are conscious of the working capital requirements of our suppliers as well. We ensure that our suppliers are paid well within the agreed time lines in order to maintain a collaborative relationship which is beneficial for both parties.

### Fair and Unbiased Vendor Selection Process

The Company has developed a formal process to evaluate suppliers annually and ensures that all suppliers have an equal opportunity to present their products or services. As a responsible corporate citizen, we take every endeavour to work only with ethical business partners and our supplier selection criteria takes into account

ethical business practices that we expect to witness in their business practices.

The supplier selection process considers the following attributes of the supplier's product, service (as applicable) and business practices when short-listing suppliers to be recommended to the suppliers committee.

#### Supplier Selection Criteria

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

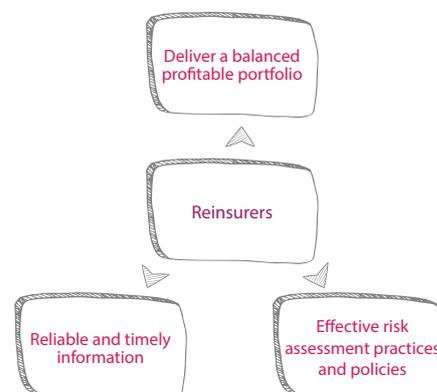
#### Products / Service Selection Criteria

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

#### Business Partners

Our reinsurance partners play a crucial role in our operations as they allow us to transfer part of the risk that exceeds our risk appetite (our underwriting capacity). We only enter into reinsurance arrangements with financially stable reinsurers whose security ratings are either on par or better than the minimum ratings stipulated by the Insurance Board of Sri Lanka (Please refer inner back cover for details of our reinsurance panel).

In view of protecting both client and the Company, the additional risk taken on by the insurers can have a significant impact on the product pricing in a highly competitive market, as evidenced by clients lost purely due to pricing. The following illustrate the key material issues which affect our reinsurance partners in the ordinary course of business.



### Deliver a Balanced Profitable Portfolio

To be considered balanced, an insurance portfolio should include many similar and equivalent risks. In this way, losses can be balanced collectively, meaning that the direct insurer will need little or no reinsurance. The Insurance portfolio of a large direct insurer comes closest to this ideal.

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

UA ensures that the reinsurance panel has adequate credit ratings by globally approved agencies. The credit ratings of the reinsurance panel are discussed under risk management in the financial section on page 258

### Reliable and Timely Information

Providing and receiving the right information to and from reinsurers at the right time can help to make better business decisions. Therefore, corporate agility and the ability to analyse information speedily are viewed as core competencies and a source of competitive differentiation of our reinsurers.

### Effective Risk Assessment Practices and Policies

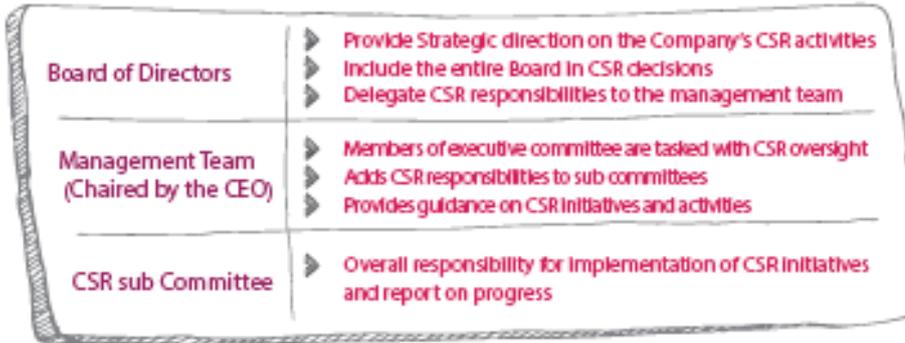
Risk assessment provides a mechanism to identify which risks represent opportunities and which represent potential pitfalls for both parties. Right risk assessment provides a clear view of variables to which company and the reinsurers may be exposed, whether internal or external, retrospective or forward looking.

A good assessment is anchored in the organisation's defined risk appetite and tolerance and provides a basis for selecting appropriate risk. A robust risk assessment process, applied consistently throughout the underwriting process empowers technical staff to better identify, evaluate and exploit the right risks.

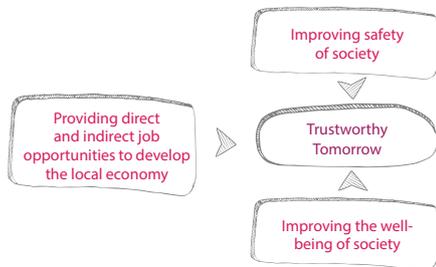
# Society

The community centric activities of Union Assurance are based on improving the health and safety of the society that the Company serves. Our corporate social responsibility (CSR) Committee outlines CSR strategies of the Company in line with the expectations of the various stakeholders and ensures that business activities are focused on improving the well-being of the society.

Structure of the CSR committee and the level of activities;



The society centric activities of UA are based on two strategically thought CSR platforms, safety and health, while projects are carried out closely with the Ministry of Health and the Sri Lanka Police focusing on addressing national concerns. The following diagram demonstrates our approach on addressing key material issues applicable to the community.



## 1. Provide Direct and Indirect Job Opportunities

Employment is very often the key concern for our host regions and we share this priority. It is due to this fact that we endeavour to do our part to create jobs and stimulate the economic base. We also strive to continually expand the local content of our activities and operations.

Although Sri Lanka has a relatively low unemployment rate, we endeavour to do our part to stimulate job creation. This might mean hiring candidates, offering training, purchasing local goods and services or developing the local economic base.

We support and implement social and economic programmes in line with the expectations of local communities. These programmes focus on various issues such as access to energy, health, education

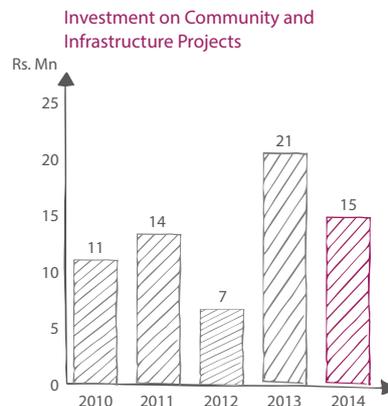
and industrial safety. They are geared to provide neighbouring communities with the capabilities needed to organise and steer their development independently according to their own priorities.

We have 122 locations spread throughout the island and have provided direct employment opportunities for more than 7,000 members of the community.

## 2. Improve Safety of Society

Safety is a key aspect when it comes to insurance with insurance being a mechanism where a loss suffered by a few individuals, is settled with nominal premiums collected from a large number of individuals and organisations. Similarly, creating a risk averse environment by educating the public on workplace and road safety is of vital importance.

Union Assurance has taken the initiative to educate and enhance the level of safety within the communities we operate in. This is carried out in partnership with the Sri Lanka Police.



## Crime Prevention Hoardings

Displaying of crime prevention hoardings project is continuing since 2005 in partnership with the Sri Lanka Police. The objective of the project is to reduce crime rates in the country.

By the end of the year 2014, UA covered the island and more than 330 hoardings have been erected which carry telephone numbers of relevant police stations. The Company invests to maintain the hoardings at the required standard.

The number of hoardings erected in each province is follows;

Province	No. of Hoardings
Western	48
Central	38
Eastern	48
North	28
North Central	38
North Western	53
Sabaragamuwa	24
Southern	26
Uva	29
<b>Total</b>	<b>332</b>

## Traffic Awareness Programs for School Children

UA along with the Sri Lanka Police conduct programmes in schools targeting school children and educating them on general traffic rules and regulations.

"School traffic wardens" programme continued throughout the year. UA issued certificates for participants endorsed by the Sri Lanka Police as certified traffic wardens and provided branded traffic warden jackets.

Province	No. of Schools	No. of Students
Central	1	700
Eastern	22	1,000
North Central	14	1,276
North Western	56	3,772
Northern	75	3,453
Sabaragamuwa	19	1,967
Southern	33	4,400
Uva	7	555
Western	61	5,226
<b>Total</b>	<b>288</b>	<b>22,349</b>

# Management Discussion and Analysis



"Traffic Awareness Programme for School Children - Nochchiyagama"



"Traffic Awareness Programme for School Children - Beliatta"

### Reflector Light Installation Programme

The reflector light installation programme was implemented with the aim of reducing push bicycle related accidents. It's been reported that the highest number of fatal accidents are caused by push bicycle accidents. One of the main reasons for this is that in the nights the push bicycles can not be seen by motorists due to the absence reflector lights.

District	Area	No of Participants
Anuradhapura	Mihintale	100
	Nochchiyagama	80
Hambantota	Ambalantota	80
<b>Total</b>		<b>260</b>



"Reflector Light Installation Programme - Anuradhapura"

### White Cane Donations

UA's recreation club continued the tradition of donating white canes to the visually impaired. The canes (the cost of which was entirely funded by UA employees) were donated directly to the Sri Lanka Welfare Society of the Blind.

### 3. Improving the Well-being of Society

The "Health awareness" platform for Life insurance is selected due to the direct relationship with the business. Union Assurance works together with the Ministry of Health to create awareness on critical health issues affecting the nation.

#### Dengue Awareness

The menace of dengue was a pressing issue affecting the entire island. In this light, as a direct CSR initiative of Union Assurance under the health awareness platform, we have partnered with the Divisional Ministry of Health (MOH) and the Public Health Department (PHD) of Colombo Municipal Council to conduct Dengue awareness programmes. UA supports the above mentioned government organisations by means of providing labour support and awareness material during house to house visits. We contribute to these

programs on requests made by the above mentioned organisations.

During the year the number of dengue awareness programs carried out are as follows;

District	Area	No. of Households / Premises Reached
Colombo	Kirulapone/ Narahenpita	1,355
	Grandpass	437
	Kochchikade	132
Kalutara	Baduraliya	351
<b>Total</b>		<b>2,275</b>



"Dengue Awareness"



"Reflector Light Installation Programme - Nochiyagama"

#### "DenGone"

UA launched "DenGone" a multimedia, educational video game in collaboration with the Public Health Department of the Colombo Municipal Council to educate children on the risks of dengue while showcasing innovative yet simple steps that can be taken to eradicate it. Various programmes were conducted at selected schools to promote this game among school children while creating a greater awareness regarding the dengue menace.



"DenGone"

### Dengue Walk

A Dengue awareness walk was organised by the Public Health department of the Colombo Municipal Council partnering with the private sector. Volunteers from Union Assurance also came forward to support this worthy cause.

### Awareness on the Prevention of Thalassemia

Thalassemia is a serious national concern, especially in the North Western Province. Therefore UA took steps to focus awareness programmes in the North Western Province. Our awareness programmes are conducted with the Provincial Department of Health – North Western province and the National Thalassemia Centre – Kurunegala.

During the year we conducted 45 programs partnering with the national Thalassemia Centre on creating awareness on how to prevent Thalassemia and 'Developing Mental Concepts of Children'. These programmes are focused on school teachers.

Further we conducted one day awareness programme on Thalassemia prevention by distributing e-flyers targeting over 200,000 members from various communities.

Province	No. of Participants
Central	1,771
Eastern	170
North Western	4,458
Sabaragamuwa	175
Southern	96
Uva	160
Western	1,030
<b>Total</b>	<b>7,860</b>

### Employee Participation

Our CSR initiatives are purely for community development and not sales driven. Hence employee contribution to these programmes is on a voluntary basis.

When programmes are scheduled, respective branches are informed and employee participation is encouraged. Employees dedicate their personal time to participate in these programmes and in some instances they go to the extent of doing manual work. For example in several dengue campaigns, UA staff actively participated in cleaning of potential breeding areas as they understood the importance of supporting the Government to eradicate this national menace.

During the year the following programmes were conducted with the support of 186 volunteers contributing 1,529 labour hours.

Program	Volunteer Hours	
	2014	2013
Traffic warden programs	720	545
Dengue awareness	424	300
Thalassaemia awareness	385	210
<b>Total</b>	<b>1,529</b>	<b>1,055</b>



"Awareness on the Prevention of Thalassemia"



Corporate Social Responsibility at UA

# Management Discussion and Analysis

## Environment

We are committed to continuously identify all potential impacts on the environment due to our own actions and manage such impacts in a more sustainable and efficient manner. Proven policies and strategies are in place to control our own impacts on resources, including oil, trees, water, electricity and waste. The following diagram demonstrates our approach on addressing key material issues in relation to the environment.



### Installation of Water Stabilisers

A more efficient and effective strategy was initiated to control wastage related to utilities. The water stabiliser project was part of this initiative where a specific nozzle was installed in all water outlets within the head office premises. The initiative provided a saving of 480,000 litres for 2014 (240,000 litres in 2013).

### Go Green with our Branch Expansion

When planning layouts for new branches, the Company ensured that an environmentally friendly approach was adopted by selecting materials that were in line with the green strategy and re using items such as used furniture to reduce the burden on the environment.

### Move to Energy Efficient Lighting System

A project is in place to convert the lighting system of UA head office to a LED technology based lighting system from the current traditional lighting system.

### Energy Audits at Branch Level

Continued with the initiative of analysing energy usage of selected branches with a view of improving efficiency of energy utilisation. Energy consumption was quantified at each branch and baseline energy consumption levels were established. Actions have been implemented to bring energy usage in line with the baseline levels at branches where wastage have been identified.

### Energy Saving at Branch Level

During the year, initiatives were taken at branch level to install electrical key switches, timers for air conditioning machines and tagging and numbering of all lighting systems to eliminate waste.



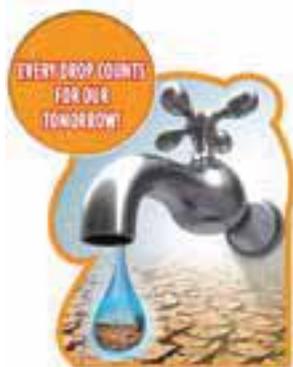
### Conserving Energy

The various initiatives to conserve energy usage at head office throughout the year has resulted in a significant reduction in per capita electricity consumption

Year	Consumption	Employees	Units per Employee
2009	654,920	384	1,706
2010	668,040	415	1,610
2011	735,750	410	1,794
2012	675,200	507	1,332
2013	669,290	500	1,338
2014	657,920	590	1,115

### Reuse Waste Water

Continued with the initiative of re using water discharged by the cooling units of air conditioning machines at head office to wash company vehicles. This initiative has helped UA to save approximately 500 litres of water per day.



### Recycling Printer Cartridges

Our agreement with R&G Toners to recycle printer cartridges continued in 2014. The Company bought back 196 (2013 - 371) toners manufactured from used cartridges.

### Recycle and Re-Use of Paper

Partnership with Neptune Papers (Private) Limited and National Paper Company (Private) Limited, continued to recycle used paper. This initiative helped UA to make a positive contribution to the environment by saving 182 trees and 340,554 liters of water during 2014.

## Leverage Technology to Minimise Impact on the Environment

We continued with our efforts to reduce paper consumption through the use of information technology. The Digital Adviser Toolkit (DAT) and e-motor system significantly reduced the paper based documents required in carrying out sales transactions.

Further, digital image transfer facilities used to finalise claim payments has saved considerable amount of resources in terms of photocopying documents, thus reducing the burden on the environment.

Implementation of e-learning and distance learning as alternatives to classroom training programmes has resulted in less fuel consumption, paper consumption and lower carbon emissions, since staff are not required to travel to the point at which training is delivered, but could access it via the web, closer to their areas of operation.

## Awareness Programmes

During the year UA launched several campaigns to increase awareness among staff members in terms of their responsibility and consequences of their actions in order to minimise the impact of their activities on the environment.

UA re launched the sticker campaign where colourful eye-catching notices were pasted near electricity switches and water supply units to remind staff about the necessity to conserve energy resources.

## Compliance with Environment Regulations

UA complies with all relevant standards illustrated on environmental regulations and confirms that the Company did not have any incident on violation of environmental regulations reported during the year.

## Carbon Footprint

### Carbon Footprint of Our Operations

This is the third consecutive year of our partnership with Carbon Consulting Company (Pvt) Ltd to carry out the computation necessary to arrive at the carbon footprint of our operations in accordance with the Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in a partnership with the World Business Council for Sustainable Development and the World Resources Institute.

Carbon dioxide and other greenhouse gases emitted can be summarized under three main scopes;

Scope 1 - Direct emission released from sources that are owned or controlled by the Company

Scope 2 - Indirect emission associated from the generation of imported energy (e.g. grid electricity)

Scope 3 - All other indirect emission sources that are not released from sources mentioned under scope 1 and 2.

### Sustainability Reporting Award

Union Assurance sustainability practices were recognised at the Sustainability Reporting Awards 2013 organised by the Association of Chartered Certified Accountants (ACCA) by being adjudged the winner in the Banking, Finance and Insurance sector.



"ACCA Sustainability Reporting Awards" - 2014

Scope	2014		2013	
	Tonnes of CO2e per Year	%	Tonnes of CO2e per Year	%
<b>Scope 1</b>	326.28	7.66	237.25	6.0
On site fuel - generators	221.86	5.21	9.3	0.2
Company long term leased vehicles	104.42	2.45	227.95	5.8
<b>Scope 2</b>	1,077.12	25.3	824.70	20.9
Grid electricity	1,077.12	25.3	824.70	20.9
<b>Scope 3</b>	2,854.61	67.04	2,877.75	73.0
Grid electricity transmission and distribution loss	130.87	3.07	132.78	3.4
Employee commuting	2,722.32	63.94	2,735.40	69.4
Recycled waste	1.42	0.03	0.67	0
Water supply	-	-	8.9	0.2
<b>Total</b>	<b>4,258.01</b>	<b>100</b>	<b>3,939.70</b>	<b>100</b>
Emission per employee	3.75 TCO2e per year		3.40 TCO2e per year	
Carbon footprint (tCO2e) per Rs. million of revenue	0.38		0.36	

During the year consumption of grid electricity has gone up due to expansion of business operations. Various initiatives have been implemented at head office and branches to optimize electricity consumption with a view of bringing down the overall carbon foot print of the Company.

# Management Discussion and Analysis

## Government and Regulatory Institutions

Government entities make decisions that can significantly impact a company's operations. Therefore it is important for companies to maintain very close interactions with regulatory bodies and to be aware of legal or regulatory changes that may affect them.

UA maintains a very close relationship with Government institutions and complies with all statutory and regulatory requirements and contributes to achieving the broader macroeconomic goals of the nation. We also work closely with the Insurance Association of Sri Lanka (IASL) to discuss issues relevant to the industry and our key stakeholders.

### UA Maintains Regular Interactions with the following Government Institutions

- ▶ Insurance Board of Sri Lanka
- ▶ Sri Lanka Accounting and Auditing Standards Monitoring Board
- ▶ Central Bank of Sri Lanka
- ▶ Department of Inland Revenue
- ▶ National Insurance Trust Fund
- ▶ Securities and Exchange Commission of Sri Lanka
- ▶ Employees' Trust Fund Board
- ▶ Department of Registrar of Companies
- ▶ Ministry of Transport
- ▶ Department of Motor Traffic
- ▶ Ministry of Health
- ▶ Sri Lanka Police
- ▶ Municipal Councils

### Insurance Board of Sri Lanka (IBSL)

The IBSL safeguards policyholders through supervisory control of insurance companies in line with the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments. All insurance companies need to comply with rules, regulations and directives issued from time to time by IBSL in managing their operations and provide information to IBSL on a monthly, quarterly and yearly basis.

### Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

UA falls into the specified business enterprises category as per Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. All such business enterprises are required to

send annual audited financial statements to SLAASMB. The SLAASMB is empowered to call for documents, information and explanations from Directors, managers and auditors. Where financial statements have not been prepared in accordance with Sri Lanka Accounting Standards, the SLAASMB could require an enterprise to make suitable corrections.

### Central Bank of Sri Lanka

UA reports anti money laundering related information to the Central Bank on a monthly basis. In addition, contributions to the Employees Provident Fund is also remitted as per stipulated guidelines. Submit statistical data on the performance of the business on quarterly and yearly basis for compilation of Central Bank Annual and quarterly reports.

### Department of Inland Revenue

UA pays all applicable taxes / remits collections made on behalf of the Inland Revenue Department as per stipulated dates. All applicable tax returns are filed as per statutory time lines.

### National Insurance Trust Fund (NITF)

UA remits reinsurance premiums with respect to motor, strike, riot and civil commotion and terrorism insurance covers as well as 30% share of treaty and facultative reinsurance arrangements placed overseas to the NITF. Crop Insurance Levy payments and quarterly returns are also submitted to NITF.

### Securities and Exchange Commission (SEC) of Sri Lanka

UA being a public company listed on the Colombo Stock Exchange, complies with the relevant guidelines issued by the SEC.

### Employees' Trust Fund Board

UA contributes to the Employees' Trust Fund as per statutory guidelines and files required information as per stipulated dates.

### Department of the Registrar of Companies

UA submits information required by the Registrar of Companies on a regularly basis e.g. annual reports etc.

### Ministry of Transport

National Council for Road Safety operates under the Ministry of Transport through Motor Traffic Amendment Act No. 05 of 1998. Every insurer needs to contribute 1% from third party insurance premium to "Road Safety Fund."

### Department of Motor Traffic

Every insurer must collect luxury, semi luxury and dual purpose semi luxury taxes as per the stipulated guidelines and remit monies collected to the department.

### Ministry of Health

UA work closely with the Ministry of Health to promote a healthy community by preventing dengue and thalassemia, as key CSR initiatives of the Company.

### Sri Lanka Police

UA has partnered with the Sri Lanka Police to educate and enhance the level of safety within the communities we operate in.

### Municipal Councils

UA works closely with relevant municipal councils in obtaining relevant approvals to carry out business operations, expansions and pay applicable local taxes and rates.

Details of compliance with statutory and regulatory requirements of these government institutions are given in the Corporate Governance section on page 120.

### Regulatory Requirements

The following regulatory requirements have a significant impact on the insurance industry:

- ▶ Requirement for composite insurers to separate Life and Non Life businesses
- ▶ Mandatory listing of insurance companies
- ▶ Risk Based Capital (RBC) framework
- ▶ Computation of solvency and valuation of investments
- ▶ Insurance agents (other than individuals)

### Requirement for Composite Insurers to Separate Life and Non Life Businesses

As per the Regulation of Insurance Industry Act No. 43 of 2000, composite insurance companies (i.e. insurers who provide Life and Non Life solutions) must separate these lines of business into two separate legal entities by February 2015. The Insurance Board of Sri Lanka (IBSL) provided guidance in terms of their expectations and set a road map for composite insurers as well.

In compliance with this requirement, UA completed the segregation by 1 January 2015.

Union Assurance PLC will continue to carry on the Life insurance business and the Non Life insurance business (inclusive of all assets, undertakings, property, rights and liabilities) will be undertaken by Union Assurance General Limited, a fully owned subsidiary of the UA PLC incorporated for this purpose.

Consequent to unanimous shareholder approval obtained at the Extraordinary General Meeting held on 28<sup>th</sup> November 2014 and the de-merger sanctioned by way of a scheme of arrangement in terms of Section 256 of the Companies Act No. 07 of 2007 by the Commercial High Court of Colombo, in Case No. H.C. (Civil) 48/2014 (CO) by Order dated 8<sup>th</sup> December 2014, the Non Life business has been transferred to Union Assurance General Limited, on 1 January 2015.

Further, the Company divested a 78% stake in Union Assurance General Limited to Fairfax Asia Limited on 1 January 2015.

### **Mandatory Listing of Insurance Companies**

As at December 2014, seven insurance companies (32%) were listed in the Colombo Stock Exchange. However, all insurance companies are expected to list their businesses by February 2016. i.e. one year from the deadline for composite insurers to separate their businesses.

### **Risk Based Capital (RBC) Framework**

By 2016 Life and Non Life insurance companies will have to maintain a minimum capital amount as computed under the risk based capital (RBC) framework introduced by the IBSL or Rs. 500 million whichever is higher. Detailed guidelines on the RBC framework have already been drafted and all insurers participated in the mandatory "road test" process to review the impact of the proposed changes on their solvency / statement

of financial position. The parallel run commenced on 1<sup>st</sup> January 2014, where every insurer is required to submit information to the IBSL on a quarterly basis on both RBC and current solvency margin guidelines.

### **Computation of Solvency and Valuation of Investments**

The IBSL computes the solvency position of insurers (i.e. excess of assets over liabilities including an appropriate margin) using the basis of valuation as per prevailing regulations.

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

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

### **Insurance Agents (Other Than Individuals)**

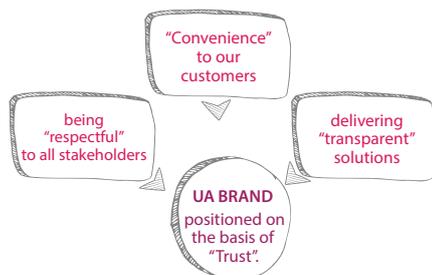
The IBSL has formulated rules with regard to the operation of institutional agents (other than individuals). Among other requirements, such agents may only work with one insurance company and it is the responsibility of the insurance company to register such agents.

# Management Discussion and Analysis

## Brand Building and Valuation Process

### Brand Building Process

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



UA is stringent on maintaining its brand health and involves many brand building activities throughout the year for this purpose. All staff members are envisioned as brand ambassadors in an industry where the field force acts as the forefront of the Company in terms of selling and providing services which finally contributes to the brand perception in the long run.

UA took the initiative to develop service standards for every department which is aligned with delivering the brand promise of trust through the 3 brand pillars of 'Transparency', 'Respect' and 'Convenience' to ensure that customers experience the delivery of the brand promise.

During this process we implemented SLAs for every department where we developed a standard

presentation to educate staff about the brand so that all department heads could align their activities towards delivering the brand promise of trust to both internal and external customers.

We also developed an on-line questionnaire regarding the brand to ensure all employees are aware about the brand and its development. UA also aligned its recruitment process to ensure that new recruits have the qualities that align with the UA brand values.

During the year UA was awarded the Service Brand of the Year – Silver award, by the Sri Lanka Institute of Marketing. Creating history in the Insurance industry, Union Assurance remains the only insurance provider to have won this coveted title for the 3<sup>rd</sup> consecutive year, and it stands as a testament to the commitment and dedication of all stakeholders to make the Union Assurance brand a powerful benchmark for delivering the brand promise of trust in the sector.

Further, UA ensures adherence with the IBSL direction for all insurance companies to submit a certificate signed by the CEO, confirming that new advertisements are in conformity with Section 99 of RII Act.

### Brand Valuation

The UA brand was valued at Rs. 2.36 billion in 2014 (2013 - Rs. 2.07 billion). This value was derived from the valuation conducted by Brand Finance (UK) in association with Sting Consultants, using the "relief of royalty" approach, which assumes that the Company does not own the brand and calculates how much it would need to license it from a third party.

In 2014, the UA brand was ranked 33 among top brands in Sri Lanka and maintained an AA- rating in terms of its "brand power" from Brand Finance (UK).

Brand power determines the ability of the brand to continue delivering the revenue streams expected in the future. It is based on a number of objective criteria including growth rates, market share, brand awareness, etc; which are detailed below. It is expected that the initiatives set into motion as part of the brand positioning will enhance the value and power of the UA brand in future years.



"SLIM Brand Excellence Awards 2014"

Brand Attribute	Developments in 2014
Market share	It is estimated that UA has maintained its market shares in the Non Life and Life insurance segments
Sales growth	Non Life insurance premium growth rate was -3% against and industry growth rate of 4%. Life insurance premium grew by 8% while the industry grew by 9%
Brand awareness	Based on research conducted as part of the overall brand strategy, awareness regarding the UA brand remains high in chosen market segments
Advertising spend	The Company incurred Rs. 132 million on advertising expenses in 2014
Brand loyalty	The Company measures brand loyalty by reviewing Non Life insurance renewal retention rates and Life insurance persistency ratios on a monthly basis
Brand outlook	Given the growth potential of the life and Non Life insurance businesses, the brand outlook remains positive.
Brand management	UA takes a holistic approach to brand management. This enables UA to focus resources and all its products and related initiatives to deliver the brand of "trust" In 2014 we developed SLAs for each department to uphold the brand values in day to day processes
Brand accolades	UA received a silver award in the category service brand of the year at the SLIM Brand Excellence Awards 2014 securing the award for the three consecutive years, which endorses the effectiveness of the brand development and management process adopted by UA
Distribution	Life insurance products are distributed mainly by tied agency force (field sales staff), which numbered over 5,503 (including development officers) as at December 2014. The Non Life insurance business is distributed via brokers, agents and UA staff. We also invest in alternative distribution channels and leverage cross marketing opportunities between the life and Non Life businesses as well as within the Group as at December 2014. UA sold life and Non Life insurance products through 122 branches spread throughout the island
Brand heritage	The brand "Union" was derived from the union of strength that was forged by merging the insurance businesses of Aitken Spence, Carsons, ACW and Whittal Boustead. UA continues to enjoy a superior reputation especially among corporate customers who value the Company's corporate governance practices and commitment to transparency



How we Build UA Brand

# Future Outlook

## Economy

The prospects in Sri Lanka appear positive considering the likelihood of a low interest rate environment, single digit inflation and a clear focus on consumption led growth. A summary of the key economic factors which would impact UA's business is as follows;

Economic Indicator	2014 Data and Trend in 2015	Impact for UA
GDP growth	Headline GDP growth will be similar to 2014. However, there is a likelihood that there will be a broadbasing of economic activities, rather than being limited to a few high growth sectors e.g. construction, exports etc;	Improved business confidence and economic prosperity will have a positive impact on UA's business results, as increased disposable incomes and improved quality of life will generate demand for insurance products
Interest rates	Likely to remain at relatively low rates, with possible increase towards the latter part of the year	Low interest rates may stimulate private sector credit expansion and drive overall economic activity, which will have a positive impact on UA
Inflation	Reduced during 2014. Lower fuel prices will help to keep inflation at current levels	An increase in real income will be beneficial for UA
External sector	The export sector performed well during 2014, and this trend is likely to continue in 2015 as well. Reduction in fuel prices globally will have a positive impact on Sri Lanka's balance of payments. However, uncertainty in global capital markets, changes in socio-economic factors in key export markets as well as overheating caused by increased consumption locally requires to be monitored closely	Improved export revenues will be a positive development for UA
Stock market performance	The stock market which performed well in 2014 will continue to provide good value for investors with a long term mindset. However, consistent policies and transparent regulatory processes which improve investor confidence will be required for the Colombo Stock Exchange to reach its full potential.	<p>Increased confidence in the equity market will provide opportunities for UA to</p> <ul style="list-style-type: none"> <li>➤ Create attractive long term solutions for customers</li> <li>➤ Diversify Life and Non Life investment portfolios and</li> <li>➤ Enhance asset / liability management practices</li> </ul>

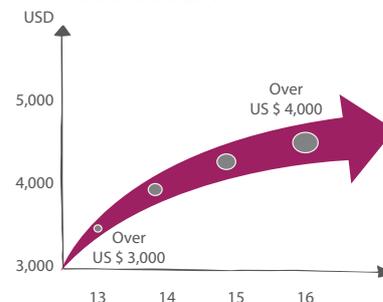
## Industry Overview

As mentioned in the previous review, the regulatory changes requiring insurance companies to separate their Life and Non Life businesses, subsequently list them on the Colombo Stock Exchange and increase the minimum share capital in line with risk based capital rules is having a profound impact on the industry.

Seven of the 12 companies which operated as composite insurers (providing Life and Non Life insurance solutions as one legal entity) have already segregated the two lines of business. The remaining companies are likely to comply with the regulatory requirement at some point in the near future.

From a positive perspective, the segregation enables companies to exclusively focus on each line of business, and align activities and cost structures with the specific requirements of each stakeholder group. It is also a positive development for insurers willing to take a medium to long term position in the industry.

Sri Lanka Aims to Surpass US \$ 4,000 Per Capita Income Before 2016



Source: CBSL Road Map

From a negative standpoint, the segregation may lead to increased overheads which would ultimately be passed on to the end consumer in terms of higher prices (although the regulator has permitted certain functions to be shared by the two legal entities for a five year period).

While it is too early to comment on whether these developments will lead to consolidation in the industry, companies will have to manage multiple headwinds and remain relevant to all stakeholders in order to deliver sustainable results into the future.

Some of the other changes which are likely to affect the insurance industry are:

- Diversification of distribution channels including digital solutions
- Insurers playing a more active role in providing long term health and annuity solutions to an ageing population
- Increased regulatory oversight
- A premium for technical / actuarial competencies
- Greater focus on creating scale and managing internal efficiencies

## Diversification of Distribution Channels

Currently, Life insurance products are mainly sold by advisors who are attached to a single insurer, while the Non Life insurance industry is dominated by direct sales staff, with brokers playing an active role.

However, over the medium term, as economic conditions improve, customers are likely to seek ever more sophisticated solutions through multiple distribution points. In this scenario, it is likely that face to face / direct distribution



# Intellectual Capital Report

*“Intellectual capital is the group of knowledge assets that are attributed to an organisation and most significantly contribute to an improved competitive position of this organisation by adding value to defined key stakeholders”*

Marr & Schiuma (2001)

## Overview

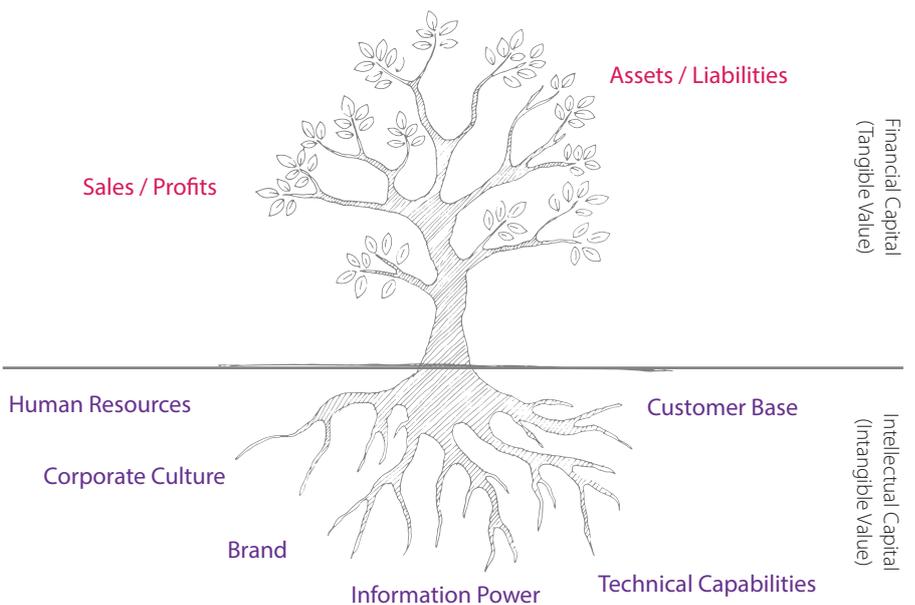
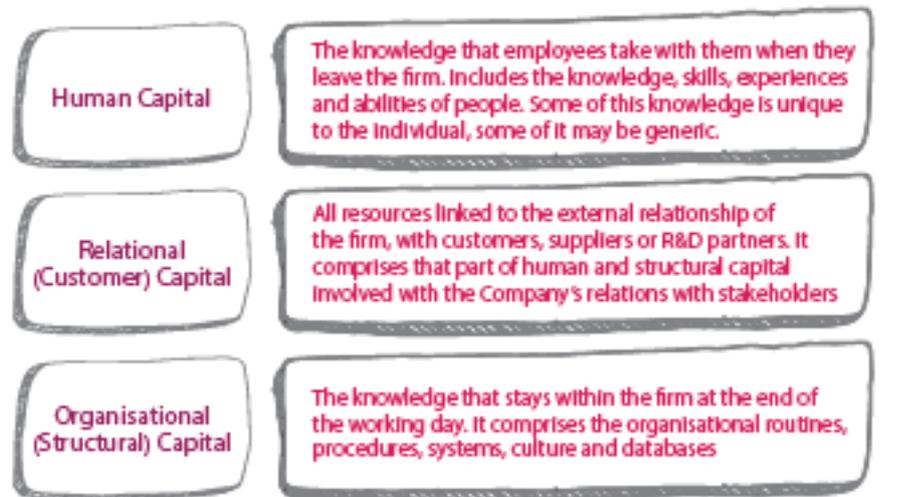
Intellectual capital helps to drive success and create value in any organisation. Although physical and financial assets remain important, intellectual capital elements such as the right skills and knowledge, a respected brand and a good corporate reputation, strong relationships with key suppliers, the possession of customer and market data, and a culture of innovation set enterprises apart from the rest.

As stated above, intellectual capital includes all non-tangible resources that are attributed to an organisation, and contribute to the delivery of the organisation’s value proposition. The concept of intellectual capital is increasingly recognised as one of the most important strategic assets of organisations in the knowledge-based economy. Intangible resources can be split into three components: human capital, structural capital, and relational capital. Each of these is discussed further below.

## Intellectual Capital Structure

UA goes to great lengths to make visible, identify and describe the intellectual property that is within the Company with the aim of producing a clear picture to its stakeholders.

For this purpose, we have created a set of indicators that visualise our performances in terms of intellectual capital. This serves to broaden and balance reported results and depicts a more systematic description of the Company’s ability and potential to transform intellectual capital into financial capital.



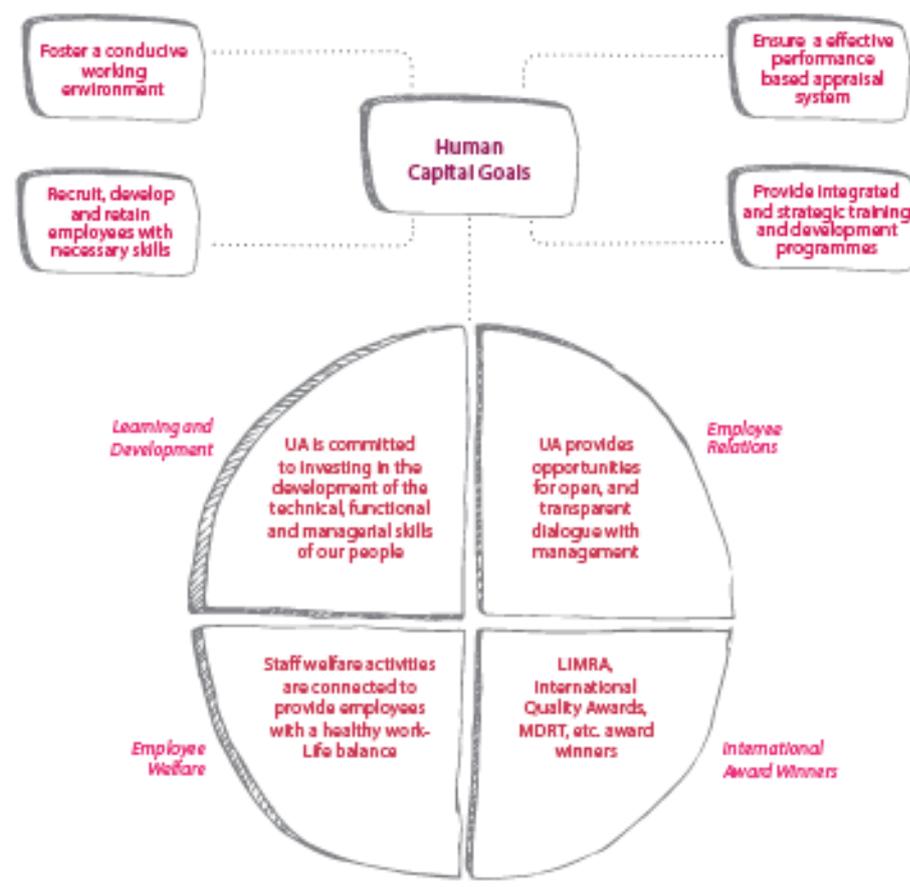
# Management Discussion and Analysis

Like the roots of a tree the value of intellectual capital can not be seen on the surface or be readily recognised. Identification of an organisation's intellectual capital will help take advantage of its strengths and enhance it. UA manages its intellectual capital with this objective in mind.

## Human Capital

UA considers Human Capital as the most valuable asset of the Company which comprises of a diverse employee base made up of individuals who possess the right mix of qualifications, skills and experience that meet our high expectations. UA recognises that the quality of employees can be improved by investing in them through education, training and enhanced benefits that will lead to an improvement in the quality and level of service provided.

## Human Capital Management Process



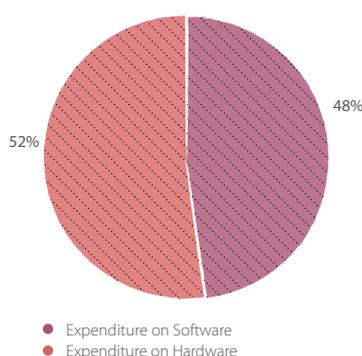
## Human Capital Indicators

	Indicators	Value 2014	Value 2013	Value 2012
Training and Development Indicators	Training days per employee	Managers 20	Managers 13.60	Managers 17.16
		Executives 13	Executives 6.63	Executives 9.10
		Non executives 13	Non executives 5.84	Non executives 9.05
	Cost of training and education	Rs. 49 million	Rs. 45 million	Rs. 60 million
Employee Relations	Number of employees with overseas training	23	24	37
	Employee satisfaction measures	Great Place to Work survey conducted in mid 2014	Great Place to Work survey conducted in mid 2013	Employee satisfaction survey conducted in 2010
	Number of management meetings	4	5	6
	Number of "Union Shakthiya" magazines published	3	3	2
Employee Welfare Indicators	Number of activities organised by the recreation club	7	7	9
	Number of staff members entitled to medical and insurance cover	1,134	1,157	1,070
	Number of field staff members entitled to medical and insurance cover	All staff with over 6 months service	All staff with over 6 months service	All staff with over 6 months service
Employee Know How	Business and financial acumen of the Board of Directors	Refer corporate governance - pages 116 to 117		
	Business and financial acumen of the Executive Committee	Refer executive committee - pages 118 to 119		
	Number of years of service analysis	Refer employee indicators - page 75		
Number of International Award Winners	Number of LIMRA International Quality Award winners	24	14	17
	Number of participants at the MDRT conference	14	3	2

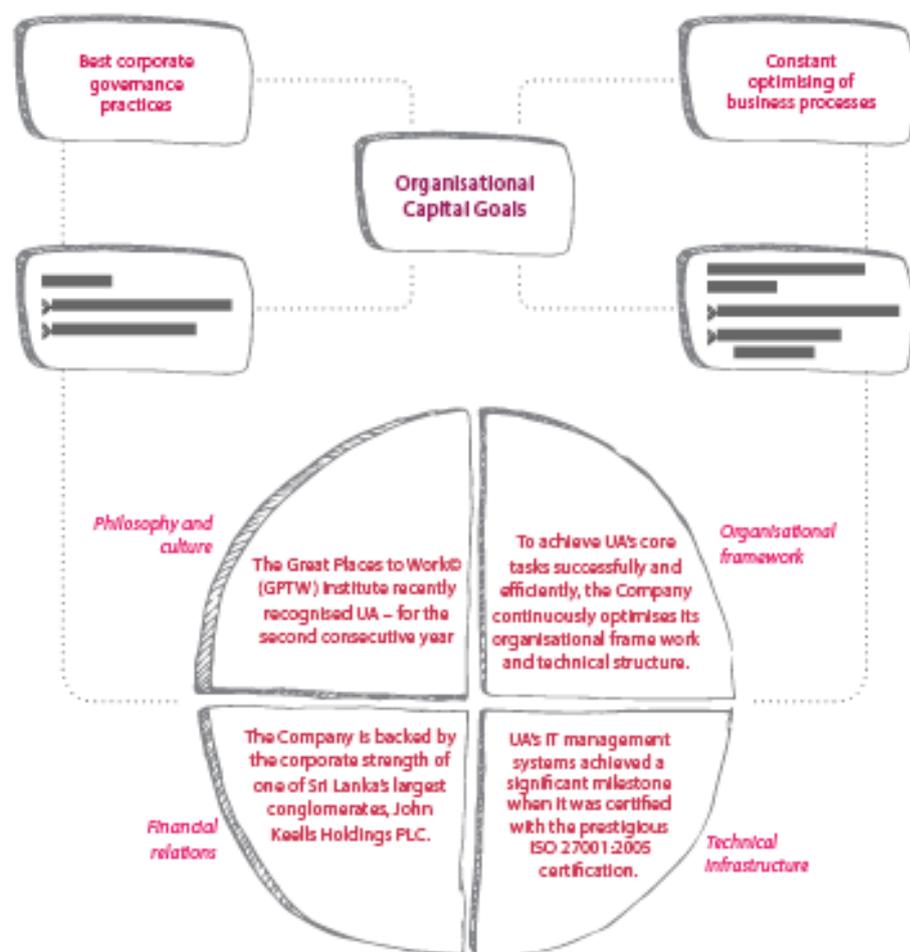
## Organisational Capital

Organisational capital refers to all the resources linked to the external relationships of the firm with customers, suppliers or R&D partners. In other words it comprises of the part of human and structural capital which is involved with the Company's relations with stakeholders.

IT Expenditure



## Organisational Capital Management Process



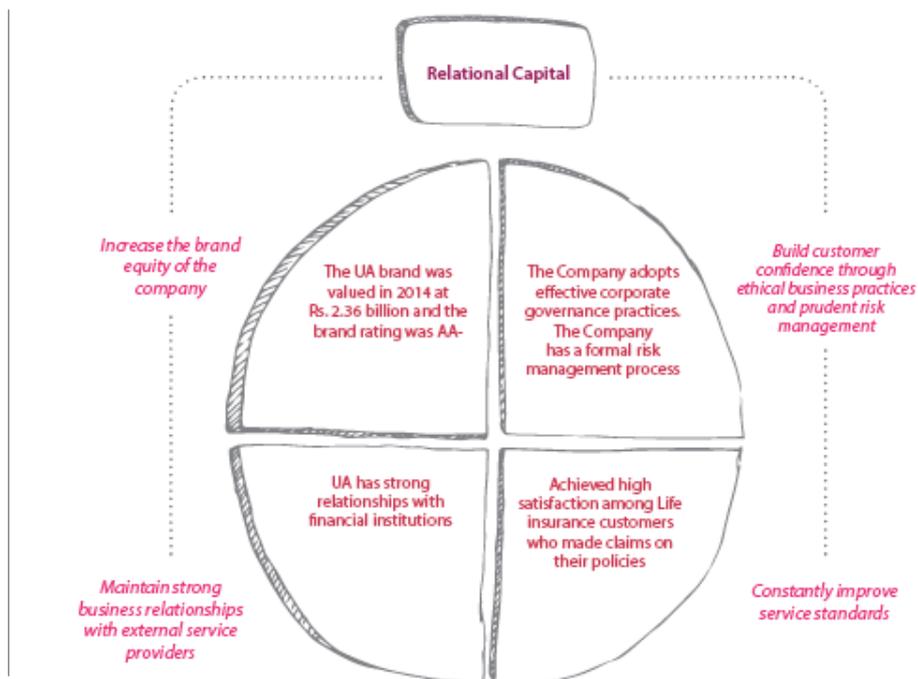
## Organisational Capital Indicators

	Indicators	Annual Report Reference
A. Organisational framework	Strong corporate governance structure	Corporate Governance - page 120
	Separation of corporate management from the Board of Directors	Corporate Governance - page 121
	Branch network	Distribution network - pages 303 to 306
B. Technical infrastructure	<b>Indicators</b>	<b>Value 2014</b>
	Number of IT applications	85
	Investment in IT infrastructure	Rs. 62.3 Mn
		<b>Value 2013</b>
		Rs. 125 Mn
C. Philosophy and culture	Employee satisfaction survey 2014	UA was recognised as a Great Place to work for the second consecutive year by the GPTW institute.
D. Financial relations	<b>Indicators</b>	<b>Annual Report Reference</b>
	Company ownership	Shareholder Information - pages 286 to 291
	Reinsurer ratings	Panel of reinsurers - inner back cover and ratings - page 258
	Risk management initiatives	Risk Management report - pages 156 to 163

# Management Discussion and Analysis

## Relational Capital

UA has taken necessary steps to strengthen the Company's relationship with its customers and external stakeholders. UA has a strong distribution structure, comprising of advisors and bancassurance personnel. This has played a significant role in the delivery of the Life insurance solutions to a large uninsured population. As a strategic partnering, Union Assurance recently partnered with DFCC Bank and DFCC Vardhana Bank PLC to provide insurance facilities to the extensive customer networks of the two banks. Furthermore the enhanced on-line complaint management system is in place to manage customer dissonance. In order to measure customer satisfaction, the Company carries out a process to monitor satisfaction levels of motor insurance claimants.



## Relational Capital Indicators

	Indicators	Value 2014	Value 2013
A. Relational capital indicators			
	Brand value	Rs. 2.36 bn	at Rs. 2.07 bn
B. Corporate image building			
	Number of press releases	55	45
	Number of press conferences	2	2
C. Internet based communication			
	Number of visits to the web site	219,735	219,245
D. Distribution channels			
	Field staff	Over 4,676 field staff members	Over 5,348 field staff members
	Brokers	Work with over 70 registered brokers	Work with over 59 registered brokers
F. Market share			
	Non Life	9.0% (e)	9.5%
	Life	13.0% (e)	13.7%
G. Focus on customer satisfaction			
	Motor insurance claimants satisfaction level.	79% (survey by internal R & D division)	81% (survey by internal R&D division)

# Sustainability Performance Snapshot

## Section 1: Customers

Customers	2014	2013	2012
Number of Life customers	223,889	226,993	224,602
Number of Non Life customers	167,499	129,834	113,686
Number of Life insurance policies	251,872	233,786	250,511
Number of Non Life insurance policies	193,751	156,352	142,245
Number of branches	122	121	107
Number of new products	1	1	-
GWP - Life	5,946	5,515	5,106
GWP- Non Life	5,223	5,392	4,626
Insurance claims and benefits - net (Rs. million)	7,937	6,776	5,893
Number of claims assessors	65	65	69
Intention to renew (Motor insurance customer satisfaction)	79% of customers surveyed	84% of customers surveyed	76% of customers surveyed
Number of disputes referred to the insurance Ombudsman	Referred 53 Settled 12	Referred 32 Settled 12	Referred 23 Settled 5
Customer complaints received - Life and Non Life (Nos)	1,198	813	982
Customer complaints resolved - Life and Non Life (Nos)	1,043	736	790
Number of sales and sales support staff trained in customer care	657	110	658
Number of possible locations to pay Life insurance premium	3,342	3,229	2,866
Solvency ratio - Non Life (times)	3.17	2.18	2.33
Solvency ratio - Life (times)	4.74	3.99	2.79
Bonus for policyholders (Rs. million)	251	243	248
Life Fund (Rs. million)	23,054	22,765	19,701

## Section 2: Investors

Investors	2014	2013	2012
Market capitalisation	14,057	8,914	7,114
Growth in revenue %	2	12	12
PAT growth	7%	22%	33%
EPS	14.04	13.11	12.28
DPS	6.50	6.00	5.00
ROE	19%	22%	21%
DPO	46%	46%	41%
Net profit	1,203	1,123	921
Total value added (Rs. million)	7,409	6,315	5,593

# Management Discussion and Analysis

## Section 3: Employees

Employees – Key Work Place Indicators	2014 Number	%	2013 Number	%	2012 Number	%
Non sales	690	61	670	58	636	58
Sales	444	39	487	42	452	42
Total	1,134	100	1,157	100	1,088	100
Profit per employee (Rs. million)	1.06	-	0.97	-	0.85	-

Employee Benefit	2014	2013	2012
Employee benefit liability as of 31 December	197	186	164
Investment in learning and development	49	55	60

Representation of Men and Women	2014		2013		2012	
	Women	Men	Women	Men	Women	Men
Board positions	25%	75%	17%	83%	17%	83%
Management positions	16%	84%	15%	85%	16%	84%
Executives	23%	77%	22%	78%	19%	81%
All levels	28%	72%	26%	74%	25%	75%
Staff turnover	21%		19%		18%	

Age Group	2014 (%)	2013 (%)	2012 (%)
20-30	44	41	39
31-40	30	36	38
41-50	20	19	19
Above 51	6	4	4
Total	100	100	100

Employees - Employee Engagement	2014	2013	2012
Number of "Shaktiya" magazines	3	3	2
Number of management meetings	4	5	6

Employees - Providing a Rewarding Career	2014	2013	2012
<b>Local trainings</b>			
No. of programmes	306	246	270
No. of hours	19,841	28,166	33,680
<b>Foreign trainings</b>			
No. of programmes	25	19	34

Employees – Providing a Rewarding Career Contd.	2014		2013		2012	
Number of training days	Benchmark	Actual	Benchmark	Actual	Benchmark	Actual
Managers	6	20	6	14	6	17
Executives	4	13	4	7	4	9
Non Executives	3	13	3	6	3	9

Learning and Development	2014		2013		2012	
	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Number of employees on education support scheme	147	6.1	164	3.5	141	3
Number of employees on support for professional memberships	277	2.0	71	1.4	223	1.4
Other training and development expenditure	-	48.9	-	50.1	-	55.6

Number of Employee Recognition Awards	2014		2013		2012	
	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)	Number	Amount (Rs. Mn)
Sales	433	44.0	352	29	343	23.4
Non sales	24	0.26	36	0.3	54	0.3
SPAR recognition	134	0.22	62	0.12	8	0.02

Employees – Providing a Rewarding Career Contd.	2014		2013		2012	
	Number	% of Total Staff	Number	% of Total Staff	Number	% of Total Staff
Performance appraisal conducted via PAMS	652	58%	608	66%	663	61%

#### Section 4: Field Staff

Field Staff	2014	2013	2012
Number of LIMRA International quality awards	14	14	17
Number of LIMRA productivity award winners	15	26	89
Number of international quality management awards	0	0	2
MDRT participants	14	11	21
Pass rate for Life insurance technical competency test	79%	71%	75%
Pass rate for Non Life insurance technical competency test	70%	74%	74%
Number of field staff	5,503	5,348	4,662
Per capita training hours	60.1	83.1	79.4
Commission paid to field staff (Rs. million)	1,653	1,516	1,390

#### Section 5: Society

Society	2014	2013	2012
Dengue awareness programmes	13	5	69
Thalassaemia Awareness programmes	46	13	-
Number of crime prevention hoardings available	332	332	332
Road safety awareness programmes	40	20	62
Number of preschool teacher training / Parent education programmes	2	16	9
Blood donation campaigns	1	1	1
Staff volunteerism (Number of volunteers)	186	231	37
Reflector light installation programme	2	5	-
Investment in community and infrastructure projects (Rs. million)	15	21	7

#### Section 6: Environment

Environment	2014	2013	2012
Electricity use at UA centre	657,920 kwh	669,290 kwh	675,200 kwh
Number of toners recycled	196	371	269
Number of trees saved using recycled paper	182	544	498

# Management Discussion and Analysis

## Our Sustainability Goals

### Customers – at the Forefront of Everything We Do - Life Insurance

Goals set for 2014	Commentary	Achievement
Identify customer needs and develop products accordingly	Launched Union Super Investor product which provides the benefits of a traditional life insurance product to customers who are not willing to pay premiums over a long period of time.	
Review options to use tele-underwriting	Implemented with effect from August 2014	
Develop a centrally managed follow up process to identify probable lapses and improve persistency	<ul style="list-style-type: none"> <li>➤ Implemented a process to centrally identify and follow up on probable lapses</li> <li>➤ Provided resources to branch sales staff to verify customer contact details</li> </ul>	
Maintain life service standards	Maintained life service standards at satisfactory levels	

#### Goals 2015

1. Review options to further improve health insurance solutions
2. Enhance call centre resources to ensure customer queries are handled in a speedy and professional manner
3. Maintain service standards

### Customers – at the Forefront of Everything We Do - Non Life Insurance

Goals set for 2014	Commentary	Achievement
Continue to deliver high quality products with appropriate service standards	<ul style="list-style-type: none"> <li>➤ Launched mobile technology based surgical product</li> <li>➤ Implemented a dedicated call centre to handle health insurance related queries</li> <li>➤ Decentralised motor insurance card printing process</li> </ul>	
Expand distribution in a cost effective manner to meet customer requirements for convenience and speedy service	<ul style="list-style-type: none"> <li>➤ Restructured retail distribution channels to focus on profitable business opportunities</li> <li>➤ Enhanced internal processes to improve service to field staff</li> <li>➤ Revised variable incentive schemes to motivate higher performance</li> </ul>	
Enhance value added services for corporate clients	<ul style="list-style-type: none"> <li>➤ Touch screen based solution to review details of surgical and hospitalisation claims</li> <li>➤ Set up formal reviews with key corporate clients</li> <li>➤ Leverage relationships with reinsurance partners to develop tailor made solutions</li> </ul>	

#### Goals 2015

1. Better pricing and better risk selection of motor insurance customers to meet their requirement for a value for money product which offers excellent service for a fair price
2. Implement sms based settlement process for non motor claims
3. Implement an effective process to growth marine GWP

### Employees – The Secret Behind our Success

Goals set for 2014	Commentary	Achievement
To effectively split the HR division to cater for the impending split of the Company in 2015. The two divisions to function independently from May 2014	Each business unit has a separate HR division	
Conduct a special course designed for selected managers titled "Manager Par Excellence"	<ul style="list-style-type: none"> <li>➤ Conducted Manager Par Excellence programme over a two day period with the participation of 22 managers.</li> <li>➤ Conducted several other leadership and management development programmes as well.</li> </ul>	
Roll out and implement UA competency framework for senior managers	Rolled out to senior managers and above and will roll out to other categories as well	

#### Goals 2015

1. Work on feedback from GPTW summary to improve staff satisfaction
2. Implement leadership development programmes for identified staff categories
3. Enhance staff engagement e.g. redesign the structure of management meetings

## Field Staff – Enabling Professionalism and Productivity

Goals set for 2014	Commentary	Achievement
To implement comprehensive reward and recognition scheme along with benefit schemes for the sales force	Revamped reward and incentive schemes to align field staff performance with company objectives and enhance qualitative factors of the business	
Continue to digitalise the sales process to increase field staff productivity and customer convenience	In December, 29% of life insurance proposals were digitally submitted	

### Goals 2015

1. Leverage technology to enhance productivity and performance monitoring
2. Implement assessment centre based recruitment process for sales cadre
3. Review options to digitise lead management

## Community – Earning Community Trust

Goals set for 2014	Commentary	Achievement
Continue to enhance awareness among the general public on road safety for Non Life segment	<ul style="list-style-type: none"> <li>➤ Conducted “school traffic warden” programs covering 288 schools with the participation of 22,349 students</li> <li>➤ Installed 260 reflector lights</li> </ul>	
Continue with health awareness programmes for life insurance segments	<ul style="list-style-type: none"> <li>➤ 13 dengue awareness programmes conducted island-wide</li> <li>➤ 45 thalassaemia programs were carried out as well</li> </ul>	

### Goals 2015

1. Continue to implement road safety awareness / improvement programmes
2. Continue with health awareness programmes for life insurance business

## Shareholders – Sustaining Shareholder Value

Goals set for 2014	Commentary	Achievement
Grow Non Life insurance premium by 13%	Non Life GWP decreased by 3%	
Grow life insurance premium by 10%	Life GWP reported a 8% growth	
Grow profit after tax by 3%	Profit after tax increased by 7%	

### Goals 2015

1. Achieve a 10% growth in life GWP
2. Achieve a 4% growth in Non Life GWP
3. Life business – Profit after tax of Rs. 945 million
4. Non Life business – Profit after tax of Rs. 252 million

## Environment – Managing Environmental Impact

Goals set for 2014	Commentary	Achievement
Implement actions to enhance sustainability credentials	<ul style="list-style-type: none"> <li>➤ Installation of LED technology based lighting systems, timer switches in air conditioning machines and water stabilisers</li> <li>➤ Recycle and reuse paper and water</li> </ul>	
Initiate programmes to obtain staff support both within and outside the organisation	Ongoing staff awareness campaigns on energy savings	

### Goals 2015

1. Minimise carbon footprint of operations
2. Leverage technology to minimise impact on environment

# Independent Assurance Report to Union Assurance PLC

GRI-G4  
G4-33



**KPMG**  
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## On the elements of Sustainability Reporting in the Annual Report for the year ended 31st December 2014

### Introduction

We were engaged by the Board of Directors of Union Assurance PLC ("Company") to provide assurance on the following elements of the Sustainability Reporting in the Annual Report for the year ended 31st December 2014 of Union Assurance PLC ("Report").

- Reasonable assurance on the data on Financial Performance, as reported on page 8 of this Report.
- Limited assurance on the Non-Financial Highlights specified on page 9, Performance Snapshot on pages 101 to 103 and the information provided on the following stakeholder groups as detailed below.

Stakeholder Disclosures	Annual Report Page
Customers	46 to 68
Shareholders	69 to 71
People	72 to 85
Suppliers & Business Partners	86
Society	87 to 89
Environment	90 to 91
Government & Regulatory Institutions	92 to 93

### Our conclusions

#### a) Data on financial performance:

In our opinion, the data on financial performance, as reported on page 8 of the Annual Report 2014 are properly derived from the financial statements of the Company for the year ended 31st December 2014.

#### b) Sustainability performance indicators and stakeholder disclosures:

Based on the limited assurance procedures performed, as described below, nothing has come to our attention that causes us to believe that the Non-Financial Highlights specified on page 9, Performance Snapshot on pages 101 to 103 and the information provided on the stakeholder groups as described in the pages set out above, have not in all material respects, been prepared and presented in accordance with the Sustainability Reporting Guidelines as described on page 16 of this Report.

### Management's responsibility

Management is responsible for the preparation and presentation of the Report in accordance with the Global Reporting Initiative (GRI) G4 Principles for Defining Report Content and Quality.

These responsibilities include the identification of stakeholders and material aspects and for establishing such internal controls as management determines are necessary to enable the preparation of the reported performance information and other information in the report that are free from material misstatement whether due to fraud or error.

### Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable and limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka.

That Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable and limited assurance about whether the Report is free from material misstatement.

### Summary of work performed

#### Financial Data

A reasonable assurance engagement on Financial Performance reported on pages 8 of this Report involves verification that they were properly derived from Audited Financial Statements of the Company for the year ended December 31, 2014.

#### Sustainability Performance Indicators

Our limited assurance engagement on the sustainability performance indicators included in the Report consisted of making enquiries, primarily of persons responsible for the management, monitoring and preparation of the sustainability indicators presented in the Report, and applying analytical and other evidence gathering 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 Company's processes for determining material issues for Company's key stakeholder groups;

- Enquiries of relevant staff at corporate level responsible for the preparation of the Report
- Enquiries about the design and implementation of the systems and methods used to collect and report the information, including the aggregation of the reported information;
- Comparing the information presented in the Report to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report;
- Reading the Sustainability Performance Indicators presented within the Report to determine whether they are in line with our overall knowledge of, and experience with, the sustainability performance of Company;
- Reading the remainder of the sections relation to sustainability included in 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.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Sri Lanka Standards on Auditing and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion on the sustainability performance indicators.

### Use of this report

Our assurance report is made solely to Union Assurance PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Union Assurance PLC those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Union Assurance PLC for our work, for this assurance report, or for the conclusions we have reached.

CHARTERED ACCOUNTANTS  
Colombo

25 February 2015

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N Rodrigo ACA  
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

# Certificate of Carbon Footprint



No 15, Havelock Place  
Colombo 05  
Phone : 0117 208 208  
[www.carbonconsultingcompany.com](http://www.carbonconsultingcompany.com)

11<sup>th</sup> February,  
2015

## Greenhouse Gas Assessment Certificate

This is to certify that The Carbon Consulting Company (CCC) has conducted an Organisational Greenhouse Gas Assessment for the operations of Union Assurance PLC, using data of stipulated activities/operations, as chosen by the client:

- Purchased Electricity
- Generator Fuel Consumption
- Long Term Leased Vehicles
- Employee Commuting
- Grid Electricity Transmission and Distribution Losses
- Recycled Waste

CCC can confirm that the Carbon Footprint of Union Assurance PLC's operations for the calendar year 2014 is 4258 tCO<sub>2</sub>e (data has not been independently verified).

Our calculations were carried out in accordance with the Greenhouse Gas Protocol - Corporate Accounting and Reporting Standard (GHG Protocol) developed in partnership with the World Business Council for Sustainable Development and the World Resources Institute. This standard provides guidelines regarding organisational and operational boundaries, quantification and standard reporting practices.

Our calculations have applied the methodologies stipulated in the GHG Protocol to a limited scope as requested by Union Assurance PLC, and the client is solely responsible for the authenticity, relevancy and accuracy of the data provided for this Greenhouse Gas Assessment.

Yours faithfully,



Sanith de S. Wijeyeratne

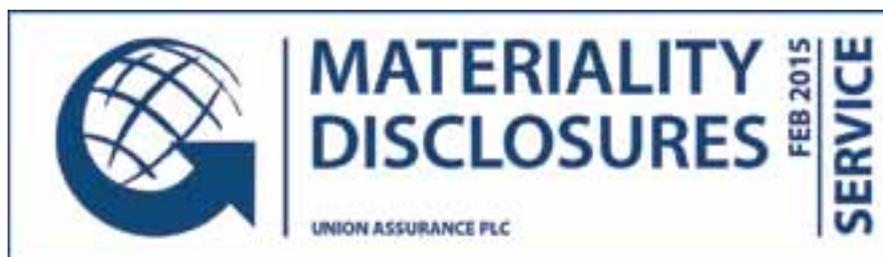



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## Global Reporting Initiative Index

### Global Reporting Initiative Index; 'In Accordance – Core'

#### General Standard Disclosures

Disclosure	Description	Page Number / Reference	External Assurance
<b>Strategy and analysis</b>			
G4-1	Statement from the Chairman	Pages 10 to 12	No
<b>Organisation profile</b>			
G4-3	Name of the Organisation	Inner back cover	No
G4-4	Primary brands, products and / or services	Pages 46 to 49 and pages 64 to 65	No
G4-5	Location of organisation's headquarters	Inner back cover	No
G4-6	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	No foreign operation	No
G4-7	Nature of ownership and legal form	Inner back cover	No
G4-8	Markets served	Pages 46 to 49 and pages 65 to 66	No
G4-9	Scale of the Reporting organisation	Page 38 and page 53	No
G4-10	Total workforce by employment type ,employment contract and region, broken down by gender	Page 72 to 74	Yes
G4-11	Percentage of employees covered by collective bargaining agreements	No collective bargaining agreements	No
G4-12	Organisation supply chain	Page 86	No
G4-13	Significant changes during the reporting period regarding the organisation's size, structure, ownership, or supply chain	No significant change during the reporting period but refer page 03 for details transfer of Non Life business w.e.f. 01/01/2015	No
<b>Commitments to external initiatives</b>			
G4-14	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Pages 162 to 170	No
G4-15	Externally developed economic, environmental and social charters and principles, or other initiatives to which the organisation subscribes or endorses	Page 16	No
G4-16	Memberships of associations and / or national /international advocacy organisations	Page 24	No
<b>Identified material aspects and boundaries</b>			
G4-17	Organisation's entities covered by the report and entities not covered by the report	Page 16	No
G4-18	Process of defining the report content and the aspect boundaries	Page 16	No
G4-19	Material aspects identified for report content	Page 17 to 21	No
G4-20	Aspect boundary for identified material aspects within the organisation	Page 17 to 21	No
G4-21	Aspect boundary for identified material aspects outside the organisation	Page 17 to 21	No
G4-22	Explanation of the effect of any restatements of information provided in previous reports and the reasons for such restatements	No restatements of non financial information but financial information has been restated to reflect transfer of Non Life business w.e.f. 01/01/2015	No
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries	Moved to "GRI G4 – In Accordance - Core" from "GRI G3.1"	No

Disclosure	Description	Page Number / Reference	External Assurance
<b>Stakeholder engagement</b>			
G4-24	List of stakeholder groups engaged by the organisation	Page 21	No
G4-25	Basis for identification and selection of stakeholders with whom to engage	Pages 16 to 19	No
G4-26	Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Pages 21 to 24	No
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organisation has responded to them	Pages 21 to 25	No
<b>Report Profile</b>			
G4-28	Reporting period	01/01/2014 – 31/12/2014	No
G4-29	Date of most recent previous report	31 December 2013	No
G4-30	Reporting cycle	Annual	No
G4-31	Contact point for questions regarding the report or its contents	Wickneswaran Ravishankar email: wickneswaranr@uageneral.com	No
<b>GRI content index</b>			
G4-32	Compliance with GRI G4 guidelines ,GRI Content Index and the external assurance Report	Page 16	No
G4-33	Policy and current practice with regard to seeking external assurance for the report	Page 16 and 104	No
<b>Governance</b>			
G4-34	Governance structure of the organisation, including committees of the highest governance body responsible for decision-making on economic, environmental and social impacts	Page 116	No
<b>Ethics And Integrity</b>			
G4-56	The values, principles, standards and norms of behaviour	Page 3 , 78	No

#### Specific Standard Disclosers

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
<b>Category – Economic</b>			
<b>Material Aspect: Economic Performance</b>			
G4-DMA			
G4-EC1	Direct economic value generated ,distributed and retained	Page 37, 43 , 62	Yes
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	165	No
G4-EC3	Coverage of the organisation's defined benefit plan obligations	Page 81	No
G4-EC4	Financial assistance received from government	N/A	No
<b>Material Aspect: Market Presence</b>			
G4-DMA			
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Same wage policy across all locations	No
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Locations specific human resource requirements including senior management are sourced primarily from that respective location	No
<b>Material Aspect: Indirect Economic Impacts</b>			
G4-DMA			
G4-EC7	Development and impact of infrastructure investments and services supported	Page 88 and 103	Yes
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Page 37and Pages 87 to 89	

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
<b>Material Aspect: Procurement practices</b>			
G4-DMA			
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	Not tracked but low value items are sourced from the respective location subject to pre agreed limits	No
	a. Report the percentage of the procurement budget used for significant locations of operation spent on suppliers local to that operation (such as percentage of products and services purchased locally).	Not tracked	No
	b. Report the organisation's geographical definition of 'local'.		
	c. Report the definition used for 'significant locations of operation'.		
<b>Category – Environment</b>			
<b>Material Aspect: Energy</b>			
G4-DMA			
G4-EN3	Energy consumption within the organisation	Not tracked	No
G4-EN4	Energy consumption outside of the organisation	Not tracked	No
G4-EN5	Energy intensity	Page 90 and 103	Yes
G4-EN6	Reduction of energy consumption	Pages 90 to 91	No
G4-EN7	Reductions in energy requirements of products and services	Not tracked	No
<b>Material Aspect: Water</b>			
G4-DMA			
G4-EN8	Total water withdrawal by source	Page 9	No
G4-EN9	Water sources significantly affected by withdrawal of water	Not tracked	No
G4-EN10	Percentage and total volume of water recycled and reused	Page 90	No
<b>Material Aspect: Bio Diversity</b>			
G4-DMA			
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	No such sites	No
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Activities and services offered do not affect biodiversity	No
G4-EN13	Habitats protected or restored	N/A	No
G4-EN14	Total number of IUCN Red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	N/A	No
<b>Material Aspect: Emissions</b>			
G4-DMA			
G4-EN15	Direct greenhouse gas (GHG) emissions (scope 1)	Page 91	No
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (scope 2)	Page 91	No
G4-EN17	Other indirect greenhouse gas (GHG) emissions (scope 3)	Page 91	No
G4-EN18	Greenhouse gas (GHG) emissions intensity	Page 91	No
G4-EN19	Reduction of greenhouse gas (GHG) emissions	Page 91, there is an increase due to increase in electricity consumption due to expansion of operations	No
G4-EN20	Emissions of ozone-depleting substances (ODS)	Not tracked	No
G4-EN21	NOx, SOx, and other significant air emissions	Not tracked	No
<b>Material Aspect: Effluents and Waste</b>			
G4-DMA			
G4-EN22	Total water discharge by quality and destination	Not tracked	No
G4-DMA			
G4-EN23	Total weight of waste by type and disposal method	Not tracked	No
G4-DMA			

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
G4-EN24 G4-DMA	Total number and volume of significant spills	N/A	No
G4-EN25 G4-DMA	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention 2 Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	N/A, do not generate any waste deemed hazardous	No
G4-EN26 G4-DMA	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff	N/A	No
<b>Material Aspect :Products And Services</b>			
G4-EN27 G4-DMA	Extent of impact mitigation of environmental impacts of products and services	N/A	No
<b>Material Aspect: Compliance</b>			
G4-EN29 G4-DMA	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	No non compliance reported	No
<b>Material Aspect: Transport</b>			
G4-EN30 G4-DMA	Significant environmental impacts of transporting products and other goods and materials for the organisation's operations, and transporting members of the workforce	Considered in computing carbon foot print, page 91	No
<b>Material Aspect: Overall</b>			
G4-EN31 G4-DMA	Total environmental protection expenditures and investments by type	Not tracked	No
<b>Material Aspect: Supplier Environmental Assessment</b>			
G4-EN32 G4-DMA	Percentage of new suppliers that were screened using environmental criteria	Not tracked	No
<b>Category – Social</b>			
<b>Sub Category: Labour Practices and Decent Work</b>			
<b>Material Aspect: Employment</b>			
G4-LA1 G4-DMA	Total number and rates of new employee hires and employee turnover by age group, gender and region	Pages 72 to 74 and Pages 102 to 103	Yes
G4-LA2 G4-DMA	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Benefits vary based on the terms of employment and is not based on the location of operation	No
G4-LA3 G4-DMA	Return to work and retention rates after parental leave, by gender	Not tracked but have not noticed any significant drop out	No
<b>Material Aspect : Labour / Management Relations</b>			
G4-LA4 G4-DMA	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	N/A	No
<b>Material Aspect: Occupational Health and Safety</b>			
G4-LA5 G4-DMA	Percentage of total workforce represented in formal joint management-worker health and safety committees	Pages 76 to 79	No
G4-LA6 G4-DMA	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Page 9	No
G4-LA7 G4-DMA	Workers with high incidence or high risk of diseases related to their occupation	N/A, no such workers	No
G4-LA8 G4-DMA	Health and safety topics covered in formal agreements with trade unions	N/A	No

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
<b>Material Aspect: Training and Education</b>			
G4-DMA			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Pages 75 to 76 , 82 to 84 and Pages 102 to 103	Yes
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Pages 79 to 80 , Page 85 and Pages 102 to 103	Yes
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Page 102	Yes
<b>Material Aspect: Diversity and Equal Opportunity</b>			
G4-DMA			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Pages 72 to 74	No
<b>Material Aspect: Equal Remuneration for Women and Men</b>			
G4-DMA			
G4-LA13	Ratio of Basic Salary and Remuneration of Women to Men by Employee Category, by Significant Locations of Operation	Same remuneration policy for both men and women	No
<b>Material Aspect: Supplier Assessment for Labour Practices</b>			
G4-DMA			
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	100% and it is one of supplier selection criteria. Page 86	No
G4-DMA			
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	N/A	No
<b>Material Aspect: Labour Practices Grievance Mechanisms</b>			
G4-DMA			
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Company has not received any grievance against human rights in the work place during the year	No
<b>Sub Category – Human Rights</b>			
<b>Material Aspect: Investment</b>			
G4-DMA			
GR4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Not tracked	No
G4-DMA			
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Page 81	No
<b>Material Aspect: Non-Discrimination</b>			
G4-DMA			
G4-HR3	Total number of incidents of discrimination and corrective actions taken	No incidents reported	No
<b>Material Aspect: Freedom of Association and Collective Bargaining</b>			
G4-DMA			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	N/A	No
<b>Material Aspect: Child Labour</b>			
G4-DMA			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour.	No operations having significant risk for incidents of child labour. One of the supplier selection criteria to check possibility of involvement of child labour.	No

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
<b>Material Aspect: Forced or Compulsory Labour</b>			
G4-DMA			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour.	Page 86	No
<b>Material Aspect: Security Practices</b>			
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	100%	No
<b>Material Aspect; Indigenous Rights</b>			
G4-HR8	Number of incidents of violations involving rights of indigenous peoples and actions taken	N/A	No
<b>Material Aspect; Assessment</b>			
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	N/A	No
<b>Material Aspect: Assessment; Supplier Human Rights Assessment</b>			
G4-DMA			
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	100% and it is one of the supplier selection criteria.	No
G4-HR 11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	Not reported	No
<b>Material Aspect: Human Rights Grievance Mechanisms</b>			
G4-HR 12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Company has not received any grievances	No
<b>Sub Category - Society</b>			
<b>Material Aspect: Local Communities</b>			
G4-DMA			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Pages 87 to 89	No
G4-SO2	Operations with significant actual and potential negative impacts on local communities	UA being an insurance service provider, does not carry out any activity which will have a negative impact on local communities	No
<b>Sector specific indicator</b>			
G4-FS13	Access points in low-populated or economically disadvantage by areas by type	Operate in 122 locations spread across the Island. Page 4	No
G4-FS14	Initiatives to improved access to financial services for disadvantaged people.	N/A	No
<b>Material Aspect: Anti-Corruption</b>			
G4-DMA			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Pages 81 to 82 and Page 170	No
G4-SO4	Communication and training on anti-corruption policies and procedures	Pages 81 to 82	No
G4-SO5	Confirmed incidents of corruption and actions taken	No incidents reported	No
<b>Material Aspect: Public Policy</b>			
G4-DMA			
G4-SO6	Total value of political contributions by country and recipient/beneficiary	N/A	No
<b>Material Aspect: Anti-Competitive Behaviour</b>			
G4-DMA			
G4-SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	No incidents reported	No

DMA and Indicators	Material Aspects	Page Number / Reference	External Assurance
<b>Material Aspect: Compliance</b>			
G4-DMA			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Zero non compliances	No
<b>Material Aspect-Supplier Assessment for Impacts on Society</b>			
G4-DMA			
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	100%, one of supplier selection criteria	No
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	Not tracked	No
<b>Material Aspect: Grievance Mechanisms for Impacts on Society</b>			
G4-DMA			
SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	Company has not received any grievance	No
<b>Sub Category - Product Responsibility</b>			
<b>Material Aspect: Customer health and safety</b>			
G4-DMA			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	N/A, provide only insurance solutions for individuals and corporates	No
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Zero non compliance during the period	No
<b>Material Aspect: Product and Service Labelling</b>			
G4-DMA			
G4-PR3	Types of product and services information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements.	Pages 46 to 49 and pages 65 to 66	No
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Zero non compliance during the period	No
G4-PR5	Results of surveys measuring customer satisfaction	Page 52, 68 and 101	Yes
<b>Material Aspect: Marketing Communications</b>			
G4-DMA			
G4-PR6	Sale of banned or disputed products	Zero	No
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Zero non compliance during the period	No
<b>Material Aspect: Customer Privacy</b>			
G4-DMA			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Zero complaints	No
<b>Material Aspect: Compliance</b>			
G4-DMA			
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Zero non compliance during the period	No
<b>Material Aspect: Product Portfolio</b>			
G4-DMA			
G4-FS6	Percentage of the portfolio for business lines by specific region ,size and by sector	Not tracked by region but by business segment. Page 34	No
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	N/A	No
<b>Sector specific indicator</b>			
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	N/A	No

# *Corporate* **Governance**



## Chairman's Statement

*UA has maintained its reputation as a stable and professionally run insurance company over the past 27+ years.*

### Dear Stakeholder,

At the completion of another successful year of operations let me start by stating that setting the 'tone from the top' at Union Assurance was key to building an effective culture of governance across the organisation. Our governance principles take root from our core values of Excellence, Caring, Innovation, Trust, Ethics and Integrity.

UA has maintained its reputation as a stable and professionally run insurance company over the past 27+ years. Despite constant changes and challenges from the external environment, the Board and management, through continuous strengthening of processes and governance frameworks ensure that this reputation is maintained.

In addition to promulgating strong governance, compliance and risk management practices, the Directors are conscious that strategy formulation, effective execution and leadership development are key responsibilities of the Board. In this regard, a great deal of emphasis is placed on ensuring that UA remains focused on both the compliance

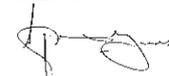
and performance aspects of the business in order to add value to all its stakeholders on a sustainable basis.

From a governance perspective a key focus of the industry in the current year has been to make preparations for the segregation of the Life and Non Life businesses by the end of the year. During the year many initiatives were taken to strengthen the post separation governance of these two businesses, in line with best practices. The Board will continue to monitor and comply with regulatory requirements in order to ensure a sustainable triple bottom line and meet all stakeholder expectations.

UA's brand is based on the promise of trust which is delivered through convenience, transparency and being respectful to all stakeholders. The Board believes that these pillars will create a long term competitive differentiation for the Company and keenly monitors progress in this regard through a formal once in two month review of achievements against financial budgets and key result areas.

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

This report will highlight the governance framework and the activities carried out during the year to ensure the highest standards of corporate governance and compliance within Union Assurance. I also wish to state that to the best of my knowledge and available information, I am not aware of any material violations of any of the provisions of the code of best practice on corporate governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.



**Ajit D Gunewardene**  
Chairman

25 February 2015

## Board of Directors and the CEO

### Ajit D Gunewardene

*Chairman, Non Executive Director*

Member of the Board since May 1992

#### Board Committees;

- ▶ Chairman, Remuneration Committee
- ▶ Chairman, Nominations Committee

#### Skills and experience;

- ▶ Member of the John Keells Holdings PLC Board for over 20 years
- ▶ He has also served as the Chairman of the Colombo Stock Exchange and Nations Trust Bank PLC

- ▶ Has a degree in Economics

- ▶ Brings over 30 years of management experience to your Board

#### Other current appointments;

- ▶ Deputy Chairman of John Keells Holdings PLC
- ▶ Director of many companies in the John Keells Group

### Gerald De Saram

*Independent Non Executive Director*

Member of the Board since April 2009

#### Board Committees;

- ▶ Member, Remuneration Committee
- ▶ Member, Nominations Committee

#### Skills and experience;

- ▶ He joined CIC Paints when it was formed, first managing the sales and later the marketing functions of the Company. He was appointed the Managing Director in 2001 and has also served on the Paints Asia Executive Team of ICI Paints. Following the global merger of ICI

and Akzo Nobel BV, he led the integration of these two large businesses in Sri Lanka

- Holds a BSc. Honours degree from the University of London
- Holds a Post Graduate Diploma in Marketing from the Chartered Institute of Marketing (CIM) of UK
- He was an active member of the Sri Lanka Institute of Marketing and a former Board Member of the IAA (Sri Lanka Chapter)

**Other current appointments;**

- He is the Managing Director / CEO of Akzo Nobel Paints Lanka (Private) Limited (formerly CIC Paints Private Ltd), the market leader in the paints business in Sri Lanka

**Suresh Rajendra**  
*Non Executive Director*

Member of the Board since August 2011

**Board Committees;**

- Member, Audit and Compliance Committee

**Skills and experience;**

- Fellow member of the Chartered Institute of Management Accountants of UK
- He has over 23 years of experience in the fields of finance, travel and tourism and business development acquired both in Sri Lanka and overseas
- Prior to joining the Group, he was the head of commercial and business development for NRMA Motoring & Services in Sydney, Australia, Director / General Manager of Aitken Spence Hotel Managements (Pvt) Ltd and also served on the Boards of the hotel companies of the Aitken Spence Group

**Other current appointments;**

- He is a member of the Group Executive Committee and is the President, Property Group of John Keells Holdings PLC
- Serves as a Director in many companies of the John Keells Group

**Harin De Silva Wijeyeratne**  
*Independent Non Executive Director*

Member of the Board since September 2011

**Board Committees;**

- Chairman, Audit and Compliance Committee
- Member, Remuneration Committee

**Skills and experience;**

- He is an Associate member of the Institute of Chartered Accountants, Sri Lanka
- Fellow member of the Chartered Institute of Management Accountants of UK
- Brings over 26 years of experience in the fields of general management, financial management and auditing which he had acquired while being employed at Investcorp Bank, Bahrain, Grindlays Bahrain Bank, Ernst & Young, Bahrain and Ernst & Young, Sri Lanka

**Other current appointments;**

- Chief Executive Officer of the Sri Lanka Institute of Nanotechnology (Pvt) Limited

**Dilani Alagaratnam**  
*Non Executive Director*

Member of the Board since August 2011

**Skills and experience;**

- A Lawyer by profession, she has been with John Keells Holdings PLC for 22 years and is a law graduate and a holder of a Masters Degree in Law

**Other current appointments;**

- Member of the Group Executive Committee of John Keells Holdings PLC and is President of Group Human Resources, Legal & Secretarial, Corporate Communications, Sustainability & Enterprise Risk Management, Group Initiatives and CSR of the Group
- Director of several companies of the John Keells Group
- Co-Chairperson of the Steering Committee on Human Resources & Education and a member of the Legislation Sub Committee of the Ceylon Chamber of Commerce
- Member of the National Labour Advisory Committee
- Council member of the Sri Lanka Institute of Directors

**Ashan De Zoysa**  
*Independent Non Executive Director*

Member of the Board since April 2009

**Board Committees;**

- Member, Audit and Compliance Committee
- Member, Investment Committee
- Member, Nominations Committee

**Skills and experience;**

- Holds a Bachelor of Commerce Degree from the University of New South Wales
- Several years of overseas exposure, having worked in the fields of IT and derivative / commodity trading in Australia
- Served on the Board of AMW Group as a working Director

**Other current appointments;**

- Serves on the Board of Associated Electrical Corporation Ltd
- Serves on the Board of A. E. C. Properties (Pvt) Ltd
- Managing Director of A. E. C. Properties (Pvt) Ltd

**Dirk Pereira**  
*Chief Executive Officer / Director*

Appointed to the Board in May 2014

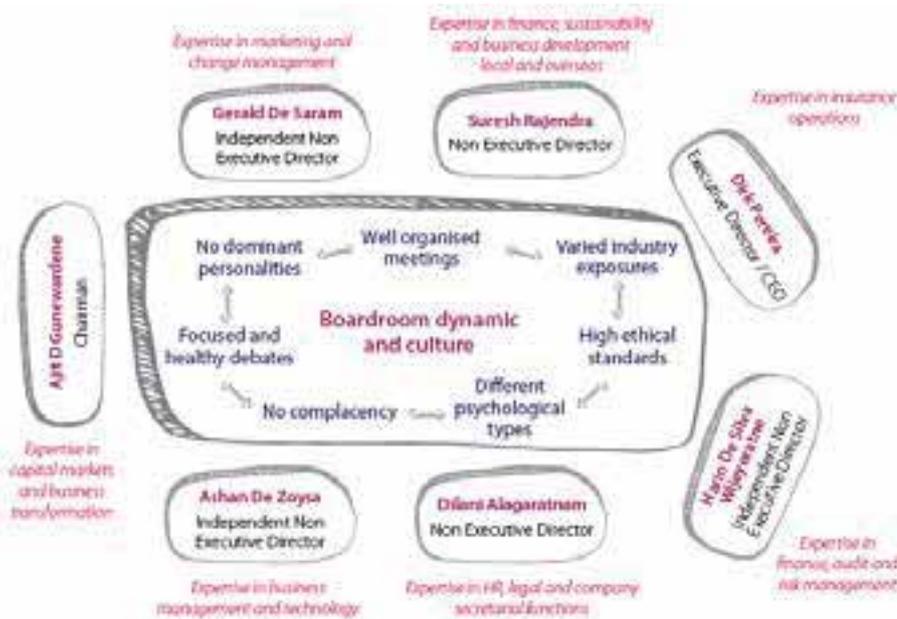
**Skills and experience;**

- Functions as CEO of Union Assurance since 2010
- Fellow member of the Chartered Institute of Management Accountants of UK
- Fellow member of the Institute of Chartered Accountants of Sri Lanka
- Holds an MBA from the University of Sri Jayawardenepura

# Corporate Governance

## Board Diversity and Composition

Your Board benefits from the diversity of its membership, including gender and strives to maintain the right balance. It comprises individuals with extensive knowledge and experience in core and diverse business sectors within local and International markets bringing a wide range of perspective to this business. The Board works as a team with a complementary set of skills, experience and personal characteristics. The following diagram gives a brief snapshot of your Board dynamic and culture.



As at 31 December 2014, the Board consisted of three Non Executive Directors and three Independent Non Executive Directors and one Executive Director, being the CEO who was appointed as a Director during the year.

## Executive Committee

### Composition

Chaired by Dirk Pereira, the Executive Committee focuses on the Company strategy, financial and operational planning and execution giving due prominence to competitive performance, succession planning and development. Executive Committee is also responsible for operationalising the Company's policies and is constituted of the senior management of the Company.

Brief profiles of the Executive Committee are as follows:

#### Brigadier Rohan Jayasinghe General Manager, Human Resources

Rohan joined Union Assurance in January 2009 as General Manager Human Resources. He was an Executive Group Director (Human Resources) at the Capital Maharaja Organisation Limited before taking up this new assignment. He has had an exceptional career in the Sri Lanka Army where he served the country for 28 years and held many vital appointments in operations, training and in the staff. He also commanded the Armoured Brigade and retired prematurely as a Brigadier in

2006. He was the country's first Defence, Military, Naval and Air Attaché in Washington DC from 2003 to 2005 and is the recipient of one of the highest medals in the US military - The Legion of Merit. He is a graduate of the Malaysian Armed Forces Command and Staff College and is also a Fellow of the Certified Professional Managers.

#### Jayaseeli Dissanayake General Manager, Life Insurance

Jayaseeli joined Union Assurance in April 2002. She started her insurance career in 1981 as a Management Trainee at the Insurance Corporation of Sri Lanka just after her graduation in Bio Science from the University of Colombo.

In 1989 she joined Eagle Insurance and was head of Life underwriting when she left in 2002. She had her initial insurance training from the College of Insurance of India and Swiss Insurance training centre in Switzerland. She has extensive training and overseas exposure in Life insurance and has won several awards of recognition for her expertise in the area. Jayaseeli is a Chartered insurer and associate of Chartered insurance institute of UK.

#### Nihal Handunge

##### General Manager, General Distribution

Nihal joined Union Assurance in January 1987 in the capacity of a Manager, Marketing for life insurance. Subsequently he rose to the position of General Manager, Distribution for Non Life insurance. Nihal counts over 30 years' experience in sales and marketing and brings a wealth of knowledge to UA. He provides leadership to a dynamic team of Zonal and Regional Managers covering UA's islandwide branch network. Prior to joining UA he was with Mercantile Credit Ltd which was a key promoter of UA.

#### Niranjan Nagendra

##### General Manager, Corporate

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

#### Ruanthi Gooneratne

##### General Manager, Non Life Insurance

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

#### Rukman Weeraratne

##### General Manager, Marketing and Life Distribution

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

**Ruwan Bakmedeniya**

*General Manager, Information Technology*

Ruwan joined Union Assurance in August 2010 from Virtusa, a leading global engineering and IT services provider. He counts over 20 years of experience in the IT field especially in the areas of banking, finance and insurance. He commenced his career in 1991 with Informatics (Pvt) Ltd which is a pioneering IT services organisation in Sri Lanka. In 1997, he joined BC Computers, which is the IT services and software engineering arm of Bartleet Group of Companies. He is also a member of the IT / BPO advisory committee at the Export Development Board of Sri Lanka. Ruwan is a holder of a Masters' Degree in IT from UK.

**Sherin Cader**

*General Manager, Finance and Planning*

Sherin joined Union Assurance in June 2012. She has been with the John Keells Group for over 15 years serving in many capacities including as the Financial Controller at John Keells Holdings

PLC. She has played diverse roles across finance and operations in financial services, IT enabled service sector and centre functions. Sherin is a Fellow member of the Chartered Institute of Management Accountants of UK and an Associate member of the Association of Chartered Certified Accountants of UK.

**Role and structure**

The Executive Committee met 12 times during the year under the chairmanship of the Chief Executive Officer. General agenda and topics covered by the Committee during the year included;

- Follow up on previous meeting minutes
- Performance update by the Chief Executive
- Short briefings by individual General Managers providing a status update for each respective businesses area on key initiatives and industry developments

- Substantial business developments and projects
- Talent and related matters
- Presentations from various functional heads, e.g. CFO, Head of internal audit, Brand and Marketing
- Competitor analysis and strategy

Annually the Committee, together with the Chief Executive, conducts a strategy review with high level strategic direction from the Chairman to identify key strategic issues and any changes to the medium term strategy which are subsequently presented to the Board. The agreed strategy is used as a basis for developing the following year's optimal strategy, budget and the three year financial projections. Details of the process used, are provided in the 'Strategic Planning and Performance Management' section of this report on page 29.

**Executive Committee's Span of Control**



**Corporate Governance**

**Overview**

The Board is responsible to shareholders for creating and delivering sustainable shareholder value and is conscious that a strong corporate governance framework is critical to maintaining investor trust and business integrity. UA's governance policies and practices enables the Board to manage the Company for the benefit of all stakeholders, ensuring a viable long term business. UA's governance practices further

ensures that;

- The business is taken in the right strategic direction
- The Executives lead and manage their respective units effectively and are accountable
- The Company has appropriate controls in

place and risks are regularly monitored and managed

- Employees "do the right thing" at all times for the benefit of all stakeholders

# Corporate Governance



## Number of compliance submissions made during the year

Requirement	No. of Compliances
Inland Revenue	82
Ministry of Transport	24
Registrar of Motor Vehicles	12
IBSL Directives and RII Act	63
National Insurance Trust Fund	24
Employee Provident Fund and Employee Trust Fund	28
Board of Investments of Sri Lanka	2
Registrar of Companies	30
Colombo Stock Exchange	32
SLAAS Monitoring Board	1
Central Bank of Sri Lanka	12
Municipal Council	4
<b>Total Compliances 2014</b>	<b>314</b>
<b>Non Compliances 2014</b>	<b>Nil</b>

## Key actions taken in 2014 to enhance UA's Corporate Governance Framework:

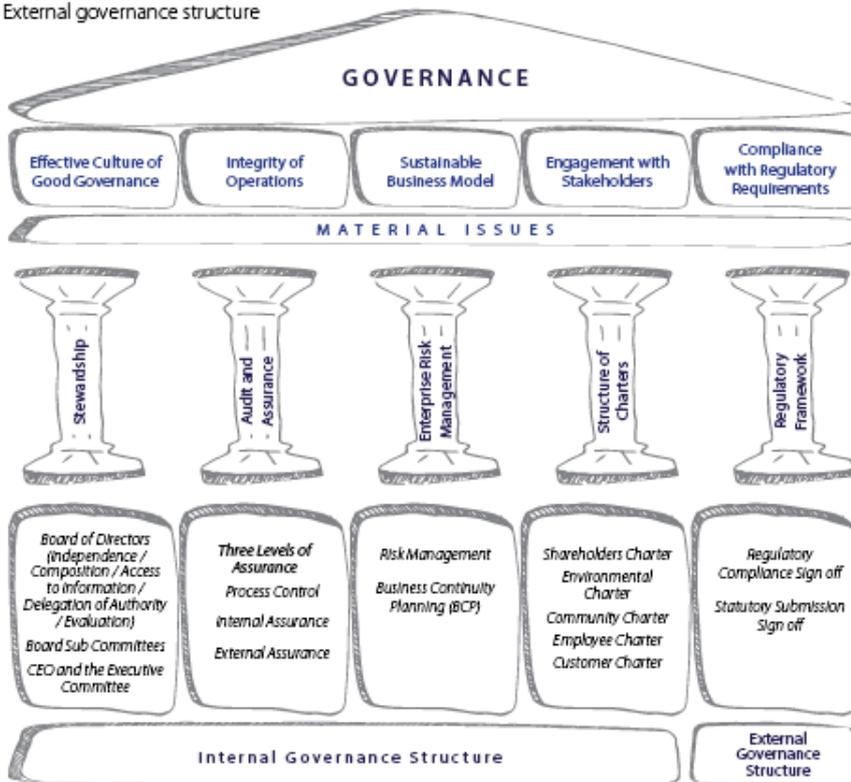
- Reinforced our commitment to adopt best corporate governance practices by formally reviewing and updating the set of charters outlining the Company's objectives and commitments towards all stakeholder groups
- Reviewed and enhanced the internal audit process, scope and frequency of audits to ensure that strategic and key operational risks are given greater focus and attention and any deviations are escalated on a timely basis
- Reinforced the "company values" across the organisation to strengthen our commitment to good corporate governance
- Reinforced and each employee (including sales advisors) signed off the Company's code of conduct statement
- Regular email reminders were sent on the Company's code of conduct to increase awareness among staff
- Reviewed the existing business continuity plan (BCP) with the support of an external consultancy firm to ensure readiness and identify any gaps that need to be addressed with specific timelines for implementation
- Continued to engage external actuarial consultants in order to ensure smooth transition to the Risk Based Capital (RBC) framework which is due to be implemented in 2016
- Continued to utilise a bottom up compliance sign off process covering all operational processes to be submitted to the Board Audit and Compliance Committee on a quarterly basis confirming that compliance and risks have been adequately addressed
- Enhanced financial statement integrity through the certification of the Data Centre Management System with ISO/IEC 27001:2005 updated certification
- Updated the Manual of Financial Authority to incorporate the organisation's operational changes arising from the segregation of the Life and Non Life businesses

## Our Integrated Governance Framework

### Our Corporate Governance Model

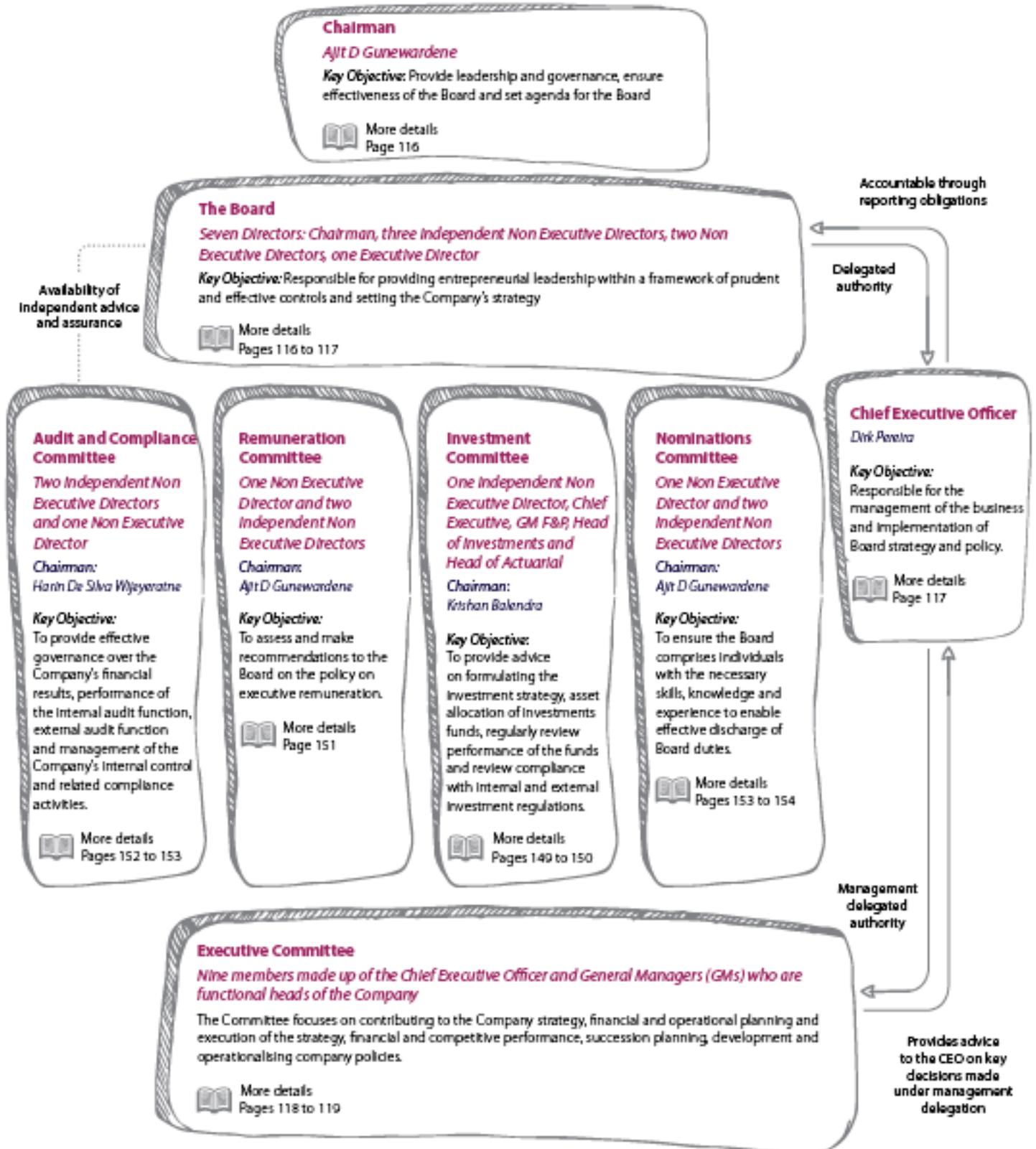
The corporate governance report is structured in the following sequence to highlight the different elements that are adopted to ensure a robust governance framework.

1. Internal governance structure
2. External governance structure



## Internal Governance Structure

Effective Culture of Good Governance



# Corporate Governance

Union Assurance Corporate Governance is designed in line with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC):

## 1. Company Structure and Shareholders

### Description of UA's operational structure:

Union Assurance's organisation structure is illustrated on page 4 of this report. The Company's Management structure is depicted in the Executive Committee's span of Control on page 119.

**Shareholding Structure:** Please refer page 288 for the Company's shareholding structure.

**Capital Structure:** The Company's operations were fully funded by equity capital during and up to the reporting period.

As at 31 December 2014 the Company's stated capital was Rs. 1,138 million and the total shareholders' funds were Rs. 6,210 million. Please refer page 184 for the Statement of Changes in Equity.

## 2. Chairman and the Board of Directors

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

**Composition of the board of Directors:** As at 31 December 2014, the Board consisted of seven Directors of whom six hold office as Non Executive Directors of which three are Independent Non Executive Directors and an Executive Director. Mr. Dirk Pereira was appointed as an Executive Director on 28 May 2014. Brief profiles of the Board members, their areas of expertise and the Board diversity and composition are provided on pages 116 to 118.

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

**Board of Directors:** The Board meets once every two months to discharge its duties and responsibilities in a timely manner.

Additional Board meetings are held as required. The Board performs its supervisory functions through the Board Audit and Compliance Committee, Board Remuneration Committee, Investment Committee and Board Nominations Committee, thus ensuring competence and effectiveness.

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

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

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

### Board responsibilities and decision rights:

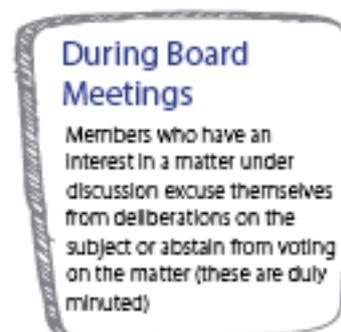
The Non Executive Directors have collective responsibility for the Company's direction. In particular, the Non Executive Directors are responsible for:

- Providing guidance and direction in the formulation of strategies in pursuance of the Company's medium and long term operational and financial goals and in doing so recognise sustainable business development practices

- Ensuring that the CEO and management team possess the skills, experience and knowledge to implement the strategy
- Reviewing HR processes with emphasis on the CEO and senior management succession planning
- Appointing the CEO and reviewing the performance of the CEO
- Monitoring systems of compliance and governance
- Ensuring all stakeholder interests are considered in corporate decisions
- Reviewing the systems of internal control, risk management oversight of the integrity of financial information
- Reviewing and making changes when necessary to authority levels delegated from the Board to the executive levels
- Approving the issue of equity / debt securities

**Conflicts of interest and independence:** Each Board member has a responsibility to determine whether he / she has a potential or actual conflict of interest arising from external associations, interest in material matters and personal relationships which may influence his / her judgment. Such potential conflicts are reviewed by the Board from time to time.

Details of companies in which Board members hold Board positions or Board committee positions are available with the Company for inspection by shareholders on request. Refer Note 271 to the financial statements for details of related party transactions. To avoid potential conflicts or bias, Directors adhere to a process where review takes place prior to appointment, once appointed and during Board meetings.



Summary of Independent Non Executive Director's Interests is given below;

	<b>Employment in the company (a)</b>	<b>Material business relationship (b)</b>	<b>Close family member is a Director or CEO (c)</b>	<b>Carrying not less than 10% of voting rights (d)</b>	<b>Continuously served for more than nine years (e)</b>	<b>Business Connection (f)</b>
G F C De Saram	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
H A J De Silva Wijeyeratne	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
A S De Zoysa	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant

(a) Has been employed by the Company during the period of two years immediately preceding appointment as a Director

(b) Currently has / had a material business relationship with the Company during the period of two years immediately preceding appointment as a director.

(c) Close family member who is a Director or CEO or Key management personnel

(d) Carrying not less than 10% of voting rights of the Company

(e) Has served on the Board continuously for a period exceeding nine years

(f) Self or close family member is a Director or employee of another company or a trustee in which is materially connected to the Company in terms of shareholding or business relationship

All Directors make a formal declaration of their independence on an annual basis

#### Directors training and procedures to obtain professional advice

The Company Secretary is responsible for ensuring that each Director receives an induction on joining the Board. When new Directors are appointed to the Board, they are apprised of the:

- Values and the culture of the organisation
- Operations of the Company and its strategies
- Policies, governance framework and processes
- Responsibilities as a Director in terms of prevailing legislation
- The Code of Conduct demanded by the Company

On access to information and professional development; it is essential that the Directors are up to date with key business developments to maintain and enhance their effectiveness.

The Directors have access to;

- Information necessary to carry out duties and responsibilities effectively and efficiently
- External and internal auditors
- Updates on regulations, best practices as relevant to the business and other matters which are considered to warrant Board attention
- Financial plans, including budgets and forecasts and periodic performance reports

- Independent professional advice from experts and other external professional services as required. The Company will incur the required expenses for such services
- Company secretary whose appointment and / or removal is the responsibility of the Board
- Senior management

#### Board Meetings

Matters considered at all Board meetings include;

- The Chief Executives' brief on strategy and business developments based on the latest available management accounts
- An update by the Chief Executive Officer on operational matters including, technology, actuarial valuations, technical updates on product portfolios, reinsurance arrangements, any consultancy support on projects and other operational and compliance matters

- Strategic capital expenditure and update on IT strategy
- Where applicable, review minutes and reports from the Board Audit and Compliance Committee, Investment Committee, Remuneration Committee and Nominations Committee

In addition to the standard agenda items, detailed topics covered by the Board during the year included brand performance, control environment, revision of investment policy statements, corporate social responsibility initiatives, talent management, succession planning and updates on progress relating to the segregation of the Company and related challenges.

The calendar for meetings of the Board and attendance is given below.

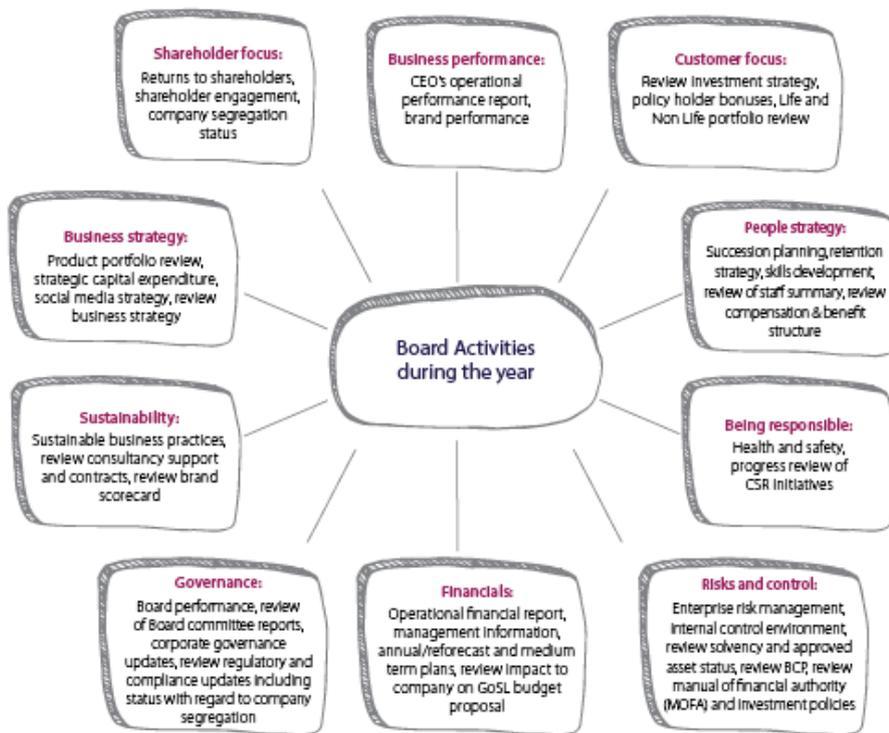
Name of Director	Date of Board Meeting					
	27.1.2014	26.3.2014	28.5.2014	30.7.2014	10.10.2014	28.11.2014
Mr. Ajit D Gunewardene (Chairman)	Present	Present	Present	Present	Present	Present
Mr. A S De Zoysa	Present	Present	Present	Present	Present	Present
Mr. S Rajendra	Present	Present	Present	Present	Present	Present
Mr. H D S Wijeyeratne	Present	Present	Present	Present	Present	Present
Ms. D C Alagaratnam	Present	Present	Present	Excused	Present	Present
Mr. G F C De Saram	Excused	Present	Present	Excused	Present	Present
Mr. Dirk Pereira	-	-	-	Present	Present	Present

# Corporate Governance

## Board activities during the financial year in detail

Board sets the agenda to support, assist and advise executive management to deliver the Company's strategy within a transparent governance framework.

The key areas of focus as per the Board's agenda of meetings during the year included;



## 3. Board Committees (Board Directors Delegation of Authority)

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

Detailed report of the committees inclusive of the composition, objectives, frequency of meetings and other details are provided in pages 149 to 153. The extent of the adherence by these committees to the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is given in pages 129 to 147.

## 4. Director's Remuneration

**Remuneration procedure:** The Company has established a formal and transparent procedure / policy on remuneration for individual Directors. No Director is involved in deciding his or her own remuneration.

Accordingly, the Remuneration Committee consisting exclusively of Non Executive Directors has been set up to make recommendations to the Board within agreed terms of reference.

The calendar for meetings of the board committees and the attendance is given below.

Board Remuneration Committee			Board Nominations Committee			Board Audit and Compliance Committee							
26.3.2014	28.5.2014		26.3.2014			24.1.2014	20.3.2014	8.5.2014	7.8.2014	3.10.2014	3.11.2014	17.11.2014	
Ajit D Gunewardene	Present	Present	Ajit D Gunewardene	Present		H D S Wijeyeratne	Present	Present	Present	Present	Present	Present	
G F C De Saram	Present	Present	G F C De Safram	Present		S Rajendra	Present	Present	Present	Excused	Present	Excused	
H D S Wijeyeratne	Present	Present	A S De Zoysa	Present		A S De Zoysa	Excused	Present	Present	Present	Present	Present	

Investment Committee												
	10.1.2014	27.1.2014	3.3.2014	27.3.2014	25.4.2014	23.5.2014	24.6.2014	28.7.2014	23.9.2014	29.10.2014	28.11.2014	18.12.2014
KN J Balendra	Present	Present	Excused	Present	Present	Present	Present	Present	Present	Excused	Present	Present
A S De Zoysa	Present	Present	Present	Present	Present	Excused	Present	Present	Present	Present	Present	Present

**Level and make up of remuneration:** Due care is taken to ensure that remuneration paid to Board members is commensurate with their skills, knowledge, competencies and involvement in Board activities and in reference to fees paid to other Non Executive Directors of comparable companies.

**Disclosure of remuneration:** The break-up of remuneration paid to Non Executive Directors is disclosed among the other disclosures regarding remuneration on page 217 in the annual report.

## 5. Accountability and audit

**Financial reporting:** A balanced and comprehensive assessment of the Company's financial position, performance and prospects

is presented by the Company. Various reports including the Chairman's Message, CEO's Review and Management Discussion and Analysis are used in addition to the annual financial statements and interim accounts for this purpose.

The Board presents a Directors' Report with this annual report, containing information with regard to declarations by them in accordance with the

guidelines of the Code of Best Practice jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

**Internal control:** The Board has delegated certain responsibilities to the Board Audit and Compliance Committee (BACC). The BACC's main responsibilities are to ensure that good financial reporting systems are in place, internal control systems are effective, laws and regulations are complied with and the Company's risk assessment processes are effective. The BACC ensures the independence and evaluates the performance of the auditors regularly. The Company has issued a Code of Conduct applicable to all Directors and employees and any violation is disclosed. Details of the Code of Conduct and other policies are provided in page 127 to the report.

The Company has disclosed on pages 129 to 149 the extent to which UA has complied with the Code of Best Practice and rules on Corporate Governance.

**Audit Committee:** The Board has established a formal and transparent process on how the Company selects and applies accounting policies, financial reporting and other internal control principles.

**Disclosure:** Details including the composition, role and responsibilities, attendance and the report of the Board Audit and Compliance Committee are provided in this report.

**Code of Business Conduct and Ethics:** The Company has in place 'code of business conduct & ethics' for Directors, Key management personnel and all its' employees.

## 6. Relations with Shareholders

**Annual General Meeting (AGM) and conduct of general meetings:** The Board uses the AGM to communicate with shareholders and encourages their participation. Each substantially separate issue is proposed as a separate resolution at the AGM including the proposal for the adoption of the report and accounts. The Chairman ensures that the Chairmen of the Board Audit and Compliance Committee, Remuneration Committee and Nominations Committee are available to answer questions at the AGM, if required. The notice of meeting and related documents are circulated to the shareholders 15 working days prior to the AGM.

**Extraordinary General Meetings (EGM):** When regulation requires, the Company calls for an EGM to engage with the shareholders

**Communication with shareholders:** All institutional and other investors are encouraged to participate and cast their votes at the Company's AGM. The Company uses the AGM as the forum to have structured, objective dialogue with shareholders. Sufficient information is included in the annual report for shareholders to make informed decisions.

**Major and material transactions:** Disclosures have been made where required to shareholders on major transactions which materially alter the Company's net asset base.

Further details and the policy on shareholder communication is provided in the 'Stakeholder Engagement' section of the annual report on page 71

## 7. Company Secretary

The Company secretary is responsible for inducing new Directors, assists the Chairman and the Chief Executive Officer in determining the annual Board plan, guiding the Board and individual Directors in the proper discharge of their responsibilities and acting as a central source of guidance on matters of ethics and governance. In addition to the many duties, the Company secretary is responsible for making necessary disclosures on related party transactions required by law and regulations and also acts as a channel of communication with shareholders to ensure good shareholder relations. The shareholders can contact Keells Consultants (Private) Limited, the Company secretaries on 011 - 2306245 for any company related information requirements.

## Integrity of operations

### Audit and assurance

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

1. Process control at corporate management level
2. Internal assurance by the internal auditors
3. External assurance by the external auditors

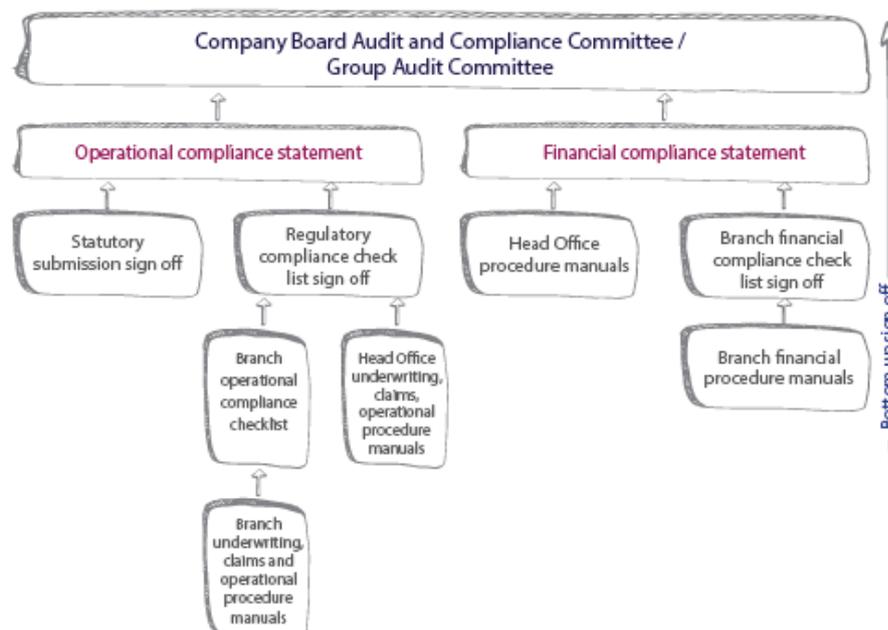
### Process control at Corporate Management level

The corporate management with the guidance of the Board Audit and Compliance Committee periodically reviews the adequacy of the processes and procedures in place to ensure the highest level of internal controls within the organisation. During the year the internal assurance process was reviewed and further strengthened.

Compliance assurance is derived through a bottom up sign off process and sign off checklist are based on internal policies and procedure manuals. The Company obtains assurance on financial controls, regulation compliance as well as operational compliance aspects. The following diagram summarises the process adopted by the Company.

The financial compliance statement as well as the operational compliance statement are signed off and submitted to the BACC on a quarterly basis. The regulatory sign off is maintained on a monthly basis. The quarterly statements are reported to the Group Audit and Compliance Committee on a quarterly basis.

Bottom up compliance sign off process



# Corporate Governance

## Resource Management

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

Resource Management Committee	Objectives and Functions
Capital Expenditure Committee	Review and rationalise capital expenditure (excluding IT related expenses).
IT Committee	<p>Review and rationalise IT related capital and revenue expenditure in terms of the Company's IT strategy to:</p> <ul style="list-style-type: none"> <li>➤ Improve overall productivity, efficiency and effectiveness across distribution and service functions</li> <li>➤ Improve quality of management information</li> <li>➤ Provide secured and uninterrupted IT facilities and</li> <li>➤ Ensure IT resource readiness for future advancements, while optimising the usage of existing IT resources</li> </ul>
Supplies Committee	<ul style="list-style-type: none"> <li>➤ Transparent supplier registration.</li> <li>➤ Optimise purchases and ensure quality, reliability and value for money</li> </ul>
Staff Committee	Review cadre increases in line with expected volume growth and required service standards and recommend promotions based, organisational requirements outside the annual performance appraisal cycle.
Salvage Committee	Ensure disposal of salvage items in a fair and transparent manner as per the salvage disposal policy and procedure

## IT Governance

### Alignment with the business

Continuous review ensures that IT objectives are aligned with business objectives by defining them in business terms. To this end the IT policies, standards, procedures are aligned as and when needed and when new technologies are utilised.

### IT Risk management

Focus on IT risk is based on severity of impact and probability of occurrence. Risk management encompasses processes designed to understand risks and implement controls to effectively manage them as well as techniques for minimising risk exposure and embedding risk management responsibilities into the organisation.

## Resource management and performance measurement

Necessary emphasis is placed on monitoring strategic implementations, project completion, resource usage, results of disaster recovery / business continuity plan tests and service delivery. It includes people, processes and technologies for improving the efficiency and effectiveness of business solutions. Further tracking mechanisms for security related events and use of security dashboards are also included.

### Value Delivery

Ensure optimal investment in support of corporate objectives, with the availability of proper controls including well defined policies and key result areas (KRAs) for the management of critical resources and people

### Integration

Involvement of all corporate stakeholders in the decision making process is ensured with seamless integration to assurance activities. This is done by enabling the processes to operate as intended from end-to-end, while minimising hidden risks

### Compliance

Regulatory and compliance requirements are embedded through implementation of appropriate IT controls in systems and conducting periodic reviews to ensure effectiveness.

### IT Controls over Financial Reporting

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

- Data centre operation controls such as job setup and scheduling, operator actions and data backup and recovery procedures.
- System software controls over the effective acquisition, implementation and maintenance of system software, security software and utility software
- Access security controls that prevent inappropriate and unauthorised use of the system.
- 'System Development Life Cycle' document defines processes that should be followed in application system development. 'Software Change Management' document defines change processes.

During the year the Company revalidated the front end system logic of key financial data (e.g., re-insurance, commissions, incentives, performance allowances, etc.). The Data Centre Management system was accredited with ISO/IEC 27001:2005 certification.

**Actuarial Valuation of Insurance Liabilities**

The Company has actuarially validated the Non Life insurance incurred but not reported claims reserve (IBNR) appearing on the statement of financial position. Since claims reserves are based on judgment and estimates, an actuarial valuation provides a greater degree of comfort as to the accuracy of the reserves. The report also certifies that the unearned premium reserve (UPR) is adequate in relation to the future liabilities arising from unexpired risks as at 31 December 2014. Life insurance liabilities have also been validated by an independent external actuary in accordance with the RII Act. The actuarial certification of IBNR is provided on page 173. The Actuary's Report for the Life business is available on page 174.

**Fraud Risk Assessment**

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

The external auditors also perform an evaluation of the Company's processes to assess the possibility of manipulation, falsification and alteration of accounting records. The Company adopts a zero tolerance policy in cases of fraud and misappropriation.

**Securities Trading Policy**

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

**Assurance by Internal Auditors**

There are clear processes for monitoring and following up on corrective actions arising from 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 Board Audit Committee.

During the year all Head Office processes and 36 branches were audited by the outsourced internal audit function and 73 branches were covered by the internal audit department.

**Assurance by External Auditors**

The Company performs an interim audit in addition to the year end audit to obtain assurance that the internal controls and processes that are in place in preparation and presentation of the financial statement are effective. This audit covers IT security and data assurance as well.

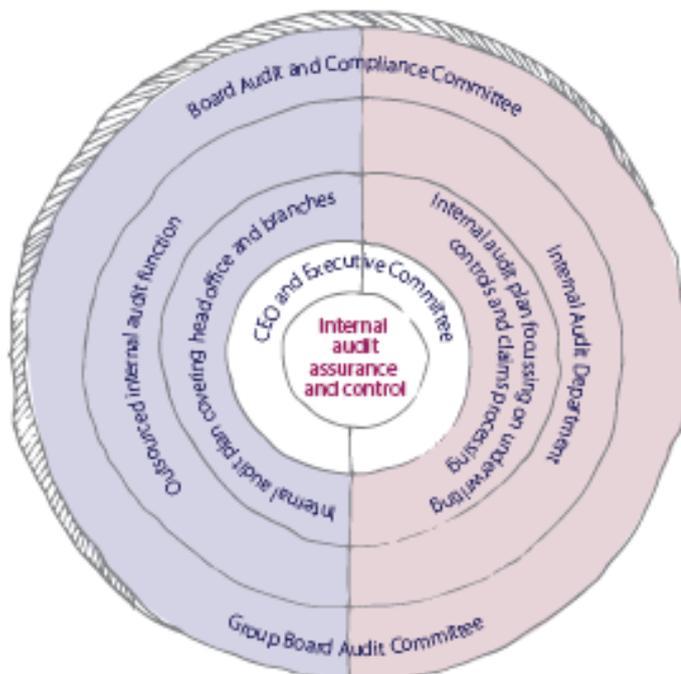
**Code of Conduct**

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

- Exercise honesty, objectivity and diligence when performing their duties
- Avoid situations where their personal interest might conflict with the interest of the Company and disclose such transactions; e.g. trading in UA shares
- Maintain confidentiality of commercial and price sensitive information
- Work within applicable laws and regulations
- Safeguard the Company's assets
- Avoid conduct that will reflect badly on them or the Company's image.
- The Company has implemented a formal whistle blowing procedure and encourages any employee who suspects wrongdoing at work, whether by management, peers or any other employee, to raise their concerns

We have also implemented a Code of Conduct for the field staff covering their responsibilities, commitment and level of service to clients.

**Internal Assurance Framework**



During the year the Company's Code of Conduct was re launched and a formal on-line sign-off was obtained from each staff member to ensure that the message was understood and concurred.

In addition to our charters and codes of conduct, we have implemented policies covering;

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

**Sustainable Business Model**

**Enterprise Risk Management**

Stemming from the stewardship commitment towards our stakeholders and to ensure the sustainability of our business operations it is a prerequisite that the Company has an effective risk management model across the organisation and a tested business continuity plan.

# Corporate Governance

## Risk Management

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

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

The risk grids prepared by the departments are summarised at a corporate level and reviewed by the senior management and the BACC. The departmental heads work towards updating their risk grids on a pre-agreed calendar, which is aligned with the BACC schedule of meetings. A detailed report on risk management initiatives is provided in the Risk Management section of this report on pages 156 to 163.

Alternatively each department presents the detailed risk grid to the BACC.

## Business Continuity Planning

The Business Continuity Plan (BCP) is an essential part of our organisation's response planning. It sets out how the business will operate following an incident and how it expects to return to 'business as usual' in the quickest possible time. We have an effective business continuity plan developed with the support of an external consultancy firm to ensure that UA is well prepared to respond to any unforeseen disaster situation, minimising any potential economic, social and environmental impact.

During the year the Company conducted a BCP trial run for 23 critical processes.

## Engagement with stakeholders

The Board is responsible to ensure that the Company has a well structured policy and procedure in place to engage with various stakeholders. To address apparent conflicts between various stakeholder groups, the Company has developed several Charters as described in our 'Engagement with our stakeholder' section of the annual report on pages 21 to 24.

Accordingly, key expectations of our shareholders and the progress during 2014 are provided in the 'Shareholder section' on pages 69 to 71 in the annual report.

## External Governance Structure

### Compliance with Regulatory Requirements

The internal assurance process is designed by the Board to provide assurance that the Company has checks and controls to ensure that it complies with all the regulatory requirements that govern the Company.

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

In accordance with the determinations issued by the Insurance Board of Sri Lanka (IBSL), the Company provides a written sign off by the Chief Executive Officer and Chief Financial Officer stating inter alia that the Company has:

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

### Compliance with Regulations Governing Investments

Non Life technical reserves and the Life fund are fully backed by "approved investments" as per Section 25 (1) of the RII Act and subsequent determinations. Refer page 164 for details.

### Ability to Meet Policyholder Obligations

An insurance company's ability to meet its obligations to policyholders is measured by the solvency margin computation, which compares the total value of "admissible assets" (as defined by the IBSL) with the value of total liabilities (also defined by the IBSL) including the solvency margin which is stipulated by regulation. As presented on page 164, total admissible assets were Rs. 31 billion in 2014 (Rs. 26 billion - 2013) compared with total liabilities (including solvency margin) of Rs. 26 billion (Rs. 22 billion - 2013), resulting in a positive solvency position of Rs. 5 billion as at 31 December 2014 (Rs. 2 billion - 2013).

### Reinsurance Arrangements

The IBSL has stipulated that insurance companies must enter into reinsurance arrangements with companies which at a minimum have a rating of BBB. As per details on page 258, 90% of our reinsurance receivables are due from

reinsurance companies that have been assigned at the minimum, an "A-" rating by international rating agencies such as Standard & Poor's, AM Best, Moody's, Fitch Ratings or from the National Insurance Trust Fund.

## Capital Structure

The Company's stated capital of Rs. 1,138 million meets the share capital requirements set by the Insurance Board of Sri Lanka (IBSL) for a composite insurance company. The IBSL has proposed to increase the minimum share capital of existing insurance companies to Rs. 500 million for each class of insurance business and as a further / concurrent step to introduce a risk based capital regime. With a view to proactively meeting these requirements the stated capital of the Company was increased by Rs. 750 million through a rights issue to the ordinary shareholders of the Company in 2012.

## Compliance Framework and Self-Regulation

The Board recognises its responsibility to ensure that business is conducted in accordance with relevant laws, rules and regulations.

### Statutory Submission Sign-off

A statutory submission checklist is signed off on a monthly basis by persons responsible for ensuring compliance with such requirements. Changes to regulations are updated in the checklist on a regular basis with relevant evidence of compliance. This is a proactive measure to ensure that no violations take place. Any violations are reported to the BACC with the quarterly compliance submission. The Company is in compliance with the statutory and regulatory requirements as summarised in the table in page 120.

### Regulatory Compliance Sign-off

A regulatory compliance checklist is signed off on a quarterly basis by the respective head of department ensuring compliance with the applicable laws and regulations governing the Insurance business. Changes to regulations are updated in the checklist as and when changes occur. This is a proactive measure to ensure that no violations take place. Any deviations are reported to the BACC with the quarterly compliance submission.

## Code of Best Practice on Corporate Governance

Company's adherence with the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) of Sri Lanka and Rules as per Section 7.10 of the listing rules of the Colombo Stock Exchange is given overleaf.

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

## Section 1: Company

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
<b>A</b>	<b>Directors</b>		
<b>A.1</b>	<b>Board</b>		
A.1	Need for an effective Board, which should direct, lead and control the Company	<p><b>Compliant</b></p> <p>The Board comprises seven Directors, six of whom, including the Chairman, function in a Non Executive capacity.</p> <p>The Board has delegated the day to day running of the organisation to the CEO and Executive Committee. The Company's operations are governed by policies, procedures and authority delegated by the Board to the CEO.</p> <p>In addition, the Board is keenly involved in setting the Company's medium term strategic plan which is regularly reviewed and updated through a rigorous planning process conducted annually.</p>	<p>The Board of Directors comprises Seven members, who possess broad commercial knowledge and extensive business leadership experience.</p> <p>During the year the CEO, Mr. Dirk Pereira was appointed as an Executive Director to the Board.</p> <p>The profiles of all Board members are provided on pages 116 to 117.</p> <p>The Board monitors the performance of the Company based on a pre-agreed matrix of key result areas comprising financial as well as non-financial targets and objectives.</p> <p>Following extensive discussions, the Board approved the Company's medium term strategy and plan for 2015 - 2017.</p>
A.1.1	Frequency of Board meetings	<p><b>Compliant</b></p> <p>The Board meets once every two months. Additional meetings are held if required. The following Board sub committees also meet on a regular basis / or as required</p> <ul style="list-style-type: none"> <li>➤ Investment Committee</li> <li>➤ Board Audit and Compliance Committee</li> <li>➤ Remuneration Committee</li> <li>➤ Nominations Committee</li> </ul>	<p>During 2014 the Board met on 6 occasions as detailed on page 123.</p> <p>The meetings convened by the Board sub committees during 2014 are provided on page 124.</p>
A.1.2	Responsibilities of the Board to ensure:		
	The formulation and implementation of a sound business strategy	<p><b>Compliant</b></p> <p>Refer comments above.</p>	<p>The Board reviewed the business strategies of the Life and Non Life businesses separately. The review was based on UA's comparative strengths and weaknesses, potential opportunities and threats and where UA should position itself in the medium term, considering likely socio economic developments, competitor activities, available resources and future investments.</p>
	The CEO and management team possess the skills, experience and knowledge to implement the strategy	<p><b>Compliant</b></p> <p>The CEO and the management team possess superior skills and extensive experience in the insurance industry.</p>	<p>The profiles of the CEO and Executive Committee members are provided on pages 117 to 119.</p>
	Adoption of an effective CEO and senior management succession planning.	<p><b>Compliant</b></p> <p>Succession plans for all members of the Executive Committee, their direct reports and senior managers are in place. A key aspect of the succession plan is to develop senior managers to ensure that there are adequate options available internally to replace key personnel.</p>	<p>During the year as per the streamlined succession planning process, the identified skill gaps of the second in line personnel were addressed by providing the required people management, technical and / or soft skills training and development.</p>

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
	Effective systems to secure integrity of information, internal controls and risk management	<p><b>Compliant</b></p> <p>The Board has delegated this responsibility to the Board Audit and Compliance Committee (BACC).</p>	<p>The role and responsibilities together with the activities performed by the BACC are disclosed in the Board Audit and Compliance Committee Report on pages 152 to 153.</p> <p>Under its mandate, the BACC reviewed the resourcing, scope and frequency of internal audits to ensure that key strategic and operational risks are escalated to the relevant persons in a timely manner.</p> <p>In addition, the BACC continued to monitor the progress of the bottom up compliance sign off process introduced in the previous year. The BACC also tracked the implementation of the IT governance improvements identified.</p>
	Compliance with laws, regulations and ethical standards	<p><b>Compliant</b></p> <p>A compliance checklist is provided to all Board members indicating compliance with applicable laws, regulations, etc; The Company has also issued a Code of Conduct applicable to all Directors and employees.</p>	<p>Details of compliance with applicable laws and regulations in 2014 are provided on page 120.</p> <p>Further, implemented a bottom up compliance sign off process covering head office and branches to ensure compliance at ground level was strictly monitored.</p> <p>Details of the Code of Conduct are provided on page 127.</p>
	All stakeholder interests are considered in corporate decisions	<p><b>Compliant</b></p> <p>The Company has developed charters covering responsibilities to shareholders, employees, customers, community and the environment. All key decisions are reviewed within the framework of these charters.</p>	<p>The Company adopted GRI4 sustainability reporting guidelines in its annual report for 2014.</p> <p>UA secured the Gold Award for Sustainability practices in the Banking and Insurance sector category at the Association of Chartered Certified Accountants (UK) as recognition of good sustainability practices and reporting.</p>
	Sustainable business development in corporate strategy, decisions and activities	<p><b>Compliant</b></p> <p>The Company takes into consideration the sustainable aspects of business in the corporate strategy, decisions and activities</p>	<p>Sustainability of the medium term strategies and key corporate decisions and activities are monitored and discussed at Executive Committee level as well as at Board level.</p>
	The Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	<p><b>Compliant</b></p> <p>Accounting policies are reviewed annually in light of changing business requirements, evolving international and local accounting standards and industry best practice. As mentioned above, significant emphasis is placed on compliance with applicable regulations.</p>	<p>The Company continues to keep up to date with all current developments in relation to changes in accounting standards and have reviewed the accounting policies in place during the year under review.</p>
	Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation.	<p><b>Compliant</b></p> <p>The Board makes every endeavour to fulfil its stewardship obligations on behalf of all stakeholders.</p>	<p>During the year, the Board made every endeavour to fulfil its stewardship obligations on behalf of all stakeholders.</p> <p>As at 31 December 2014, the Board successfully concluded all legal and procedural aspects for the segregation of the Life and Non Life businesses as stipulated by the Insurance Board of Sri Lanka.</p>

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.1.3	<p>The Board collectively and the Directors individually need to act in accordance with laws of the Country relevant to the organisation.</p> <p>A procedure for Directors to obtain independent professional advice where necessary, at the Company's expense.</p>	<p><b>Compliant</b></p> <p>As mentioned above, there is significant emphasis across the organisation to ensure compliance with applicable laws and regulations.</p> <p>The Board has adopted a procedure whereby Directors may, in the performance of their duties, seek independent professional advice at the Company's expense if considered appropriate.</p>	<p>During the year professional advice was sought on various matters including the following;</p> <ul style="list-style-type: none"> <li>➤ Actuarial valuation of the Life and Non Life liabilities and retirement benefits</li> <li>➤ Product development, process development and technology enhancement support</li> <li>➤ Market research services and branding</li> <li>➤ Review of business continuity plan (BCP)</li> <li>➤ Information technology consultancy services pertaining to infrastructure and network security</li> <li>➤ Legal, tax and accounting aspects</li> <li>➤ Economic and Investment advice</li> </ul>
A.1.4	All directors should have access to advice and services of a Company Secretary.	<p><b>Compliant</b></p> <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p> <p>All Directors have access to the Company Secretary.</p> <p>The Secretary possesses the required qualifications as set out in the Companies Act.</p> <p>The articles of the Company specify that the removal of the Company Secretary should be by resolution involving the whole Board.</p>	Keells Consultants (Private) Limited continued to function as the Company Secretary during 2014.
A.1.5	Independent judgment of the Directors.	<p><b>Compliant</b></p> <p>Each Director brings his / her independent judgment to bear on issues that are discussed at the Board.</p>	None of the Non Executive Directors have held executive positions in the recent past.
A.1.6	Dedication of adequate time and effort to matters of the Board and the Company	<p><b>Compliant</b></p> <p>Every member of the Board has dedicated adequate time and effort for the affairs of the Company by attending Board meetings, Board Sub Committee meetings and by making decisions via circular resolutions. In addition, the Board members have meetings and discussions with management when required.</p>	<p>The Board met on six occasions during the year. The Chairman attended all meetings and the attendance of the other Directors is detailed on page 123.</p> <p>The Board is satisfied that the Chairman and the Non Executive Directors committed sufficient time during the year 2014 to fulfil their duties.</p> <p>Following diagram illustrates how the Board spent its time during 2014.</p> <p><b>How The Board Spent It's Time</b></p> <p>Summary of the agenda and key items discussed at the Board meetings is given on pages 123 to 124</p>

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update										
A.1.7	Training for Directors	<p><b>Compliant</b></p> <p>The Board policy on Directors' training is to provide adequate opportunities for continuous development, subject to requirement and relevance for each Director.</p> <p>The Directors are constantly updated on the latest trends and issues facing the Company and the insurance industry in general.</p> <p>The Chairman is responsible for ensuring that the Directors continually update their skills, knowledge and familiarity with the Company as required to fulfil their roles both on the Board and on Committees appointed by the Board. The Company provides the necessary resources for training of Directors.</p>	<p>During the year, the Board obtained advice from external consultants on economic scenarios, investment strategies, new product development, actuarial practices and brand development.</p> <p>In addition, several knowledge sharing initiatives were conducted to inform the Board on such subjects as industry trends including the regulation for segregation of insurance businesses, solvency, Risk Based Capital (RBC) framework, risk management practices and impact of regulatory changes.</p>										
<p><b>Training for Directors</b></p> <table border="1"> <caption>Training for Directors - Hours</caption> <thead> <tr> <th>Category</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td>Industry Trends</td> <td>2</td> </tr> <tr> <td>Risk Management</td> <td>1</td> </tr> <tr> <td>Regulatory Changes</td> <td>1</td> </tr> <tr> <td>Brand Development</td> <td>2</td> </tr> </tbody> </table>				Category	Hours	Industry Trends	2	Risk Management	1	Regulatory Changes	1	Brand Development	2
Category	Hours												
Industry Trends	2												
Risk Management	1												
Regulatory Changes	1												
Brand Development	2												
<b>A.2 Chairman and CEO</b>													
A.2	Division of responsibilities between the Chairman and CEO	<p><b>Compliant</b></p> <p>The positions of Chairman and CEO are separated to ensure a balance of power and authority and to prevent any one individual from possessing unfettered decision making authority.</p>	<p>During the year the CEO was appointed a member of the board, but the position of Chairman remains separate in order to maintain a good governance structure</p>										
A.2.1	Decision to combine the posts of Chairman and CEO in one person	<p><b>Compliant</b></p> <p>In accordance with best practice and in order to maintain a clear division of responsibilities, the roles of Chairman and CEO have not been combined.</p>	<p>The roles of Chairman and CEO have not been combined.</p>										
<b>A.3 Chairman's Role</b>													
A.3	Preserving order and facilitating the effective discharge of Board functions	<p><b>Compliant</b></p> <p>The Chairman is responsible for leading the Board and for its effectiveness. In practice, this means taking responsibility for the Board's composition, appraisal and development, ensuring that the Board focuses on its key tasks and supports the Chief Executive Officer in managing the day to day running of the Company. The Chairman is also the ultimate point of contact for shareholders, particularly on corporate governance issues.</p>	<p>The Board continued to have three independent Non Executive Directors during 2014 in accordance with best practice.</p>										

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.3.1	Conducting Board proceedings in a proper manner	<p><b>Compliant</b></p> <p>The Chairman satisfies himself that the information available to the Board is sufficient to make an informed assessment of the Company's affairs as well as to discharge its duties to all stakeholders.</p> <p>The Chairman ensures;</p> <ul style="list-style-type: none"> <li>➤ That the meetings are conducted in a manner which ensures that there is effective participation from all Directors</li> <li>➤ That Director's individual contribution and concerns are objectively assessed prior to making key decisions and that the balance of power is maintained.</li> <li>➤ That the Board is in complete control of the Company's affairs.</li> </ul>	<p>At each Board meeting, the CEO provides a detailed review of the business and financial performance.</p> <p>In 2014 the range of subjects discussed included:</p> <ul style="list-style-type: none"> <li>➤ Development and implementation of strategy including the Company's people strategy</li> <li>➤ UA's financial results</li> <li>➤ Key business areas including underwriting, sales and distribution, customer service etc.</li> <li>➤ IT infrastructure and platforms</li> <li>➤ Regulatory and governance issues</li> <li>➤ Matters relating to the segregation of the insurance businesses.</li> <li>➤ Bank exposure limits</li> <li>➤ Market positions and branding</li> <li>➤ Capital requirements</li> <li>➤ Corporate sustainability and CSR initiatives</li> </ul> <p>More details are provided in "Board activities during the financial year" section on page 124 in this report.</p>
<b>A.4 Financial Acumen</b>			
A.4	Availability of sufficient financial acumen and knowledge	<p><b>Compliant</b></p> <p>There are three Chartered / Management Accountants on the Board. In addition, all members of the Board have extensive experience in various aspects of financial management.</p>	<p>The following Directors provide the Board with the necessary degree of financial acumen and knowledge:</p> <ul style="list-style-type: none"> <li>➤ Mr. H A J De Silva Wijeyeratne</li> <li>➤ Mr. S Rajendra</li> <li>➤ Mr. A S De Zoysa</li> <li>➤ Mr. D Pereira</li> </ul> <p>Their profiles are provided on page 116 to 117</p>
<b>A.5 Board Balance</b>			
A.5	Balance of Executive and Non Executive Directors	<p><b>Compliant</b></p> <p>Six out of Seven Directors on the Board hold office in a Non Executive capacity and are therefore independent of management.</p>	<p>The current Board comprises of Six Non Executive Directors, three of whom are independent Non Executives.</p> <p>The CEO who is also a Director is the only Executive Director.</p>
A.5.1	Number of Executive and Non Executive Directors on the Board	<p><b>Compliant</b></p> <p>As mentioned above, the majority of the Board comprises only Non Executive Directors and as a result, their views carry significant weight in the Board's decisions.</p>	Refer above.

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.5.2	"Independence" of Non Executive Directors	<b>Compliant</b> UA is compliant with the rules which require a minimum of two independent Non Executive Directors on the Board.	Mr. H A J De Silva Wijeyeratne, Mr. A S De Zoysa and Mr. G F C De Saram continued to be Independent Non Executive Directors during 2014.  Accordingly, the Company continued to be in compliance with the requirement to have the higher of two, or one third of Non Executive Directors, as "Independent" Non Executive Directors.
A.5.3	Criteria to evaluate "independence" of Non Executive Directors	<b>Compliant</b> A Director is deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of his / her unfettered and independent judgment.	The Directors mentioned above are deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their independent judgment.
A.5.4	Submission of an annual declaration by each Non Executive Director regarding independence / non independence against specified criteria in Schedule H	<b>Compliant</b> A declaration is submitted by the Non Executive Directors on an annual basis against specified criteria.	Declarations of independence or non-independence in respect of 2014 as per the Code of Best Practices on Corporate Governance were obtained from all Non Executive Directors.  Summary of Non Executive / Independent Directors' interests is given on page 123 of this report
A.5.5	Annual determination by the Board on the independence of the Non Executive Directors.	<b>Compliant</b> The Board considers on an annual basis the independence or non-independence of the Non Executive Directors, based on the declaration made and other information available to the Board.	Based on available information, the Board determined that Mr. A S De Zoysa, Mr. G F C De Saram and Mr. H A J De Silva Wijeyeratne are independent Non Executive Directors.  Refer pages 116 to 117 for a summary of Non Executive / Independent Directors' profiles
A.5.6	Appointment of alternate Director	<b>Compliant</b> If an alternate Director is appointed by a Non Executive Director such alternate director will not be an executive of the Company. If an alternate Director is appointed by an independent Director, the person who is appointed also would require to meet the criteria of independence. The provision on minimum number of independent Directors also should be satisfied.	No alternate Directors were appointed during the year.
A.5.7	Appointment of Senior Independent Director (SID)	<b>Compliant</b> The requirement to appoint a Senior Independent Director does not arise as the roles of Chairman and CEO are separated.	Not applicable.
A.5.8	Availability of SID for confidential discussions with other Directors	<b>Compliant</b> Refer above	Not applicable.
A.5.9	Chairman to hold meetings with Non- Executive Directors, without Executive Directors being Present	<b>Compliant</b> When deemed necessary, Chairman holds meetings without executive Director / CEO being present.	Chairman had meetings without Executive Director / CEO being present.
A.5.10	Recording of Directors' concerns in the Board minutes	<b>Compliant</b> The Board minutes are prepared in order to record any concerns of the Board as a whole or those of individual Directors regarding the running of the Company or of a proposed action.  If a Director resigns over an unresolved issue, the Chairman will bring the issue to the attention of the Board. The Director concerned is also required to provide a written statement to the Chairman for circulation to the Board.	Minutes of the Board meetings are circulated to all Directors and formally approved at the subsequent Board meeting.  No Director resigned over an unresolved issue.

Section	Principle	Compliance status and UA Action for Compliance	2014 Update														
<b>A.6</b>	<b>Supply of Information</b>																
A.6	Supply of relevant information in a timely manner	<b>Compliant</b> The Board receives a standard set of documents, which are timely, accurate, relevant and comprehensive. These papers include a detailed analysis of financial and non-financial information. The Board may call for additional information or clarify any issues with any member of the Executive Committee.	During the year, several Executive Committee members made presentations to the Board regarding competitor activities, risk management initiatives, customer service initiatives, reinsurance arrangements, sales and marketing activities, HR and CSR initiatives.														
			<p style="text-align: center;"><b>Management Presentations to the Board</b></p> <table border="1"> <caption>Management Presentations to the Board</caption> <thead> <tr> <th>Category</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td>Competitor analysis</td> <td>2</td> </tr> <tr> <td>Risk Management</td> <td>4</td> </tr> <tr> <td>Customer Service</td> <td>2</td> </tr> <tr> <td>Reinsurance Arrangements</td> <td>2</td> </tr> <tr> <td>Brand building activities</td> <td>2</td> </tr> <tr> <td>Staff related</td> <td>1</td> </tr> </tbody> </table>	Category	Hours	Competitor analysis	2	Risk Management	4	Customer Service	2	Reinsurance Arrangements	2	Brand building activities	2	Staff related	1
Category	Hours																
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Risk Management	4																
Customer Service	2																
Reinsurance Arrangements	2																
Brand building activities	2																
Staff related	1																
A.6.1	Chairman to ensure that all Directors are adequately briefed on issues arising at Board meetings.	<b>Compliant</b> All Directors are adequately briefed on matters arising at Board meetings.	Any Director who does not attend a meeting is updated on proceedings prior to the next meeting through; <ul style="list-style-type: none"> <li>▶ Formally documented minutes of discussions and</li> <li>▶ Separate discussions at start of meeting regarding matters arising from the previous meeting.</li> </ul>														
A.6.2	Board minutes, agenda and papers to be circulated seven days before the meeting	<b>Compliant</b> The Board papers are circulated seven days prior to Board meetings.	The Board papers were circulated seven days prior to Board meetings.														
<b>A.7</b>	<b>Appointments to the Board</b>																
A.7	Formal and transparent procedure for new appointments	<b>Compliant</b> The Board decides on the appointment of new Directors and CEO based on the recommendations of the Nominations Committee. In identifying suitable candidates, professional / business experience and personal qualities are taken in to consideration and appointments are purely on merit. All new appointments are approved by the shareholders.	The CEO, Mr. D Pereira was appointed as a Director on 28 May 2014.														
A.7.1	Establishment of a Nominations Committee	<b>Compliant</b> A Nominations Committee comprising three Non Executive Directors has been established.	Details and composition of the Nominations Committee are provided on page 153.														
A.7.2	Assessment of Board composition	<b>Compliant</b> The Board reviews its own composition on a regular basis to ascertain whether its combined knowledge and experience match the strategic demands facing the Company.	The current set of Directors are together, deemed to possess the required knowledge and experience to match the strategic opportunities and threats facing the Company in the foreseeable future.														

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.7.3	Disclosure of details of new Directors to shareholders	<b>Compliant</b> All new appointments are communicated to the shareholders via the Colombo Stock Exchange (CSE)	CEO, Mr. D Pereira was appointed to the Board during the year.  The CSE announcement for the new appointment was published on 19 May 2014.  A brief profile of Mr. D Pereira is disclosed in page 117 of this report.
<b>A.8</b>	<b>Re-election</b>		
A.8	Re-election of Directors at regular Intervals	<b>Compliant</b> In accordance with the Articles of Association, two of the Directors retire from office at each Annual General Meeting. A retiring Director is eligible for re-election by the shareholders.  Any Director who has been appointed to the Board during the year, holds office until the next AGM, when he / she is required to retire and be re-elected by the shareholders.	In accordance with the Articles of Association, the following Directors retire from office and are eligible for re-election. ▶ Mr. A De Zoysa ▶ Mr. H A J De Silva Wijeyeratne ▶ Mr. Dirk Pereira
A.8.1	Appointment of Non- Executive Directors for specified terms, subject to re-election	<b>Compliant</b> The Non Executive Directors are subject to re-election as per the provisions of the Companies Act relating to the removal of a Director and their re-appointment is not automatic.	Refer above.
A.8.2	All Directors including the Chairman to be subject to re-election by the shareholders at the first appointment and to re-election thereafter at intervals of no more than three years	<b>Compliant</b> All Directors, excluding the Chairman, are subject to election by shareholders at the first opportunity after their appointment and to re-election as stated above. A brief resume of the Director/s standing for election or re-election is provided in the annual report, enabling shareholders to make an informed decision.  As per the Articles of Association the Chairman is not subject to retirement by rotation.	The details of the current Board of Directors are provided on pages 116 to 117.
<b>A.9</b>	<b>Appraisal of Board Performance</b>		
A.9	Board to periodically appraise its own performance	<b>Compliant</b> The Board commenced a process to evaluate its performance and effectiveness in 2008. The process is led by the Chairman.  All Directors are required to complete a detailed questionnaire comprising the; ▶ Effectiveness of the Board as a whole ▶ Perception of the Board ▶ Perception of their own contributions ▶ Areas for improvement and effectiveness of the committees on which they serve ▶ Any other suggestions  All submissions are collated by the Chairman and discussed with the Board. Specific actions to improve performance and effectiveness are implemented following this review.	As done in previous years, the Board evaluated its performance and effectiveness during 2014.

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.9.1	Annual appraisal of Board performance in discharging its key responsibilities	<b>Compliant</b> The Board regularly evaluates its performance based on the following set of guidelines: <ul style="list-style-type: none"> <li>➤ Development and implementation of strategy</li> <li>➤ Competency and succession planning for the CEO and members of the Executive Committee</li> <li>➤ Effectiveness of systems to ensure integrity of information, internal controls and risk management</li> <li>➤ Compliance with laws, regulations and ethical standards</li> <li>➤ Balancing the needs of all stakeholders</li> </ul>	The Board evaluated its performance and effectiveness during 2014.
A.9.2	Annual self-evaluation of Board performance and its committees	<b>Compliant</b> As mentioned previously, the Board implemented a process of self-evaluation.	The Board as well as the Sub Committees evaluated their performance and effectiveness during 2014.
A.9.3	Disclose methodology of such evaluations	<b>Compliant</b> Refer above.	There was no change to the methodology adopted in 2014.
<b>A.10</b>	<b>Disclosure of Information in Respect of Directors</b>		
A.10	Shareholders to be advised of relevant details in respect of Directors	<b>Compliant</b> The annual report contains relevant details pertaining to all Board members.	The details of the current Board of Directors are provided on pages 116 to 117.
A.10.1	Annual report to contain information in relation to each Director	<b>Compliant</b> Information in relation to each Director required by the Code of Best Practice on Corporate Governance is disclosed in the annual report.	The following information in relation to Directors is disclosed in the annual report.  The profiles including expertise, experience and directorships of all Board members are provided on pages 116 to 117  Details of related party transactions are provided in note 47 to the financial statements.  The composition of Board committees, attendance at Board meetings, Board sub-committee meetings and status of independence are provided on pages 123 to 124.
<b>A.11</b>	<b>Appraisal of the Chief Executive Officer (CEO)</b>		
A.11.1	Financial and non financial targets to be achieved by the CEO should be set at the commencement of the fiscal year	<b>Compliant</b> Following the corporate planning process, the Board (in consultation with the CEO) sets financial and non-financial objectives to be achieved by the CEO in line with the short, medium and long term objectives of the Company.	The following objectives / action plans were reviewed by the Board at their meetings: <ul style="list-style-type: none"> <li>➤ Achievement of turnover and profitability targets</li> <li>➤ Implementation of cost effective distribution models</li> <li>➤ Implementation of IT systems to improve underwriting and claims functions</li> <li>➤ Management of debtors</li> <li>➤ Brand development initiatives</li> <li>➤ Learning and development / talent management initiatives</li> <li>➤ New product development targeting mass affluent segments</li> <li>➤ Sustainability aspects and CSR initiatives</li> </ul>

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Section	Principle	Compliance status and UA Action for Compliance	2014 Update
A.11.2	Performance of the CEO to be evaluated against the targets set by the Board	<b>Compliant</b> At the end of the year, the Board evaluates the performance of the CEO and ascertains if the agreed objectives have been achieved.	Refer above.
<b>B</b>	<b>Directors' Remuneration</b>		
<b>B.1</b>	<b>Remuneration Procedure</b>		
B.1	Establish formal and transparent procedure for developing policy on remuneration for executives and Directors	<b>Compliant</b> The Remuneration Committee is responsible for developing policy on executive remuneration. No Director is involved in deciding his / her own remuneration.	There is a formal process for approving remuneration for executives and Directors. No Director is involved in deciding his / her own remuneration.
B.1.1	Appointment of a Remuneration Committee	<b>Compliant</b> A Remuneration Committee has been appointed and functions within agreed terms of reference.	Refer "Remuneration Committee Report" for terms of reference of the committee.
B.1.2	Composition of the Remuneration Committee	<b>Compliant</b> The Remuneration Committee comprises a majority of Independent Non Executive Directors. The Chairman of the Board chairs the Remuneration Committee.	The Remuneration Committee consists exclusively of Non Executive Directors. Refer Remuneration Committee composition on page 151
B.1.3	Disclosure of Chairman and members of the Remuneration Committee	<b>Compliant</b> Details and composition of the Remuneration Committee are provided in the annual report.	Details and composition of the Remuneration Committee are provided on page 151
B.1.4	Determination of remuneration for Non- Executive Directors	<b>Compliant</b> Non Executive Directors who are part of the JKH Group remit their fees to the Group. Other Non Executive Directors are remunerated in line with market practices.	No change from previous year.
B.1.5	Ability to consult the Chairman and/ or CEO and to seek professional advice by the Committee	<b>Compliant</b> The Remuneration Committee has access to professional advice from within and outside the Company.	During the year, the Committee reviewed the information provided by UA's team of human resource professionals to determine market and industry trends with regard to remuneration and perquisites.
<b>B.2</b>	<b>Level and make up of Remuneration</b>		
B.2	Level and make up of remuneration	<b>Compliant</b> Remuneration at all levels including the CEO consists of a fixed element as well as a variable element based on Company and individual performance.	No change from previous year.
B.2.1	Remuneration for Executive Directors	<b>Compliant</b> Executive Directors do not set their own remuneration. The Remuneration Committee reviews industry and market practice when setting the remuneration of Executive Directors.	CEO is an Executive Director but does not participate in the Remuneration Committee when matters pertaining to his remuneration are discussed.
B.2.2	Positioning company remuneration levels relative to other companies	<b>Compliant</b> When positioning remuneration levels relative to other companies in the industry, due care is taken to ensure that remuneration is commensurate with the comparative performance / scale of other companies in the industry.	No change from previous year.
B.2.3	Annual increases in remuneration	<b>Compliant</b> The Remuneration Committee reviews the annual increments provided to companies within the JKH Group, when deciding on increments for UA staff.	No change from previous year.

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
B.2.4	Performance related elements of remuneration for Executive Directors	<b>Compliant</b> The performance related element of remuneration applicable to the CEO is based on achieving the objectives as outlined in A.11.1 above. It is believed that these measures best align the interests of the Company and main stakeholders. There are no performance related elements of remuneration for the Non Executive Directors.	CEO was appointed as a Director during the year. Performance of the CEO is measured as outlined in A.11.1 above.
B.2.5	Share option schemes	<b>Compliant</b> The senior management is entitled to participate in the share option scheme initiated by the JKH Group.	No change from previous year.
B.2.6	Designing schemes of performance related remuneration	<b>Compliant</b> The CEO is eligible for annual bonuses based on the Company achieving Life and Non Life business profitability on a stand alone basis. As per the scheme, there is an upper limit on the annual bonus.  In terms of long term incentive schemes, the senior management is entitled to participate in the share option scheme initiated by the JKH Group.  The consequences of pension and associated costs are considered when determining salary increases.  Performance related remuneration schemes are not applied retrospectively.  Annual bonuses are not pensionable.  Non Executive Directors are not eligible to performance based remuneration schemes.	No change from previous year.  No change from previous year.  No change from previous year.  No change from previous year.  No change from previous year.
B.2.7	Compensation commitments in the event of early termination	<b>Compliant</b> There are no terminal compensation commitments other than gratuity in the Company's contracts of service.	No change from previous year.
B.2.8	Dealing with early termination	<b>Compliant</b> Refer comment above.	No change from previous year.
B.2.9	Levels of remuneration for Non Executive Directors	<b>Compliant</b> Non Executive Directors are remunerated in line with market practices.	No change from previous year.
<b>B.3</b>	<b>Disclosure of Remuneration</b>		
B.3	Statement of remuneration policy and details of remuneration of the Board as a whole	<b>Compliant</b> A statement regarding the Company's remuneration policy and the details of remuneration to the Board as a whole are disclosed in the annual report.	A statement regarding the Company's remuneration policy is contained in the Remuneration Committee report in the annual report.  The details of remuneration to the Board as a whole are disclosed in Note 19 to the financial statements.
B.3.1	Composition of Remuneration Committee, statement of remuneration policy and aggregate remuneration paid to Executive and Non Executive Directors	<b>Compliant</b> Details of the Remuneration Committee and break up of remuneration paid to Executive and Non Executive Directors are disclosed.	Details of the Remuneration Committee are provided on page 151.  The information in Notes 19 and 47 to the financial statements provide a break up of remuneration paid to Executive and Non Executive Directors.  The Board Remuneration Committee ensures that the CEOs / Executive Director's remuneration is set objectively.

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Section	Principle	Compliance status and UA Action for Compliance	2014 Update
<b>C</b>	<b>Relations With Shareholders</b>		
<b>C.1</b>	<b>Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings</b>		
C.1	Constructive use of the AGM	<p><b>Compliant</b></p> <p>The Board encourages all shareholders to attend and actively participate in the AGM. The shareholders may raise any queries they have with the Directors.</p> <p>The Chairman, the Chief Executive Officer and the Chairmen of the principal committees of the Company are present at the AGM to answer any queries.</p>	<p>The Company's 27<sup>th</sup> AGM was held on 31<sup>st</sup> March 2014. The shareholders queries were answered by the Chairman.</p> <p>The Chief Executive Officer and the Chairmen of the Board Sub Committees were also present at the AGM.</p>
C.1.1	Consideration of all proxy votes	<p><b>Compliant</b></p> <p>As a matter of practice, proxy votes together with the votes of shareholders present at the AGM are considered for each resolution.</p>	No change from previous year.
C.1.2	Separate resolutions for each substantially separate issue	<p><b>Compliant</b></p> <p>Each substantially separate issue is proposed as a separate resolution.</p> <p>The adoption of the report and accounts is proposed as a separate resolution.</p>	No change from previous year.
C.1.3	Availability of Board subcommittee Chairmen to answer queries	<p><b>Compliant</b></p> <p>The Chairman of the Board functions as the Chairman of the Remuneration Committee and Nominations Committee. He ensures that the Chairmen of the other Sub Committees are also available to answer any queries.</p>	The Chairmen of the Board sub committees were present at the AGM held on 31 March 2014. No queries were raised by shareholders to the Chairmen of the committees.
C.1.4	Circulation of notice and related documents to shareholders	<p><b>Compliant</b></p> <p>The notice of meeting and related documents is circulated to the shareholders 15 working days prior to the AGM.</p>	The notice of meeting and related documents was circulated to the shareholders 15 working days prior to the AGM held in 2014.
C.1.5	Summary of procedures governing voting at the AGM	<p><b>Compliant</b></p> <p>A summary of the procedures governing voting at the AGM is provided in the proxy form, which is circulated to shareholders 15 working days prior to the AGM.</p>	The proxy form was circulated to shareholders 15 working days prior to the AGM.
<b>C.2</b>	<b>Communication with Shareholders</b>		
C.2.1	Communication channel to reach shareholders	<p><b>Compliant</b></p> <p>The Company has many channels to reach all shareholders of the Company in order to disseminate timely information.</p>	<p>The Company used the following channels to disseminate timely information;</p> <ul style="list-style-type: none"> <li>➤ Shareholders meetings</li> <li>➤ Financial and other notices as and when required through the Colombo Stock Exchange</li> <li>➤ Corporate website</li> <li>➤ Press notices</li> </ul>
C.2.2	Disclosure on communication channel to reach shareholders	<p><b>Compliant</b></p> <p>The Company discloses the policy and methodology for communication with shareholders.</p>	Please refer "Shareholder communication policy" provided on page 71 for details of the policy and methodology adopted for communication.
C.2.3	Company's communication policy and methodology	<p><b>Compliant</b></p> <p>The Company has disclosed how they implement the above policy and methodology.</p>	Refer above

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
C.2.4	Contact person for communication purposes	<b>Compliant</b> The Company has disclosed the contact person for such communication.	Details of the contact personnel are provided in the 'Shareholder communication policy' section on page 71 of the annual report.
C.2.5	Process to make Directors aware of major issues and concerns of shareholders	<b>Compliant</b> A process has been adopted to ensure that all Directors are aware of the major issues and concerns raised by shareholders.	The process is explained in the 'Shareholder communication policy' provided on page 71.
C.2.6	Person to be contacted on shareholder matters	<b>Compliant</b> The relevant person with statutory responsibilities to contact in relation to shareholders' matters is the Company Secretary.	Shareholders can contact Keells Consultants (Private) Limited, the Company Secretary on, 011- 2306245 (phone)  Or use the; <ul style="list-style-type: none"> <li>➤ Investor relations hot line number; 011- 2428502</li> <li>➤ E mail address: investorrelation@ualink.lk</li> <li>➤ Postal address: Union Assurance Centre, 20, St. Michael's Road, Colombo 3, Sri Lanka</li> </ul>
C.2.7	Formulation of a process for responding to shareholders and disclosure on them	<b>Compliant</b> The Board has formulated a process of responding to shareholder matters.	The process is explained in the 'Shareholder communication policy' on page 71.
<b>C.3</b>	<b>Major Transactions</b>		
C.3	Disclosure of major and material transactions	<b>Compliant</b> All proposed material transactions, which if entered into, alter the Company's net assets base, are disclosed to shareholders.	The intended sale of 78% stake in the Non Life business to Fairfax Asia Limited was announced to the shareholders through the Colombo Stock Exchange on 31 <sup>st</sup> July 2014 as prescribed.  The Company's future strategies and their potential impact have been disclosed in the following sections of this annual report. <ul style="list-style-type: none"> <li>➤ Chairman's Message on pages 10 to 12.</li> <li>➤ CEO's Review on pages 13 to 14.</li> <li>➤ Management Discussion and Analysis on pages 15 to 114.</li> </ul>
C.3.1	Disclosure of all facts of transactions which have a material impact on net assets in an event of major transactions with related parties	<b>Compliant</b> All proposed material related party transactions, which if entered into, alter the Company's net assets base, are disclosed to shareholders.	There were no major transactions as prescribed by the code that took place during the year that required communication with the shareholders, other than what has been explained above.
<b>D</b>	<b>Accountability and Audit</b>		
<b>D.1</b>	<b>Financial Reporting</b>		
D.1	Present a balanced, understandable assessment of the Company's financial position and prospects	<b>Compliant</b> The Company's financial position and prospects are disclosed in the annual report.	The Company's financial position and prospects have been discussed in detail in the following sections of this annual report. <ul style="list-style-type: none"> <li>➤ Chairman's Message on pages 10 to 12.</li> <li>➤ CEO's Review on pages 13 to 14.</li> <li>➤ Management Discussion and Analysis on pages 15 to 114.</li> </ul>

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Section	Principle	Compliance status and UA Action for Compliance	2014 Update																
D.1.1	Interim accounts, price sensitive public reports, reports to regulators and information required by statute	<p><b>Compliant</b></p> <p>The interim accounts and annual financial statements are published on a timely basis. Regulatory reports are filed by the due dates. Price sensitive information is disclosed to the Colombo Stock Exchange on a timely basis.</p> <p>The Company strives to provide a detailed and transparent analysis of strategies, performance and future strategies to enable investors to make an informed decision. In addition to the information provided in the reports mentioned above, a summary of the interim accounts and a section on "Understanding our Financials" is provided in the annual report.</p>	<p>The interim accounts and annual financial statements were published on a timely basis during 2014.</p> <p>Regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year. A summary of the interim accounts is presented on page 292.</p> <p>A section on "Understanding our Financials" is provided on pages 296 to 298.</p>																
D.1.2	Directors' Report	<p><b>Compliant</b></p> <p>The Directors' report contains declarations by the Directors as required by the Code of Best Practice on Corporate Governance.</p>	<p>Declarations by the Directors as required by the Code of Best Practice on Corporate Governance are provided on Pages 167 to 168 in the 'Annual report of the Board of Directors on the affairs of the Company'.</p>																
D.1.3	Responsibilities of the Board for preparation of financial statements and reporting responsibilities of auditors	<p><b>Compliant</b></p> <p>The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided in the annual report.</p>	<p>The Statement of Directors' Responsibility, Statement on Internal Controls and Report of the Auditors are provided on pages 175, 154 and 176 respectively in the annual report.</p>																
D.1.4	Inclusion of a "Management Discussion and Analysis" report in the Annual Report.	<p><b>Compliant</b></p> <p>The annual report contains a "Management Discussion and Analysis" report.</p>	<p>The required information in the Management Discussion and Analysis is provided in this annual report as follows:</p>																
		<table border="1"> <thead> <tr> <th>Information required</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Industry structure and developments</td> <td>38 and 53</td> </tr> <tr> <td>Opportunities and threats, risks and concerns</td> <td>31 to 33, 44 to 45 and 64</td> </tr> <tr> <td>Internal control systems and their adequacy</td> <td>125</td> </tr> <tr> <td>Social and environmental protection activities carried out by the Company</td> <td>87 to 91</td> </tr> <tr> <td>Financial performance</td> <td>34 to 37</td> </tr> <tr> <td>Material developments in human resources / industrial relations</td> <td>72 to 85</td> </tr> <tr> <td>Prospects for the future</td> <td>95 to 96</td> </tr> </tbody> </table>	Information required	Pages	Industry structure and developments	38 and 53	Opportunities and threats, risks and concerns	31 to 33, 44 to 45 and 64	Internal control systems and their adequacy	125	Social and environmental protection activities carried out by the Company	87 to 91	Financial performance	34 to 37	Material developments in human resources / industrial relations	72 to 85	Prospects for the future	95 to 96	
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D.1.5	Declaration of going concern by Directors	<p><b>Compliant</b></p> <p>Information on going concern is provided in the Report of the Directors.</p>	<p>This information is provided in the 'Annual report of the Board of Directors on the affairs of the Company' on pages 167 to 171.</p>																
D.1.6	EGM if the net assets of the Company fall below half of the shareholders' funds	<p><b>Compliant</b></p> <p>The situation has not arisen.</p>	<p>The situation has not arisen.</p>																
D.1.7	Disclosure of related party transaction	<p><b>Compliant</b></p> <p>Each related party to submit signed and dated quarterly declarations mentioning whether they have related party transactions with the Company as defined in this Code;</p> <p>The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly;</p> <p>A record / register in hard form on related party and related party transactions is maintained by the Company;</p> <p>The Company captures information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.</p>	<p>Each related party has submitted signed and dated declarations mentioning whether they had related party transactions with the Company during 2014.</p>																

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
<b>D.2</b>	<b>Internal Control</b>		
D.2	Maintain a sound system of internal control	<p><b>Compliant</b></p> <p>The Board has overall responsibility for the system of internal controls to safeguard shareholder's investments and the Company's assets and has delegated certain of these responsibilities to the BACC.</p>	No change from previous year.
D.2.1	Review of effectiveness of the system of internal controls by the Board	<p><b>Compliant</b></p> <p>In order to ensure that a sound system of internal controls is maintained, the BACC ensures that an internal audit programme (which is adequate in terms of coverage and scope) is prepared on an annual basis, covering all Head Office and branch operations. In addition,</p> <ul style="list-style-type: none"> <li>➤ Internal audit plans are followed up to ensure that audits are concluded on time.</li> <li>➤ Internal and external audit reports are reviewed by management on a timely basis and control weaknesses are corrected.</li> <li>➤ External auditors review the key reconciliations and report on any irregularities.</li> <li>➤ Risks associated with all key processes are identified and control systems to mitigate such risks are reviewed to ensure that they are functioning smoothly.</li> <li>➤ A formal delegation of financial authority from the CEO to the relevant management staff is available and adhered to in respect of all transactions.</li> <li>➤ Procedure manuals for underwriting and claims are available for all staff and updated regularly.</li> <li>➤ A structured loss reporting process covering fraud or suspected fraud involving staff, damage or loss to Company property, theft, agent misappropriations resulting in financial impact and losses due to inadequate financial / operational controls have been implemented.</li> <li>➤ A comprehensive compliance checklist and exception reporting procedure is in place.</li> <li>➤ The Company's business continuity plan is regularly updated and tested.</li> <li>➤ A whistle blowing procedure is available to any employee who suspects wrongdoing at work.</li> </ul>	<ul style="list-style-type: none"> <li>➤ During the year, the scope and resourcing of the internal audit function was reviewed to enhance the audit coverage and escalate any control issues on a timely basis.</li> <li>➤ Internal audits were carried out to cover operations performed at Head Office and selected branches in accordance with the internal audit programme approved by the BACC.</li> <li>➤ Additional spot audits and surprise cash counts were carried out as per operational requirements.</li> <li>➤ Reports of both internal and external auditors were reviewed by the BACC and measures taken to correct control weaknesses.</li> <li>➤ All reconciliations connected with the financial statements were independently reviewed by the external auditors.</li> <li>➤ Internal audit programs were designed to test adequacy of control systems to mitigate operational risks.</li> <li>➤ Procedure manuals covering Life and Non Life insurance related underwriting and claims functions were updated to cover new products / process changes etc.</li> <li>➤ Employees made use of the whistle blowing procedure.</li> <li>➤ An IT audit was carried out to ensure adequate IT controls over operations.</li> <li>➤ Quarterly compliance sign off process was enhanced with a bottom up financial and operational compliance sign off process.</li> <li>➤ The delegation of financial authority was reviewed during the year to facilitate the segregation of insurance businesses.</li> <li>➤ The Company business continuity plan (BCP) was reviewed and tested during the year with the help of an external consultancy firm.</li> <li>➤ As per best practice the BACC had closed door meetings with the internal and the external auditors without the management team being present.</li> </ul>

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
D.2.2	Need for internal audit function	<p><b>Compliant</b></p> <p>The internal audit function has been outsourced to a leading firm of Chartered Accountants. The Board believes that this provides greater access to global best practices and independence from management.</p> <p>The BACC reviews the internal audit plan and monitors progress on a regular basis.</p> <p>The internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p>	<p>Messrs. PricewaterhouseCoopers – a leading firm of Chartered Accountants who was appointed as the internal auditors in September 2010 continued to be internal auditors in 2014.</p>
	Establish an Audit Committee to carry out reviews of the processes and effectiveness of the risk management and internal controls and document to the Board.	<p><b>Compliant</b></p> <p>BACC reviews the internal audit plan and monitors progress on a regular basis.</p> <p>Internal auditors may also carry out any additional tasks they deem necessary to effectively discharge their duties.</p>	<p>The BACC reviewed the internal controls and procedures at seven meetings held during 2014.</p> <p>The minutes of the BACC meetings are tabled at the meetings of the Board of Directors.</p> <p>Please refer pages 154 to 155 for Directors Statement of Compliance on Internal Controls for further details.</p>
<b>D.3</b>	<b>Audit Committee</b>		
D.3	Board to establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles	<p><b>Compliant</b></p> <p>The Board has delegated its responsibility with regard to financial reporting, internal controls and maintaining an appropriate relationship with the Company's auditors to the Board Audit and Compliance Committee. Accounting policies are agreed with auditors and the BACC and are applied on a consistent basis.</p>	<p>The accounting policies have been applied consistently and are provided in note 3 to the financial statements.</p> <p>Changes required to account for the segregation of Life and Non Life businesses was discussed with the auditors and the BACC.</p>
D.3.1	Composition of the Audit Committee	<p><b>Compliant</b></p> <p>The BACC consists of three Non Executive Directors, two of whom are independent.</p>	<p>Mr. H A J De Silva Wijeyeratne who is a member of The Institute of Chartered Accountants of Sri Lanka and the Chartered Institute of Management Accountants of UK serves as the Chairman of the BACC and is an independent Non Executive Director.</p> <p>Mr. A S De Zoysa and Mr. S Rajendra continued to serve on the BACC as an independent Non Executive Director and a Non Executive Director respectively during 2014.</p>
D.3.2	Ensure the objectivity and independence of the external auditors	<p><b>Compliant</b></p> <p>As per its charter, the BACC is responsible for reviewing the scope and results of the audit and its effectiveness.</p> <p>In addition to audit services, the Company auditors Messrs. KPMG provide tax advice and related services.</p>	<p>The BACC conducted an evaluation and satisfied itself regarding KPMG's integrity, competence and professionalism and concluded that no aspect of the auditors' work was impaired due to lack of independence.</p> <p>The BACC also reviewed the non-audit services provided by KPMG.</p>
D.3.3	Written terms of reference for Audit Committee	<p><b>Compliant</b></p> <p>The BACC operates within clearly defined terms of reference which have been approved by the Board.</p> <p>The duties and responsibilities of the BACC are in line with the Code of Best Practice on Audit Committees issued by the ICASL and Code of Best Practice on Corporate Governance jointly issued by the ICASL and the SEC.</p>	<p>No change from previous year.</p> <p>Refer "Board Audit and Compliance Committee Report" for further details on pages 152 to 153</p>

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
D.3.4	Disclosure of Directors in Audit Committee and the report of the BACC	<b>Compliant</b> The details and composition of the BACC are provided in the annual report.	The details and composition of the BACC are provided in the "Board Audit and Compliance Committee Report" on pages 152 to 153
<b>D.4</b>	<b>Code of Business Conduct and Ethics</b>		
D.4	Adoption of a code of business conduct and ethics for Directors and senior management	<b>Compliant</b> The Company has issued a Code of Conduct requiring all Directors and employees to:  <ul style="list-style-type: none"> <li>➤ Exercise honesty, objectivity and diligence when performing their duties</li> <li>➤ Avoid situations where their personal interests might conflict with the interests of the Company and disclose any such transactions; e.g. trading in UA shares</li> <li>➤ Maintain confidentiality of commercial and price sensitive information</li> <li>➤ Work within applicable laws and regulations</li> <li>➤ Safeguard the Company's assets</li> <li>➤ Avoid conduct that will reflect badly on them or on the Company's image.</li> </ul> The Company also has a Code of Conduct for the field staff which covers their responsibility, commitment and level of service to clients.	No change from previous year.
D.4.1	All companies must disclose whether they have a Code of Business Conduct & Ethics for Directors and Key Management Personnel and make an affirmative declaration in the Annual Report that all Directors and Key Management Personnel have declared compliance with such Code.	<b>Compliant</b> The Company has implemented a Code of Conduct to address and comply with the Code of Governance.	There have been no violations of the Code of Ethics during 2014 by any of the Directors or any member of the Executive Committee.  During the year the Company re-launched the 'code of conduct' across the Company and facilitated an on-line declaration and sign off by each employee including sales advisors and full time contract staff.  A summary of the Company's Code of Conduct is provided in page 127 of this report.
D.4.2	Affirmation from the Chairman regarding not violating the provisions of the code	<b>Compliant</b> The Chairman discloses any violation of the Company's Code of Ethics.	The Chairman is not aware of any violation of the Company's Code of Ethics.
<b>D.5</b>	<b>Corporate Governance Disclosures</b>		
D.5	Disclose extent of adherence to established principles and practices	<b>Compliant</b> The Company's corporate governance practices are in accordance with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.	The Company is fully compliant with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC as well as the Corporate Governance Rules for Listed Companies issued by the CSE.
D.5.1	Inclusion of a corporate governance report in the annual report	<b>Compliant</b> The Company includes a corporate governance report in the annual report.	This report sets out the manner in and extent to which the Company has complied with the Code of Best Practice on Corporate Governance jointly issued by the ICASL and SEC.

# Corporate Governance

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
<b>E</b>	<b>Institutional Investors</b>		
<b>E.1</b>	<b>Shareholder Voting</b>		
E.1	Encourage institutional shareholders to ensure their voting intentions are translated into practice	<b>Compliant</b> All shareholders are encouraged to participate at General meetings and cast their votes.	No change from previous year.
E.1.1	Regular and structured dialogue with shareholders	<b>Compliant</b> The AGM is used as a forum to have a structured, objective dialogue with shareholders. The Chairman ensures that the views expressed at the AGM are communicated to the Board as a whole.	No change from previous year. Also refer 'Shareholder Communication Policy' on page 71 of the annual report.
E.2	Evaluation of Governance Disclosures		
E.2	Encourage institutional investors to give due weight to relevant governance arrangements	<b>Compliant</b> The corporate governance report in the annual report sets out the Company's governance arrangements.	This report sets out the Company's governance arrangements.
<b>F</b>	<b>Other Investors</b>		
<b>F.1</b>	<b>Investing / Divesting Decisions</b>		
F.1.1	Encourage other investors to seek independent advice in investing or divesting decisions	<b>Compliant</b> The annual report contains sufficient information to help make an informed decision.	The following reports aim to provide a balanced overall assessment of the Company's activities, performance and prospects. <ul style="list-style-type: none"> <li>➤ Chairman's Message on pages 10 to 12.</li> <li>➤ CEO's Review on pages 13 to 14.</li> <li>➤ Management Discussion and Analysis on pages 15 to 114.</li> <li>➤ Annual financial statements on pages 179 to 187</li> </ul>
<b>F.2</b>	<b>Shareholder Voting</b>		
F.2	Encourage shareholders to participate in general meetings and exercise voting rights	<b>Compliant</b> All shareholders are encouraged to participate at General meetings and cast their votes.	No change from previous year.
<b>G</b>	<b>Sustainability Reporting</b>		
<b>G.1</b>	<b>Principles of Sustainability Reporting</b>		
G.1.1	Reporting of Economic sustainability	<b>Compliant</b> The Company is conscious of the economic sustainability of its operations as reflected in its focus on Triple Bottom-line performance. Further the Company estimates and reports the contribution to the National Economy from its Life and Non Life businesses.	The contribution to the National Economy from Life and Non Life businesses are given in pages 43 and 62 respectively. Economic value added to other stakeholders is illustrated in page 37
G.1.2	Reporting on the Environment	<b>Compliant</b> The Company gives due consideration to direct and indirect economic, social, health and environmental implications of decisions and activities.	Refer pages 21 to 25.
G.1.3	Reporting on labour Practices	<b>Compliant</b> The Company reports on labour practices governance encompassing all policies and practices relating to work performed by or on behalf of the organisation.	Refer remuneration committee report on page 151 and People section of the annual report on pages 72 to 85 for further details
G.1.4	Reporting on society	<b>Compliant</b> The Company focuses on building a relationship with the community and strives for sustainable development.	Refer pages 87 to 89 for details

Section	Principle	Compliance status and UA Action for Compliance	2014 Update
G.1.5	Reporting on product responsibility	<b>Compliant</b> The Company encourages and adequately communicates product features through its promotional campaigns as well as through the sales advisors the choices available including factual unbiased information to its consumers.  The Company abides by fair contractual practices and consumer data protection and privacy.	Refer pages 46 to 49 and 65 to 66  Refer pages 52, 68 and 126
G.1.6	Reporting on stakeholder identification, engagement and effective communication	<b>Compliant</b> Internal and external stakeholder groups are identified in relation to the Company's sphere of influence, impact and implication.  The Company reports on economic, social and environmental issues.	Refer pages 16 to 25 and 108 to 114
G.1.7	Sustainable reporting and disclosure reporting to be formalised as part of the Company's reporting processes and take place on a regular basis	<b>Compliant</b> Sustainability is at the core of the Company's decision making and reporting process.	The Company has adopted the GRI G4 guideline in its sustainability reporting.  Refer details on pages 16 to 25 and 108 to 114

Compliance with Corporate Governance rules as per section 7.10 of the listing rules of the Colombo Stock Exchange is as follows;

Section	Rule No.	Requirement	Compliance status	Details
Compliance	7.10	Statement in the annual report confirming compliance with the Corporate Governance rules of the CSE	<b>Compliant</b>	This report declares the confirmation on compliance
Non Executive Directors	7.10.1 (a)	Two or one third of the Directors, whichever is higher, should be Non Executive Directors	<b>Compliant</b>	Six out of seven Directors on UA's Board are Non Executive Directors
	7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	<b>Compliant</b>	One Executive Director appointed since the last AGM
	7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	<b>Compliant</b>	No impact to the ratio due to the new appointment during the year
Independent Directors	7.10.2 (a)	Two or one third of Non Executive Directors, whichever is higher, should be independent	<b>Compliant</b>	The Board comprises of three independent Non Executive Directors.
	7.10.2 (b)	Each Non Executive Director should submit a declaration of independence / non independence in the prescribed format	<b>Compliant</b>	The Non Executive Directors have submitted the required declarations.
Disclosures relating to Directors	7.10.3 (a)	Names of independent Directors should be disclosed in the annual report	<b>Compliant</b>	The company's Independent Non Executive directors are; <ul style="list-style-type: none"> <li>➤ Mr. H A J De Silva Wijeyeratne</li> <li>➤ Mr. A S De Zoysa</li> <li>➤ Mr. G F C De Saram</li> </ul>
	7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the annual report	N/A	No such determination was required to be made by the Board.
	7.10.3 (c)	A brief resume of each Director should be published in the annual report including the areas of expertise	<b>Compliant</b>	Please refer Board of Directors section of this report on page 116 to 117.
	7.10.3 (d)	Provide a brief resume of any new Director appointed to the Board	N/A	Resume forwarded to the CSE on 29 May 2014

# Corporate Governance

Section	Rule No.	Requirement	Compliance status	Details
Criteria for defining 'independence'	7.10.4 (a-h)	Requirements for meeting criteria to be Independent	Compliant	Please refer pages 122 and 123 for a summary of Non Executive / Independent Directors' interests.
Remuneration committee	7.10.5	A listed company shall have a Remuneration Committee	Compliant	Please refer the Remuneration Committee report on page 151.
	7.10.5 (a)	The Remuneration Committee shall comprise a minimum of two Independent Non Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher	Compliant	The Remuneration Committee comprises a majority of Independent Non Executive Directors. Please refer the Remuneration Committee report on pages 151 for details.
		One Non Executive Director shall be appointed as Chairman of the committee by the Board	Compliant	Mr. Ajit D Gunewardene who is a Non Executive Director functions as Chairman of the Remuneration Committee.
	7.10.5 (b)	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors	Compliant	Please refer the Remuneration Committee report on page 151
	7.10.5 (c)	The annual report shall set out:	Compliant	Please refer the Remuneration Committee report on page 151.
		➤ The names of the Directors that comprise the Remuneration Committee		
➤ A statement of remuneration policy		Compliant	Please refer the Remuneration Committee report on page 151.	
	➤ Aggregate remuneration paid to Executive and Non Executive Directors	Compliant	Please refer page 217.	
Audit Committee	7.10.6	A listed company shall have an Audit Committee	Compliant	Please refer the BACC report on pages 152 to 153.
	7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non Executive Directors, or a majority of Independent Non Executive Directors, whichever is higher	Compliant	The BACC comprises a majority of Independent Non Executive Directors. Please refer the BACC report on pages 152 to 153 for details.
		One Non Executive Director shall be appointed as Chairman of the Audit Committee by the Board	Compliant	Mr. H A J De Silva Wijeyeratne, an Independent Non Executive Director, functions as the Chairman of the BACC.
		The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Compliant	The CEO and CFO attended all BACC meetings.
		The Chairman or one member of the Committee should be a member of a recognised professional accounting body	Compliant	Two out of the three members of the BACC are members of professional accounting bodies.
Audit Committee Contd.	7.10.6 (b)	The functions of the Audit Committee shall include;	Compliant	Please refer BACC report on pages 152 to 153
		➤ Overseeing of the preparation and presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards		
		➤ Overseeing the compliance with financial reporting requirements and information requirements as per laws and regulations		
		➤ Ensuring the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards		

Section	Rule No.	Requirement	Compliance status	Details
Audit Committee Contd.	7.10.6 (b)	➤ Assessing of the independence and performance of the external auditors		
		➤ Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors		
	7.10.6 (c)	The annual report shall set out;  The names of the Directors who comprise the Audit Committee	Compliant	Please refer BACC report on pages 152 to 153
		The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination	Compliant	Please refer BACC report on pages 152 to 153
		A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules	Compliant	Please refer BACC report on pages 152 to 153

Compliance report on the content of the annual report as per section 7.6 of the listing rules of The Colombo Stock Exchange is provided on page 290 of the annual report.

Company complies fully on voluntary adoption of the SEC directive on Code of Best Practices on related party transactions, from January 2014.

## Report of the Investment Committee

### Composition of the Investment Committee

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

- Mr. K N J Balendra, Chairman
- Mr. A S De Zoysa, Independent Non Executive Director
- Mr. Dirk Pereira, Director/CEO
- Ms. S Cader, General Manager Finance and Planning
- Ms. T Krishnaratne, Head of Actuarial
- Mr. K Jayawardana, Head of Investments

President and Head of Corporate Finance, Treasury and Strategy, John Keells Holdings PLC, and EVP and CFO Financial services Group, John Keells Holdings PLC attend meetings of the Committee by invitation.

The Chairman Mr Krishan Balendra has extensive knowledge and experience in the field having held positions in investment banking and corporate finance at UBS Warburg Hong Kong and at Aitken Spence & Co PLC, Sri Lanka. Mr Balendra is a former Chairman of the Colombo Stock Exchange. He is at present a member of the John Keells Holdings PLC Group Executive Committee. He is also the Chairman of Nations Trust Bank.

Mr. A S De Zoysa brings in knowledge and experience from diverse fields including Commodity Trading. A brief description of all Directors profiles can be found on pages 116 to 117.

The management team including the CEO, General Manager Finance and Planning, Head of Actuarial and Head of Investments provide operational insights to the discussions and the decisions.

The Committee solicits the services of economists and other experts in related fields to aid in the decision making process. The Head of Investments acts as the Secretary to the committee

### Terms of reference of the Investment Committee

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

- Advice on formulation of investment strategy.
- Review and develop broad investment policies and guidelines for implementation.
- Provide guidance on the asset allocation of investment funds.
- Review fund performance for the month and on a cumulative basis.
- Manage risk exposure.
- Ensure compliance with internal investment policy and procedures and external investment regulations.

The minutes of the IC meetings are presented to the Board of Directors along with a detailed list of investments made during the period. In carrying out its responsibilities, the IC's policies and procedures remain flexible, in order to best react to changing conditions and to ensure that management of the Non Life and Life funds are performed to the highest standards possible and in accordance with all internal and external regulations. During the year IC reviewed and updated the investment policies and procedures to reflect changes to applicable regulatory requirements.

# Corporate Governance

## Meetings of the Investment Committee

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

Attendance of the committee members at the meetings is illustrated in the table on page 124.

## Summary of activities

- ▶ The Committee obtained independent advice on macroeconomic forecasts, yield curve predictions and other factors, including key macro-economic indicators such as inflation, interest rates, exchange rates and their impact on the performance of capital markets.
- ▶ At the beginning of the year the Committee considered the profit plan together with the budgeted investment income for Non Life and Life funds for the ensuing year and advised on formulation of investment strategies taking into account the investment objectives for the planning period, the maturity profiles and risk tolerance of the respective funds.
- ▶ Provided guidance on asset allocation for the Non Life and Life funds in order to achieve the budgeted investment income, taking into account the determinations issued by the Insurance Board of Sri Lanka (IBSL), the maturity profiles of the funds and agreed investment strategies.
- ▶ The Committee reviewed the Investment Policies of the Funds and recommended revised Investment Policy Statements for Board approval.
- ▶ Discussed and agreed on duration of investments for asset liability management and provided advice on the proportion of long term versus short term investments to be maintained for the year.
- ▶ Reviewed fund performance for each month and on a cumulative basis against agreed benchmarks. The Committee was also updated each month on fund growth, maturity profiles and asset liability management of the respective funds.
- ▶ The Committee has set separate exposure limits for banks and corporate entities, which are reviewed monthly. These limits are updated on a regular basis in line with respective fund sizes and information pertaining to the financial stability of such entities.

- ▶ The Committee reviewed compliance with internal and external investment regulations at each meeting, including IBSL regulations related to solvency and approved assets. The Committee also ensured that the agreed investment strategies and asset allocations for the year were implemented.

## Compliance with the four core principles of asset management framework as advised by the IBSL

### 1. An effective and efficient governance structure

- ▶ UA's investment function is governed by the Investment Committee which comprises of Board members and members of the senior management team.
- ▶ The Committee brings in external expertise to advice on the economic climate and any other specialised areas.
- ▶ The Committee reviews investment performance on a monthly basis, appraises investment proposals submitted by the management and sets the investment strategy.

### 2. Develop a investment strategy and implement a policy and procedures to execute the strategy at the operational level.

- ▶ The Committee sets the investment strategy and has put in place Investment Policy documents for each of the Funds.
- ▶ UA has an in house investment department which operationalise the strategies set by the Committee. Board approved financial authority limits are in place to ensure proper checks and balances on execution of transactions.

### 3. Monitor and control the investment portfolio effectively and efficiently.

- ▶ UA has invested in a world class ERP system (SAP) to provide MIS support in managing its investment portfolio. The Investment Committee is provided with this information on a monthly basis. The valuation of investments are carried out automatically by the system and manual processes are minimised to increase accuracy and integrity.
- ▶ In the process of selecting investments, while reports from rating agencies are considered, UA conducts an independent evaluation of the Issuers performance.
- ▶ The Investment Committee has put in place bank exposure limits and these are reviewed on an annual basis.

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

- ▶ UA has streamlined processes to ensure the integrity of the investment activities. A back office and front office segregation is in place and different levels of signatories and system controls are in place to ensure that the work flow is properly segregated.

## Conclusion

The Committee was satisfied with the performance of both the Life and Non Life funds during the year.



**Krishan Balendra**  
Chairman - Investment Committee

25 February 2015

# Report of the Board Remuneration Committee

## Composition of the Board Remuneration Committee

The Board appointed Remuneration Committee comprised of the following members, including two Independent Non Executive Directors as at the end of the year.

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

Profiles of each member can be found on pages 116 to 117

The Chief Executive Officer (CEO) and the EVP and CFO Financial Services Group John Keells Holding PLC attended the meetings of the Committee by invitation.

The CEO who is responsible for the overall management of the Company assists the Committee by providing relevant information and participating in its analysis and deliberations, except when matters relating to the CEO are discussed.

The Committee obtains the services of professional advisors in relevant fields when deemed necessary.

## Terms of reference of the Board Remuneration Committee

The responsibilities of the Remuneration Committee include:

- ▶ Formulating, on behalf of the Board, formal and transparent procedures for developing policy on remuneration for Directors, CEO and the senior management team.
- ▶ Recommending to the Board, corporate management appointments and advising on succession planning.
- ▶ Setting the total compensation packages for the CEO and senior management.
- ▶ Review of objectives and key performance indicators of the CEO and senior management, and their development and succession planning.
- ▶ Review performance ratings of the CEO and senior management team.
- ▶ Maintaining competitive and attractive remuneration packages linked to performance.
- ▶ Ensuring that the performance related element of remuneration is designed and tailored to align employees' interests with those of the Company and main stakeholders.
- ▶ Approving annual increments, bonuses and changes in perquisites and incentives.

- ▶ Ensuring that no Director is involved in setting his own remuneration.

## Meetings of the Remuneration Committee

The Remuneration Committee held two meetings during the year under review. Other Executive Committee members may be invited as and when required. The Committee forwards minutes of its meetings to the Board.

Attendance of the committee members at the meetings is illustrated in the table on page 124

## Remuneration Policy Principles

The key principles which constitute the remuneration policy are that:

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

## Methodology Used

### Employees

Rewards and recognition are a key factor influencing employee behaviour. Therefore UA's compensation policy is designed to pay for performance and promotions are based on performance and potential.

### Base Salary

Base salary is the fixed component of the remuneration for the role performed and is based on the scope and complexity of the role and is reviewed annually. Overall competence and performance are key factors that determine an individual's base pay.

Annual performance appraisals are conducted and increments are granted based on performance.

### Variable Pay

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

## Annual Bonus

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

Conversely, if the Company performs poorly, employees may not receive a bonus.

## Employee Benefits

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

## Retirement Benefits

Gratuity, Employee Provident Fund (EPF) and Employee Trust Fund (ETF) are the retirement benefits available for employees.

## Board of Directors

Remuneration for Directors is determined by the Remuneration Committee. The remuneration for Non Executive Directors reflects the time, commitment and responsibilities of their role and is based on industry and market surveys. No Director is involved in determining his or her own remuneration.

## Remuneration for Directors

The fees paid to the Directors are disclosed on page 217. This includes fees for all the committees of the Company that they serve on. The Directors' business interests with the Company are disclosed in Note 47.

## Share Options for Directors

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

## Directors' Shareholding

The shareholdings of Directors are provided in page 290.

## Personal Loans for Directors

None of the Directors have taken loans from the Company.

## Professional Advice

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



Ajit D Gunewardene  
Chairman - Board Remuneration Committee

25 February 2015

# Corporate Governance

## Report of the Board Audit and Compliance Committee

### Composition of the Board Audit and Compliance Committee

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

- ▶ Mr. H A J De Silva Wijeyeratne – Chairman / Independent Non Executive Director
- ▶ Mr. A S De Zoysa - Independent Non Executive Director
- ▶ Mr. S Rajendra - Non Executive Director

The above composition is in compliance with the requirement to have a minimum of two Independent Non Executive Directors in terms of the rules on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

Mr. H A J De Silva Wijeyeratne, the Chairman of the BACC, is an Associate member of the Institute of Chartered Accountants of Sri Lanka and a Fellow member of the Chartered Institute of Management Accountants of UK. He has over 26 years experience in the fields of general management, financial management and auditing.

Brief profiles of the other members of the BACC can be found on pages 116 to 117.

Executive Vice President and CFO Financial Services Group of John Keells Holdings PLC functions as the Secretary of the Committee.

CEO, GM Finance and Planning, other members of the Executive Committee (where relevant), Head of Group Risk and Control Review of John Keells Holdings PLC, External Auditors and Internal Auditors participate as invitees at the BACC meetings.

The Board has determined that the Committee possesses an adequate blend of financial and insurance expertise in order to carry out its duties. The Committee operates pursuant to a charter which is formally approved by the Board.

### Terms of reference of the Board Audit and Compliance Committee

The role of the BACC is to assist the Board of Directors in fulfilling its oversight responsibilities with regard to:

- ▶ Ensuring the integrity of the financial statements of the Company and that a sound financial reporting system is in place and is well managed in order to provide accurate, appropriate and timely information to the management, regulatory authorities and shareholders in compliance with Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000, Companies Act No. 7 of 2007 and other financial reporting related regulations and requirements;
- ▶ Ensuring that the Company's risk management processes are effective to identify and mitigate risks;

- ▶ Reviewing the design and operational effectiveness of internal controls and implementing changes where required;
- ▶ Ensuring that the conduct of the business is in compliance with the applicable laws and regulations and policies of the Company;
- ▶ Assessing the independence and monitoring the performance and functions of internal and external auditors;
- ▶ Assessing the Company's ability to continue as a going concern in the foreseeable future;

### Duties

The BACC is empowered to carry out any investigations it deems necessary and review all internal control systems and procedures, compliance reports, risk management reports, etc. to achieve the objectives as stated above. The Committee has reviewed and discussed with management and internal and external auditors, the audited financial statements, the quarterly unaudited financial statements as well as matters relating to the Company's internal control over financial reporting, key judgments and estimates in the preparation of financial statements and the processes that support certifications of the financial statements by the CEO and CFO.

### Meetings of the BACC

Agenda and papers for the meetings are circulated one week prior to the meeting.

The Committee had seven meetings during the year under review which were attended by the External Auditors, Internal Auditors and other relevant third party specialists by invitation as required. All the meetings were attended by Executive Committee members including the CEO, CFO and General Managers responsible for underwriting, marketing, distribution, HR and IT.

Attendance of the committee members at the meetings is illustrated in the table on page 124.

Numerous other informal meetings and communications among the Chairman, various Committee members, internal and external auditors and members of the Executive Committee took place during the year.

All key issues are communicated to the rest of the Directors at the Board meetings and the BACC meeting minutes too are tabled at Board meetings.

### Financial reporting

The Committee has reviewed and discussed the Company's interim and annual financial statements prior to publication with management and the external auditors, including the extent of compliance with Sri Lanka Accounting Standards, the appropriateness of the policies adopted and materiality of the judgments used.

### Internal audit

The internal audit function is outsourced to PricewaterhouseCoopers (PWC), a leading firm of Chartered Accountants. The Committee monitors the effectiveness of the internal audit function and is responsible for recommending to the Board their appointment or removal. The BACC ensures that they have adequate access to information required to conduct their audits.

During the year, the BACC reviewed the adequacy of the internal audit coverage, the internal audit plan and monitored progress on a regular basis. The areas to be covered by the Internal Audit are discussed each year and high risk areas are given greater focus.

The Committee reviewed 48 internal audit reports covering the operations of 36 branch locations and several head office functions including underwriting, claims, reinsurance, credit control, finance, investments and information technology. Audit findings presented in the reports were prioritised based on the level of risk. The Committee followed up on internal audit recommendations and the internal audit reports were made available to the External Auditors as well.

The BACC met the internal auditors without the presence of the management during the year.

### Fraud risk

The internal auditors reviewed the Company's systems and processes to mitigate risks / frauds. The reviews focused on the systems and processes as applicable to the underwriting, claims, reinsurance, investment, finance, marketing, human resource development, administration and credit management operations and highlighted areas for improvement.

### Independence and objectivity of the external auditors

The BACC has policies aimed at safeguarding and supporting the independence and objectivity of the external auditors. The BACC reviewed the audit and non-audit work that is assigned to Messrs. KPMG, the external auditors to ensure that provision of such services does not impair KPMG's independence. The services provided by the external auditors were segregated between what requires an independent view such as audit and assurance services and other advisory services such as tax consultancy and work is assigned to prevent a conflict of interest for the external auditors.

The Committee has received a declaration from Messrs. KPMG, as required by the Companies Act No. 7 of 2007, confirming that it does not have any relationship or interest in the Company, which may have a bearing on its independence within the meaning of the Code of Conduct and Ethics of the Institute of Chartered Accountants of Sri Lanka.

The BACC reviewed the external audit plan as well as the management letters and followed up on issues raised.

The BACC met the external auditors without the presence of the management during the year.

### IT Risk and Control Assessment

The BACC receives a report detailing above from Messrs. KPMG on an annual basis.

### Internal Control and Risk Management

The effectiveness of the Company's internal controls and risk management processes are evaluated mainly by the reports furnished by the management, the External Auditors and the Internal Auditors.

### Report of External Actuaries

The BACC received written representations from the Life and Non Life independent external actuaries, summarising their observations and comments with regard to the work performed. The review was on valuing Life policyholder liabilities and Non Life incurred but not reported claims.

### Whistle Blowing

The Company encourages any employee who suspects wrong doing at work - whether by his management, peer, or another employee - to raise his concern through an internal whistle blowing procedure directly to the BACC Chairman. Concerns raised are investigated and the identity of the person raising the concern

is kept confidential. The BACC may use internal or external resources to conduct necessary investigations.

There were no material incidents of whistle blowing reported during in the year under review.

### The Code of Best Practice on Audit Committees

The BACC's scope and functions are in compliance with the requirements of the above code.

### Compliance with the Code of Best Practice on Corporate Governance

The BACC has conducted its affairs in compliance with the requirements of the above code.

### Compliance with Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

The BACC has conducted its affairs in compliance with the requirements of the above code.

### Audit Committee Charter

The BACC Charter was reviewed and revised in December 2014 with the concurrence of the Board of Directors.

### Evaluation of the Committee

Through the annual BACC evaluation process, the BACC activities are reviewed to identify areas for improvement. Based on the comments by the committee members, External and Internal Auditors

and the Executive Committee members, the work being carried out was considered to be effective.

### Appointment of the External Auditors

The BACC has recommended to the Board that Messrs. KPMG be re-appointed as auditors for the financial year ending 31 December 2015, subject to approval by the shareholders at the next Annual General Meeting. The BACC recommends the fees payable to the statutory auditors for approval by the Board.

### Conclusion

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



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

25 February 2015

## Report of the Board Nominations Committee

### Composition of the Board Nominations Committee

The Board Nominations Committee comprised of the following Non Executive Directors as at the end of the year.

- ▶ Mr. Ajit D Gunewardene (Chairman)
- ▶ Mr. A S De Zoysa
- ▶ Mr. G F C De Saram

The Company Secretary functioned as the secretary of the Committee.

Brief profiles of each member can be found on pages 116 to 117.

### Terms of reference of the Nominations Committee

The Nominations Committee was established to ensure Board oversight and control over the selection of Directors.

The committee has the authority to discuss issues under its purview and report back to the Board of Directors with recommendations, enabling the Board to take a decision on the matter. The Committee focuses on the following objectives in discharging its responsibilities;

- ▶ To implement a structured procedure to select suitable Directors to the Board
- ▶ Provide advice and recommendations to the Board or the Chairman on any such appointment
- ▶ To ensure that the Directors are fit and proper persons to hold office
- ▶ To consider and recommend the re-election of current Directors, taking into account the performance and contribution made by them towards the overall discharge of the Board's responsibilities.
- ▶ A member of Nominations Committee opts out in decisions relating to his own appointment

### Meetings of the Board Nominations Committee

- ▶ There shall be a quorum of two thirds of the members of the committee to hold a meeting
- ▶ The Committee meets as and when required
- ▶ The agenda and papers for the meeting are circulated one week prior to the meeting

The Committee met once during the year for the purpose of recommending Mr. D Pereira, CEO as an Executive Director to the Board. The recommendation was accepted by the Board. Attendance of the committee members at the meetings is illustrated in the table on page 124.

### Professional Advice

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

### Conclusion

The Committee continues to work closely with the Board of Directors in relation to the structure, size and composition of the Board, ensuring the diversity and balance of skills, knowledge and experience. The Committee is satisfied that the representation of skills, knowledge and experience on the Board is appropriate for the Company's current needs at Board level.



Ajit D Gunewardene  
Chairman – Board Nominations Committee

25 February 2015

# Corporate Governance

## Report of the Information Technology Committee

### Composition of the Information Technology Committee

The Committee comprises of the following members;

- ▶ Mr. D Pereira – Chairman / CEO / Director
- ▶ Ms. S Cader – General Manager, Finance and Planning
- ▶ Mr. R Bakmedeniya – General Manger, Information Technology
- ▶ Mr. C Fernandopulle – Assistant General Manager, Information Technology
- ▶ Ms. R Gooneratne – General Manger, Non Life Insurance
- ▶ Ms. J Dissanayake - General Manger, Life Insurance

Brief profiles of the committee members are provided in pages 118 to 119 of the annual report.

### Terms of reference

The Information Technology Committee is established to ensure that IT strategies align with the overall business operations and effective implementation of the Board approved IT strategies.

The Committee is responsible for;

- ▶ Developing and reviewing the IT strategic plan on an ongoing basis
- ▶ Approve and review the progress of new IT projects / initiatives
- ▶ Ensuring post implementation system reviews
- ▶ Review vendors for major IT supplies
- ▶ Ensure proper IT governance

### Information Technology committee meetings

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

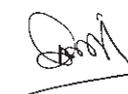
### Significant progress made during the year

In its effort to deliver convenience to customers UA utilised mobile technologies to empower the advisors through the Digital Advisor Toolkit (DAT). These efforts were recognised with the prestigious "Celent Model Insurer Asia Award 2014"

Further in its commitment to ensure integrity and data security of its Data Centre Management System, the ISO/IEC 27001:2005 accreditation was obtained during the year.

### Conclusion

The Committee confirms that the Company has made satisfactory progress in relation to the implementation of the strategic plan of 2014-16 and has operated within the IT governance framework of the Company.



D Pereira  
Chairman - Information Technology Committee.

25 February 2015

## Director's Statement on Internal Controls

The following statement fulfils the requirement to publish the Director's statement on Internal Controls as per the Code of Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and The Securities and Exchange Commission of Sri Lanka.

The Board is responsible for maintaining a sound system of internal controls to safeguard shareholders' investments and Company assets. The Board has structured an Enterprise Risk Management process to identify the principal risks impacting the business and mitigating actions by management.

The Company's management implements policies on risk and control set by the Board and are accountable to the Board for monitoring and providing assurance as to their effectiveness. The Company has commissioned PricewaterhouseCoopers as independent Internal Auditors to ensure the effectiveness of the internal control systems. In addition, the Company's internal audit function carries out regular reviews

of critical processes of the business. As a result of their activities, several processes have been enhanced during the year under review.

The Board has implemented the following to obtain reasonable assurance that proper systems of internal controls are in place:

- ▶ Instituted and maintained several other Board Sub Committees to help in discharging Board's duties and to improve the governance structure.
- ▶ Instituted and maintained an effective Board Audit and Compliance Committee (BACC), independent Internal Auditors and an in-house audit team to review and report on the internal control environment of the Company
- ▶ The minutes of the BACC meetings are tabled at the regular Board meetings. The report of the BACC is provided on page 152 of the annual report.

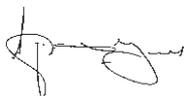
- ▶ The BACC reviews and approves the internal audit plan for the year. The audit plan is structured on a matrix based on key risk areas and delivery dates which is regularly monitored, and any delays highlighted and rectified.
- ▶ During the year under review the audit committee reviewed 48 audit reports 12 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.
- ▶ Regular 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 also performed a follow up review of the comprehensive IT audit on all critical applications / systems conducted during the previous year.
- ▷ The Internal Auditors also conducted an IT system review during the year with a follow up review of the audit done during the previous year. Their findings were presented and a regular update was provided to the BACC who ensured that all identified control weaknesses were corrected.
- ▷ During the year the Data Centre Management System was accredited with ISO/IEC 27001:2005 certification ensuring confidentiality, integrity and availability of information.
- ▷ During the year the Company continued with the ongoing robust bottom up enterprise risk management process;
- ▷ An ongoing bottom up process is in place for identifying, evaluating and managing the risks faced by the Company
- ▷ A summary of the key risks are updated on a risk grid and reported to the BACC on a quarterly basis
- ▷ New risks, mitigating actions and changes of risk status of earlier identified risks are highlighted separately
- ▷ The internal auditors conducted regular reviews to ensure the effective design and implementation of internal controls;
- ▷ The effectiveness of the internal controls are measured based on the repetition of the control weaknesses or improvement areas that have been highlighted in the audit reports
- ▷ Improvements in line with industry and / or non industry best practices are also implemented on an on going basis
- ▷ BACC continued to monitor the progress of the bottom up compliance sign off process commissioned during the previous year which strengthened the control environment and provide comfort to the senior management and Board that staff at all functions are aware and conducts business transactions as per laid down rules and procedures

## Conclusion

The Board having implemented the above is aware that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements of loss.

The Board confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and financial statements have been prepared in accordance with applicable accounting standards, requirements of the Company's Act No.7 of 2007, Regulations of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.



**Ajit D Gunewardene**  
Chairman



**A S De Zoysa**  
Director



**H A J De Silva Wijeyeratne**  
Chairman - Audit and Compliance Committee

25 February 2015

# Integrated Risk Management

## Overview

Risk management is recognised as a core element of effective performance management and group governance. In a dynamic and complex environment. Organisations require the capacity to recognise, understand, accommodate and capitalise on new challenges and opportunities. The effective management of risk contributes to improved decision-making, better allocation of resources and, ultimately better results for stakeholders.

Recent years have seen heightened concerns and focus on risk management, and it became increasingly clear that a need exists for a framework to effectively identify, assess, and manage risk.

Organisations are still improving developing a framework that would be readily usable by management to evaluate and regularly improve their organisation's risk management. As a result, the need for a framework providing key principles and concepts, a common language, and clear direction and guidance, became even more compelling in the business world.

In this light, we continue to uphold and strengthen our commitment to manage risks. Proactive risk management is a key pillar of our strategy. Linked to this is our Board-approved risk governance structure, which provides an integrated risk management framework designed

to meet the challenges of the changing risk environment and to ensure that business growth plans are adequately supported by effective risk management.

## Managing Risk

The underlying premise of UA's risk management is that every division exists to provide value for its stakeholders. We face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Our risk management framework enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Everyone in an entity has some responsibility for risk management. The Board is ultimately responsible and assumes ownership. Line managers support the entity's risk management philosophy, promote compliance with its risk appetite, and manage risks within their spheres of responsibility consistent with risk tolerances. Other personnel are responsible for executing enterprise risk management in accordance with established directives and protocols. The Board of Directors provides important oversight to Enterprise Risk Management, and is aware of and concurs with the entity's risk appetite, approves, and annually evaluates the implementation of UA's risk policy and risk management plan.

The Board has delegated the responsibility to design, implement and monitor the risk management plan to the Risk Committee comprising the senior management. Risk management is, however, a team effort and every employee will be responsible for managing risk in his / her working environment and should therefore assist to identify risks at all levels and in all functions of the business as required by the integrated risk management plan. Regular and formal risk analysis will provide the basis for risk identification and evaluation, and the appropriate risk responses and mitigation.

Management will ensure effective management of risk through continuous and regular measurement, and report the Company's risk management performance to the Board Audit and Compliance Committee (BACC). Control assurance will focus on continuously improving the underlying quality and sustainability of the Company's business activities.

The Company follows a bottom up process, with the Risk Committee reviewing divisional risk grids and summarising key risks for BACC review. The Company also ensures that the risk management process is aligned with the John Keells Group's risk management policy. The bottom up approach is elaborated below.

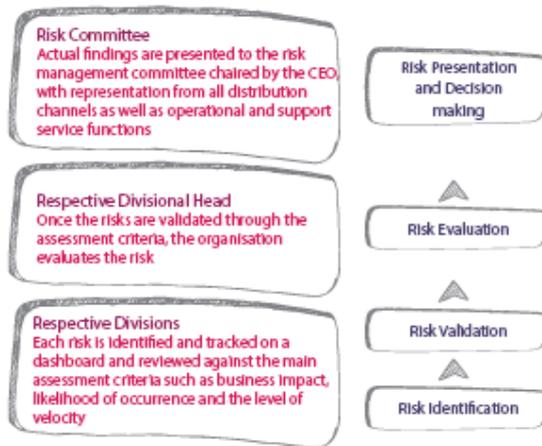
It is not possible to entirely eliminate all risks and some risks must be retained within the balance sheet in order to generate a return in excess of the risk free rate. The risk retention threshold has been clearly communicated by the Board of Directors.

The risk management process enables the team to understand the risk profile of the Company and synchronise the risk profile with the risk appetite of the Board. UA's risk management process and 3 line defence approach are depicted in Figure 1 and Figure 2 respectively.

## The Bottom Up Risk Management Process



**Figure 1:**



**Figure 2:**



**Risk Identification Process**

Risk identification process is a key component of a robust framework. Risks are identified at the divisional level by the respective divisions. In the absence of a risk identification process, the organisation is unable to effectively manage its key risks and demonstrate whether they are in control.

Our process would typically include identifying the significant risks to achievement of our business objectives. The process includes identifying all types of risks, associated major components and controls currently in place, from all sources across the entire organisation's activities.

Impact of risks, likelihood of occurrence, the velocity of the risk and the risk prioritisation are depicted in Figures 3 to 5 respectively.

**Figure 3: Impact**

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

**Figure 4: Likelihood of occurrence**

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

**Figure 5: Velocity of the risk**

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

Each risk is scored by multiplying impact and likelihood scores, which are then prioritised as follows;

Priority	Short Form	Score	Colour
Ultra high risk	U	15-25	Red
High risk	H	10-14	Orange
Moderate risk	M	8-9	Yellow
Low risk	L	3-7	Blue
Insignificant risk	I	1-2	Green

The respective senior management of each division meets quarterly to review and update the risks pertaining to their divisions. There were in total 43 risk items in the divisional Risk Grids identified by the year end. These have been forwarded to the Risk Committee. The Risk Committee summarised these risks into 19 main risk items that needed continuous management attention.

Total number of risks and their urgency to treat is identified at the overall Company level and at divisional level. These are presented in figures 7 and 8 respectively.

# Integrated Risk Management

Figure 7: Summary of the Company Risk Grid

Impact / severity ranking	5	Catastrophic / extreme risk					
	4	1			1		
	3	1	3	5		1	
	2	1	1	4			
	1	1					
		Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur	
		1	2	3	4	5	
		Occurrence / likelihood ranking					

Figure 8: Summary of Divisional Risk Grids

Impact / severity ranking	5	Catastrophic / extreme risk					
	4	2			1		
	3	3	3	5			
	2	5	5	4		3	
	1	3	5	2			
		Rare / remote to occur	Unlikely to occur	Possible to occur	Likely to occur	Almost certain to occur	
		1	2	3	4	5	
		Occurrence / likelihood ranking					

## Our Risk Environment

UA is in the business of reducing and eliminating risks and uncertainties of its customers. Effectively managing risks is therefore essential to ensure our ability to help our customers manage theirs. Risk management is an integral component of UA's enterprise governance system, and the risk management framework is designed to identify, assess, measure and manage exposure to risk.

Risks that have been analysed at high level are classified into ten broad headings. The following table provides a brief summary of these "headline risks," the overall risk rating and action plans initiated by UA to mitigate such risk.

Headline Risk	Description	Risk Priority		Action Plans
		2014	2013	
Catastrophic	Risk associated with a large scale event			<ul style="list-style-type: none"> <li>Ensure adequate reinsurance arrangements to cover such an eventuality</li> <li>Periodically test and update the business continuity plan</li> <li>Monitor accumulation</li> </ul>
Human Resources	Shortage of qualified personnel and loss of experienced Life and Non Life distribution / technical / Customer service staff			<ul style="list-style-type: none"> <li>HR policies are geared to encourage continuous education for all levels of staff</li> <li>Provide adequate monetary and non-monetary incentives</li> <li>Implement a succession plan for senior level staff</li> <li>Identify opportunities for job rotation</li> <li>Structured talent management initiatives</li> </ul>
Competitor	Inability to retain licensed, trained non-permanent sales staff for Non Life operations due to competitors offering better opportunities			<ul style="list-style-type: none"> <li>Continue to invest in training and technology driven service enhancements to increase loyalty of field staff towards the Company</li> <li>Pre underwritten products to empower the sales force</li> <li>Dedicated training resources (Regional trainers etc.)</li> <li>Effective rewards and recognition schemes</li> </ul>
Internal control	Risk of breakdown of internal controls			<ul style="list-style-type: none"> <li>Periodic review of internal controls</li> <li>Educate employees about internal controls</li> <li>Implementation of a bottom up compliance sign off process</li> </ul>
Interest rate	Impact on reinvestment rates, investment income, dividends and profits, solvency and risk based capital			<ul style="list-style-type: none"> <li>Tight control on expenses to mitigate low investment income environment</li> <li>The investment committee guided the asset allocation decisions in order to mitigate interest rate risk and to improve fund yield</li> <li>Interim guarantee on 'Advantage' product to be based on low interest rate environment</li> <li>Monitor solvency regularly, scenario testing and assets liability matching</li> </ul>

Headline Risk	Description	Risk Priority		Action Plans
		2014	2013	
Reinsurance	Refer financial section on business risks (page 251 to 256)	●	●	Refer pages 160 to 163
Socio - economic and Political	Refer financial section on operational risks (page 251 to 256)	●	●	Refer page 160 to 163
Underwriting	Refer financial section on insurance risks (page 251 to 256)	●	●	Refer page 160 to 163
Regulatory	Regulatory changes to separate Life and Non Life companies	●	●	<ul style="list-style-type: none"> <li>➤ Reviewed segregation options to create an efficient operational model for the two businesses</li> <li>➤ Lobbied as an industry with treasury to provide tax exemptions for transactions arising due to the segregation</li> </ul>
Health and safety	Risk of accidents to staff, including insurance sales advisors	●	●	<ul style="list-style-type: none"> <li>➤ Continuously educate staff on health and safety aspects</li> <li>➤ Ensure proper health and safety measures are implemented within company premises</li> </ul>

With the well-integrated risk management approach at UA, we strive to minimise the unknown. However as with man made and natural catastrophes, there cannot, and never will be absolute security when it comes to identifying risks, measuring them sufficiently or correctly estimating the potential impact.

Our integrated risk management environment is diagrammatically presented below;



*UA's risk management process is embedded within the corporate planning process.*

### Business Risk / Insurance Risk

#### What is Business (Insurance) Risk and how does it arise?

Business risk is the probability of loss inherent in an organisation's operations and environment that may impair its ability to achieve business objectives. Business risk may arise if the Company's strategy is not compatible with market or customer requirements, or with socio-economic or political parameters.

UA being an insurance company, business risk is the insurance risk that the Company is exposed as a result of the insurance contracts undertaken. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim.

#### Our approach

UA's risk management process is embedded within the corporate planning process. Once the corporate plan is formulated, the Risk Committee reviews the risks associated with strategies outlined and develops suitable action plans.

# Integrated Risk Management

Sub risks categorised under business risks and our approach to mitigating them is given below;

Business Risk	Our approach
<b>Life Insurance</b>	
<p><b>Biometric Risk :</b> Biometric risks refer to the mortality, disability or morbidity benefits or that the Company is obliged to pay pensions to the policyholder for a longer time than the Company has anticipated when pricing the policies</p>	<ul style="list-style-type: none"> <li>➤ Apart from in-house actuaries, the Company has contracted the services of an actuarial firm with extensive experience internationally and particularly in the region, to review biometric calculation tables and make suitable adjustments</li> <li>➤ The 'Prophet' actuarial system has enabled the Company to monitor trends and review pricing in a proactive manner</li> </ul>
<p><b>Interest Rate Risk:</b> Interest rate risk refers to a scenario where a reduction in the value of a product could arise due to a rise in rates</p>	<ul style="list-style-type: none"> <li>➤ The Company uses prudent assumptions regarding probable interest rates when computing future liabilities</li> <li>➤ The Investment Committee members keep a regular track of macro-economic scenarios and their likely impact on interest rates</li> <li>➤ Life insurance products are profit tested by qualified actuaries to confirm that the Company will be able to meet its obligations</li> <li>➤ Union Life "Advantage," UA's flagship Life product provides a guarantee limited to a one year period</li> <li>➤ "Union Challenger" is on a unit linked platform, which enables customers to choose their investment options in a transparent manner</li> </ul>
<p><b>Concentration Risk:</b> Concentration risk in the Life business is the risk of exposure to increased losses associated with inadequately diversified portfolio of assets and / or obligations</p>	<ul style="list-style-type: none"> <li>➤ The Executive Committee reviews risks inherent in all new business propositions against the risk appetite of the Life business</li> </ul>
<b>Non Life Insurance</b>	
<p><b>Exposure Risk:</b> Exposure risk may arise when an underwriter accepts a risk for a price which is insufficient to meet the cost of claims</p>	<ul style="list-style-type: none"> <li>➤ Review the profitability, pricing and terms and conditions it offers to customers on a regular basis.</li> <li>➤ Risk surveys are conducted in the case of large risks to ensure that such risks are accurately rated and respective recommendations are made on risk prevention strategies</li> <li>➤ Underwriting staff are expected to scrutinise all relevant information including proposal forms, broker information (if any) and risk assessment reports before granting cover</li> <li>➤ In addition to training and development opportunities provided to the underwriting staff, procedure manuals are available and updated as required. The Company ensures adequate segregation of duties and underwriters work within formally documented limits of authority</li> <li>➤ If reinsurance support is required, cover is confirmed to customers only once confirmation from the reinsurer is received</li> <li>➤ A Geo-Coding process is initiated to monitor accumulation exposures</li> <li>➤ The Company had also invested in IT systems to monitor / manage pricing of motor and surgical lines of business</li> </ul>
<p><b>Claims Settlement Risk:</b> Claims settlement risk refers to the risk of potential disputes which may arise when settling the claims</p>	<ul style="list-style-type: none"> <li>➤ Customers are advised of any deductible, adequacy of sum insured, whether the required covers have been obtained and any risk prevention / minimisation strategies and claims manuals are available and updated regularly</li> <li>➤ At the point of settling a claim, employees are expected to cross check the information gathered from various sources and verify policy conditions, sum insured and underwriting details</li> <li>➤ There is adequate segregation of duties in the claims payment function and payments are recommended and approved based on authority limits</li> <li>➤ The Company also avails itself of third party specialists to validate claims if required</li> </ul>

## Business Risk

## Our approach

### Reserving Risk:

Reserving risk refers to the risk of not providing adequate reserves for intimated claims as well as incurred but not reported (IBNR) claims

- Claims handlers are expected to create the necessary reserves as soon as information is received based on a Board approved claims reserving policy
- Reserves are updated on a timely basis for all information received as at period end
- Claims reserves are reviewed and signed off on a quarterly basis to further emphasise the need to maintain accurate reserves
- Implemented an internationally accepted actuarial basis for valuing the IBNR claims provision
- Reserving risk is also applicable to the Life business. Hence the Life Fund is subject to a bi-annual actuarial review. The mid-year review is conducted by the in-house actuary and the year end review is conducted by an independent actuary

### Reinsurance Risk:

Inadequate transfer of underwritten risks or an inability of reinsurers to meet their commitments due to insufficient financial strength

- As at 31 December 2014, 90% (2013 - 94%) of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund
  - The Company reviews past trends and conducts "what if" scenario testing before finalising the reinsurance arrangements for the year
  - The reinsurance panel is formally approved by the Board on an annual basis
  - A provisioning policy is implemented for outstanding reinsurance receivables
  - Reinsurer ratings are reviewed on a regular basis and appropriate action is taken if ratings decline
- (Please refer page 258 on the financial section for a comparison on the reinsurance ratings)

### Credit Risk:

The risk of financial loss arising due to the unwillingness or inability of counter parties to meet their financial or contractual obligations on time and in full

- The credit risk of the Non Life business has greatly reduced due to implementation of the premium warranty clause which states that a claim is not payable if the premium is not settled within 60 days
- Customers are informed on a regular basis of the premium warranty clause
- Outstanding credit is followed up on a daily basis
- Policies which are not settled within a reasonable period are routinely cancelled
- Outstanding debts are checked and confirmed before settling claims. A temporary certificate for 60 days was introduced for motor policies with cover for the full period being granted only upon receipt of the payment
- A provisioning policy is in practice for long outstanding premium receivables

### Concentration Risk :

The risk which arise from climate changes and natural disasters.

- The risk is mitigated by diversification across a large portfolio of insurance contracts into different classes
- The variability of risk is improved by careful selection and implementation of underwriting strategies which are designed to ensure that risks are diversified in terms of type of risks and level of insured benefits

## Operational Risk

### What is Operational Risk and how does it arise?

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes a variety of risk sub-types. These include, among others, financial crime, sustainability and legal risk.

Operational risk exists in the normal course of business activities. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible.

### Our Approach

*UA adopts a fit-for-purpose operational risk practice that assists management in understanding their inherent risk and reducing their risk profile.*

*Sub risks categorised under operational risk and the way we manage it is given overleaf.*

# Integrated Risk Management

Operational Risks	Our Approach
<p><b>Socio-economic and Political Risk:</b> The socio economic and political environment has an impact on the insurance business as well as the investment climate.</p>	<ul style="list-style-type: none"> <li>➤ Strengthen underwriting and claims management processes to monitor issues arising from under insurance, fictitious claims, etc</li> <li>➤ Review pricing in light of inflation</li> <li>➤ Compete on service by continuously upgrading service standards</li> <li>➤ Monitor cancellation of Life policies</li> <li>➤ Develop alternative distribution channels</li> </ul>
<p><b>Technology Risk:</b> Relates to computer security, hardware, software and other related systems failures and causing disruption to day to day business activities</p>	<ul style="list-style-type: none"> <li>➤ The Company had invested in the security infrastructure appropriate for its scale of operations</li> <li>➤ Security arrangements cover both physical infrastructure and information and are constantly updated to take account of the latest knowledge and technical enhancements</li> <li>➤ Security regulations cover technical aspects as well as organisational measures including tracking, staff training, end user computer policies, etc</li> <li>➤ The disaster recovery plan is tested in the live environment within the stipulated time and confirmed to be satisfactory</li> <li>➤ The disaster recovery machine mirrors day to day transactions on a real time basis</li> <li>➤ IT conducts regular audits covering systems, network, web related services and all other infrastructure. This includes vulnerability assessments as well</li> </ul>
<p><b>Human Resource Risk</b> Human resource risks are the shortage of qualified personnel and an unpleasant work environment created in the work place</p>	<ul style="list-style-type: none"> <li>➤ HR policies are geared to encourage continuous education for all levels of staff</li> <li>➤ Managers are required to identify / provide relevant training and development opportunities and foster a culture where all employees, regardless of rank, can actively contribute to the business</li> <li>➤ Provide adequate monetary and non monetary incentives</li> <li>➤ Implement a succession plan for senior level staff</li> <li>➤ Identify opportunities for job rotation</li> <li>➤ Review remuneration vis-à-vis industry norms</li> <li>➤ Implement talent management initiatives</li> </ul>
<p><b>Reputational Risk</b> Reputational risk could be defined as the risk of a particular event affecting the Company and negatively impacting stakeholders' perceptions thus impairing the Company's ability to operate effectively</p>	<ul style="list-style-type: none"> <li>➤ UA has implemented a robust system of internal controls which are regularly reviewed by internal and external auditors. Any shortcomings are reported and followed up by the Board Audit and Compliance Committee. For example, fraud identification is now a part of both internal and external audit programs</li> <li>➤ In addition, the Company defined the key objectives, associated risks and mitigating actions for each business process, e.g. underwriting, claims, finance, HR, etc; This document is reviewed by internal auditors and any shortcomings are notified</li> <li>➤ Company representatives work closely with regulators, industry players, accounting standards committees, etc; to ensure that all regulatory issues are fully understood and complied with</li> <li>➤ The Company has also implemented a Board approved media policy</li> </ul>
<p><b>Fraud Risk</b> The risk that internal control weaknesses may lead to misappropriation of assets or fraudulent financial reports</p>	<ul style="list-style-type: none"> <li>➤ Authority limits, segregation of duties and access controls have been implemented for all critical functions of the Company</li> <li>➤ Key controls are reviewed periodically and internal auditors conduct regular reviews of areas which are susceptible to fraud. Internal auditors have also provided a detailed report reviewing the Company's systems and processes to mitigate risks and frauds</li> <li>➤ The Company has a process by which any employee, who suspects wrongdoing at work, can report his concerns confidentially directly to the BACC, through an internal whistle blowing procedure</li> <li>➤ The Company maintains comprehensive complaint management system. All complaints lodged in the system are reviewed on a regular basis and reported to the Board Audit and Compliance Committee</li> <li>➤ Any complaints received from customers regarding malpractices or fraud by any employee, is investigated immediately. The Company adopts a zero tolerance policy in the case of fraud</li> </ul>

## Compliance Risk

### What is Compliance Risk and how does it arise?

Compliance risk is where the Company is not able to comply with regulatory requirements and related laws which may change from time to time, or is not compliant with existing regulations.

Sub risks categorised under compliance risks and the way we manage is provided below;

### Our Approach

*UA representatives review regulatory changes and assess the business impact of such proposals. Also the Company keeps abreast of the regulatory environment in regional markets and leverages the knowledge of our Non-Life and Life insurance consultant actuaries as well.*

## Compliance Risk

## Our Approach

### Internal Controls Risk:

Defective internal controls would adversely affect the financial reporting and management process. Flaws in the internal control system could hamper expected growth

- Conducting periodic internal audits of systems and processes by independent auditors ensures accuracy of the same
- Major concerns identified at the internal audit would be discussed immediately and appropriate action taken to resolve such matters

### Regulatory Risk:

Not complying with applicable laws and regulations (e.g. RII Act, IBSL guidelines, Companies Act, IRD Act, etc.)

- Established a bottom up regulatory compliance check list sign off. These are monitored and reported every quarter to the BACC
- Established statutory submission compliance check list sign off. These are monitored and reported to the Board monthly

## Financial Risk

### What is Financial Risk and how does it arise?

The probability of loss inherent in financing methods which may impair the ability to provide adequate return and risk occurring from presenting inaccurate financial information to the stakeholders.

### Our Approach

*UA is actively involved in monitoring financial risks by way of having sub committees to monitor and report on the observations of the financial management. A statutory audit is conducted every year to ensure that the financial data presented represents a true and fair view of the affairs of the Company.*

Sub risks categorised under compliance risks and the way we manage such risks is given below.

## Financial Risk

## Our Approach

### Investment Concentration Risk

Concentration risk may arise when the investment portfolio is not sufficiently diversified

- The Investment Committee sets an overall asset allocation target at the start of the year. The decision is based on a number of factors including an analysis of the macro-economic environment, regulatory requirements, liquidity position and return expectations during the plan period
- The Investment Committee sets sectorial asset allocation limits for equity investments as well as related party exposure limits
- The asset allocation of consolidated investments and the sectorial allocation of equity investments as at 31 December 2014 are given on page 226.

### Liquidity Risk

Liquidity risk arises when a given security cannot be traded quickly in the market to prevent a loss or to make adequate profit

- The BIC manages this risk by diversifying investment durations and reviewing cash flow projections

### Credit Risk

The risk that investment institutions will be unable to pay the contractual interest or principal on their debt obligations due to declining financial strength

- The creditworthiness of a potential investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue
- In the event the investments are guaranteed by a banking institution, the rating of the bank is considered
- The Investment Committee works strictly within stipulated exposure limits. The exposure limits are set (inter alia) based on institutional rating (if available) and size of the investment portfolio

### Market Risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices

- For the equity instruments, the decisions are based on fundamentals rather than on speculation and the decisions are based on in depth of macro-economic and industry analysis as well as research reports on company performance
- The Investment Committee members keep regular track of macro-economic scenarios and their likely impact on the interest rates
- The initial recognition of the investments is closely monitored in order to avoid any interest rate risks.

# Statement of Solvency, Approved Assets and Risk Based Capital (RBC)

## Solvency

The statement of Solvency for long term insurance business and Non Life Insurance has been prepared in accordance with the Solvency Margin (Long Term Insurance) Rules of 2002 (and subsequent amendments) and Solvency Margin (General Insurance) Rules 2004 respectively and is disclosed below.

As at 31 December Rs. Mn	Life insurance business		Non Life insurance business	
	2014	2013	2014	2013
Value of admissible assets maintained	24,225	20,284	7,194	6,214
Total liabilities including technical reserves	19,850	17,080	4,564	4,408
Net admissible assets	4,375	3,204	2,630	1,805
Required solvency margin	923	803	830	827
Excess over required solvency margin	3,452	2,401	1,800	979
Solvency ratio	4.74	3.99	3.17	2.18

## Approved Assets

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

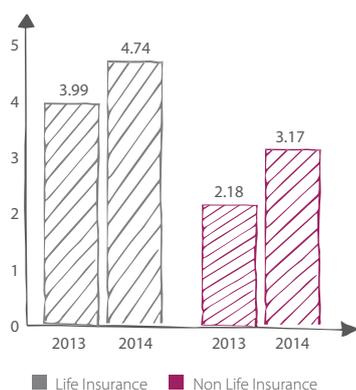
As at 31 December Rs. Mn	Life insurance business		As at 31 December	Non Life insurance business	
	2014	2013		2014	2013
Approved assets	22,550	18,411	Approved assets	5,680	4,728
Life insurance fund liability under solvency valuation basis	20,079	17,131	Technical reserves	3,153	2,951
Excess in approved assets	2,471	1,280	Excess in approved assets	2,528	1,777

## Risk Based Capital (RBC)

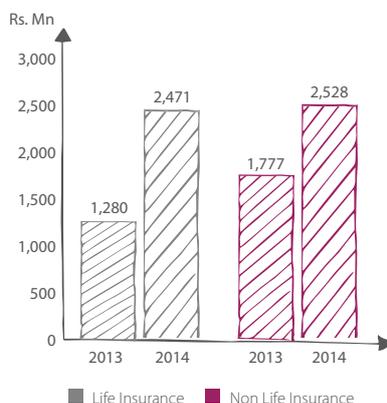
Every insurer is required to maintain a capital amount computed under the Risk Based Capital framework (draft) proposed by the Insurance Board of Sri Lanka or Rs. 500 million whichever is higher with effect the 1st January 2016. The ratios derived as at 31<sup>st</sup> December 2014 under the parallel run based on the draft framework is presented below.

As at 31 December 2014 Rs. Mn	Life insurance business	Non Life insurance business
Total Available Capital (TAC)	9,358	2,929
Risk Based Capital Requirement (RBCR)	4,379	1,142
Excess capital available	4,979	1,787
Risk Based Capital Adequacy Ratio (RBCAR)	214%	256%
Supervisory capital adequacy ratio	120%	120%

Solvency Ratio



Excess in Approved Assets



# *Financial Statements*



# Financial Reports

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Financial Calendar	2014	2015
28 <sup>th</sup> Annual General Meeting to be held on	N/A	31 March 2015
27 <sup>th</sup> Annual General Meeting held on	31 March 2014	N/A
The first and final dividends for the year 2014 will be paid on	N/A	18 March 2015
The first and final dividends for the year 2013 paid on	18 March 2014	N/A
Audited financial statements of preceding year authorised on	25 February 2014	25 February 2015

#### Interim financial statements will be published as per rule 8.3 of the Colombo Stock Exchange

Interim results for the three months ended 31 March (Unaudited)	12 May 2014	15 May 2015
Interim results for the three months ended 30 June (Unaudited)	11 August 2014	14 August 2015
Interim results for the three months ended 30 September (Unaudited)	13 November 2014	13 November 2015
Interim results for the three months ended 31 December (Unaudited)	25 February 2015	29 February 2016

# 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 31 December 2014 and the audited consolidated financial statements of the Group.

Union Assurance PLC is a public limited liability company incorporated in Sri Lanka on 8 January 1987 under the Companies Act No. 17 of 1982, quoted on the Colombo Stock Exchange since 1988 and reregistered as required under the provisions of the Companies Act No. 7 of 2007 on 7 June 2007.

## Principal Activities

The principal activity of the holding company, which is 'Insurance', remained unchanged during the financial year. There were no significant changes in the nature of the principal activities of the holding company during the financial year under review. Union Assurance General Limited was incorporated as a fully owned subsidiary of Union Assurance PLC during the year to transfer the General insurance business of Union Assurance PLC as required by the RII amendment Act No. 03 of 2011. The subsidiary, Union Assurance General Limited has not commenced commercial operations as at the reporting date.

The Group 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 3 of this report. In achieving its vision and mission all Directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Conduct.

## Review of Business

A review of the financial and operational performance and future business developments of the Group is contained in the Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis sections of the annual report. These reports form an integral part of the report of the Directors and together with the audited financial statements reflect the state of affairs of the Company. The segmental contribution of gross written premium, profits, assets and liabilities is provided on pages 188 to 190 of the financial statement.

## Future Developments

An overview of the future developments of the Company is presented in the Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis sections of the annual report.

## Turnover

The total Gross Written Premium generated by the Company and the Group for the year was Rs. 11,168 million (2013 - Rs.10,907 million).

## Financial Results and Appropriations

The net profit after tax of the Company was Rs.1,203 million for the year (2013 - Rs. 1,123 million) whilst the Group profits attributable to equity holders of the parent for the year was Rs. 1,204 million.

A synopsis of the Company's performance is presented below.

## Financial Results

Rs.'000	2014	2013
Profit after taxation	1,203,062	1,123,405
Profit brought forward from previous year	3,149,766	2,454,923
Profit available for appropriation	4,352,828	3,578,328
<b>Appropriations</b>		
Dividend paid for previous year	(514,286)	(428,571)
Transfer from revaluation reserve	4,521	5,137
Transfer of share issue expenses	-	(5,128)
Unappropriated profit carried forward	3,843,063	3,149,766

## Financial Statements and Auditors' Report

The financial statements for the year ended 31 December 2014 has been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) issued by The Institute of Chartered Accountants of Sri Lanka. The financial statements duly signed by the Directors are provided on pages 179 to 187 and Auditors' Report on the financial statements is provided on page 176 of this annual report.

## Accounting Policies

Details of accounting policies are presented in Note 5 to the financial statements. There have been no changes in the accounting policies adopted by the Group during the year under review apart from new policies relating to consolidation due to the requirement to present consolidated financial statements for the segregation of the Company as stipulated by the RII amendment Act No. 03 of 2011. For all periods upto and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) which have materially converged with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

## Dividends

The Board of Directors has approved a first and final dividend of Rs. 6.50 per share for the year 2014 (2013 - Rs. 6.00). The Board of Directors has confirmed that the Company satisfies the solvency test in accordance with Section 56 of the

Companies Act No. 7 of 2007 and has obtained a certificate from the auditors prior to declaring all dividends.

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

## Provision for Taxation

The tax position of the Company is disclosed in Note 42 to the financial statements on page 249.

## Property, Plant and Equipment

The details of property, plant and equipment are shown in note 25 to the financial statements on page 230.

## Intangible Assets

The details of Intangible assets are shown in Note 26 to the financial statements on page 232.

## Market Value of Freehold Properties

The land and building owned by the company in Kurunegala and at No. 20, St. Michael's Road, Colombo 3 were revalued as at 31 December 2013 to reflect its market value 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 25.5 and Note 5.31.4 to the financial statements respectively.

# Annual Report of the Board of Directors on the Affairs of the Company

## Investments

Details of investments held by the Group are disclosed in Note 24 to the financial statements on pages 221 to 229.

## Stated Capital and Reserves

In compliance with the Companies Act No. 7 of 2007, the financial statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2014 was Rs. 1,138 million (2013 – Rs. 1,138 million). The total capital and reserves stood at Rs. 6,210 million as at 31 December 2014 (2013 - Rs. 5,117 million), details of which are provided in Notes 34 and 35 to the financial statements on pages 239 and 241 respectively.

## Share Information

Information relating to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 293. Information on share trading is given on page 287 of this report.

## Share Holdings

There were 1,298 registered shareholders, holding ordinary voting shares as at 31 December 2014 (2013 - 1,345). The distribution of shareholding including the percentage held by the public is given on page 288 of this report.

## Equitable Treatment to all Shareholders

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

## Substantial Shareholdings

The list of top twenty shareholders is given on page 289 of this report.

## Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material. The quarterly financial information during the year has been sent to the Colombo Stock Exchange in a timely manner.

## Corporate Governance

### 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 Group 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 jointly issued by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL)

The Board of Directors is committed to maintaining an effective corporate governance structure and process. A more comprehensive report on Corporate Governance is found on pages 115 to 155.

## Board Audit and Compliance Committee

The composition of the Board Audit and Compliance Committee comprising of Non-Executive Directors is provided on page 118. The CEO, other Executive Committee members and Internal and External Auditors attend the meetings by invitation. The report of the Board Audit and Compliance Committee is provided on pages 152 to 153 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 Risk Management Report in the Corporate Governance section of this annual report on page 156.

## Directors

As at 31 December 2014 the Board of Directors of Union Assurance PLC consisted of seven Directors with diverse knowledge and experience. Brief profiles of the Directors are given in the Board of Directors section of the annual report on page 116 to 117 and details of their appointments are given on the next page.

Name of Director	Directorship	Year of appointment	Position / status
Ajit D Gunewardene	Chairman / Non-Executive Director	Appointed as alternate Director on 1 May 1992  Appointed to the Board on 24 February 2004  Appointed Chairman on 1 January 2006	Chairman of the Board, and of the Remuneration Committee and the Nominations Committee
A S De Zoysa	Independent Non-Executive Director	Appointed to the Board on 1 April 2009	Director, Member of the Audit and Compliance Committee, Nominations Committee and Investment Committee
G F C De Saram	Independent Non-Executive Director	Appointed to the Board on 1 April 2009	Director, Member of Remuneration Committee and Nominations Committee
D C Alagaratnam	Non-Executive Director	Appointed to the Board on 16 August 2011	Director
S Rajendra	Non-Executive Director	Appointed to the Board on 16 August 2011	Director, Member of the Audit and Compliance Committee
H A J De Silva Wijeyeratne	Independent Non-Executive Director	Appointed to the Board on 7 September 2011	Director, Chairman of the Audit and Compliance Committee and Member of the Remuneration Committee
A D Pereira	Executive Director	Appointed to the Board on 28 May 2014	Director, Chief Executive Officer

### Responsibility of the Board

Details of responsibilities of the Board and the manner in which those responsibilities were discharged during the year are disclosed in the Corporate Governance section of the annual report.

### Retirement and Re-election / Re-appointment of Directors

In terms of Article 84 of the Articles of Association of the Company, Mr. H A J De Silva Wijeyeratne and Mr. A S De Zoysa who retire by rotation are eligible for re-election. Further, in terms of Article 90 of the Articles of Association of the Company, Mr. A D Pereira is eligible for re-election. A brief profile of the said Directors are given on page 116 and 117.

### Appointments of Directors

Mr. A D Pereira was appointed to the Board during the year under review.

### Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure control over certain affairs of the Company as detailed in the Corporate Governance section of the annual report in pages 149 to 154 in this report.

### Directors' Interests Register

The Company, in compliance with the Companies Act No. 7 of 2007 maintains an Interests Register. In compliance with the requirements of the

Companies Act, this annual report also contains particulars of entries made in the Interests Registers of subsidiaries which are public companies or private companies and have not dispensed with the requirement to maintain an Interests Register as permitted by Section 30 of the Companies Act No. 07 of 2007.

### Directors' Interests in Transactions

The Directors of the Company have made general declarations as provided for in section 192 (2) of the Companies Act No. 7 of 2007. Arising from this, details of contracts in which they have an interest are found in Note 47 on page 270 to the financial statements, under related party transactions.

### Directors' Interests in Shares

The Directors' individual shareholdings in the Company and its Subsidiary as at 31 December 2014 and 31 December 2013 were as follows;

Name of Director	Union Assurance PLC		Union Assurance General Limited	
	No. of shares as at 31.12.2014	No. of shares as at 31.12.2013	No. of shares as at 31.12.2014	No. of shares as at 31.12.2013
Ajit D Gunewardene	8,562	8,562	Nil	N/A
A S De Zoysa	Nil	Nil	Nil	N/A
G F C De Saram	Nil	Nil	Nil	N/A
D C Alagaratnam	Nil	Nil	Nil	N/A
S Rajendra	Nil	Nil	Nil	N/A
H A J De Silva Wijeyeratne	Nil	Nil	Nil	N/A
A D Pereira	Nil	N/A	Nil	N/A

### Share Dealings

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

### Remuneration to Directors

Directors' remuneration is established within a framework approved by the Remuneration Committee. The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The remuneration of the Non-Executive Directors is determined according to scales of payment decided upon by the Board. Details of Directors' fees and emoluments paid during the year are set out in Note 19 of the financial statements.

### Directors' Meetings

Details of Directors' meetings are presented on page 123 of the annual report.

# Annual Report of the Board of Directors on the Affairs of the Company

## Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the financial statements of the Group 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 (SLFRS / LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

## Related Party Transactions

There are no related party transactions which exceed the lower of 10% of Equity or 5% of the total assets of the Company. Directors have disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures, in Note 47 on page 270 to the financial statements.

## Donations

There were no donations made during the year.

## Compliance with Laws and Regulations

The Company has complied with all applicable laws and regulations. A compliance checklist is signed on a monthly basis by responsible officers and any violations are reported to the Board Audit and Compliance Committee. Refer page 152 for a list of compliances.

## Risk Based Capital Requirement (RBC)

By 2016 Life and Non Life insurance companies will have to maintain a capital amount as computed under the risk based capital (RBC) framework introduced by the IBSL or Rs. 500 million whichever is higher. To comply with this requirement the Company participated in the mandatory road test to review the impact of the proposed guidelines on their solvency / Statement of Financial Position. The Company submitted the relevant information as part of the parallel run commencing 1 January 2014 and will continue till the mandatory adoption from 1 January 2016.

Based on the data gathered from the test run as well as the parallel run, we are confident of a smooth transition to the RBC framework which would be effective 1 January 2016.

## Sustainability

The Group 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 Group has identified material issues in relation to each stakeholder group and endeavours to

achieve its business goals with due respect to all stakeholder needs. This year the Group published its second integrated annual report, combining financial information with sustainability information in a bid to provide its stakeholders with more holistic information.

KPMG has issued an assurance on the data on financial performance disclosed and the content of the report which represents the Company's sustainability policies, objectives, management approach and performance, and prepared under the requirements of the Global Reporting Initiative GRI G4 Guidelines. The Report has also received a GRI Materiality Matters' check.

## Human Resources

The Company continued to implement appropriate human resource management policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees. The Group also adopts equality of opportunity for all employees irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability. Some of the processes and procedures adopted in this regard are mentioned in the employee section in the Management Discussion and Analysis section of the annual report on page 72.

The number of persons employed by the Company and Group as at 31 December 2014 was 1,134 (2013 - 1,157) and 1,134 (2013-N/A) respectively.

There have been no material issues pertaining to employees and industrial relations of the Company and Group.

## Code of Conduct

The Company demands impeccable standard of conduct from its Directors and employees in the performance of their official duties and in situations that could affect the Company's image. We have also implemented a code of conduct for field staff covering their responsibility, commitment and level of service to the client. During the year formal online sign off was obtained from each staff member including field staff on the code of conduct statement. During the year no material violations of the code was noted.

## Whistle Blowing

We have an established procedure for Whistle blowing on matters of misconduct. The policy is made active within the Company and have been communicated to all members of the staff to enable any member of the Company to raise issues with the management and/or the Board.

No serious concerns were brought through this channel during the year.

## Environment Protection

Initiatives taken by the Group to preserve the environment are presented in the 'Environment' section of the Management Discussion and Analysis report. The Group has not engaged in any activity that is harmful to the environment.

## Supplier Policy

Group applies an overall policy of agreeing and clearly communicating terms of payments as part of the commercial agreements negotiated with suppliers, and endeavours to pay for all items properly charged in accordance with those agreed terms. As at 31 December 2014, the trade and other payments of the Company / Group amounted to Rs. 1,200 million (2013 - Rs. 1,200 million).

## Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees as at the statement of financial position date have been paid or, where relevant provided for, except as detailed in Note 50 to the financial statements, relating to contingent liabilities on page 274.

## Capital Commitments

No significant capital commitments exist as at 31 December 2014 other than those disclosed in note 48 to the financial statements on page 273.

## Contingencies and Outstanding Litigation

In the opinion of the Directors and in consultation with the Group lawyers, litigation currently pending against the Group will not have a material impact on the reported financial results or future operations of the Group.

## Events After the Reporting Date

In compliance with the requirements of the Regulations of Insurance Industry Act No. 3 of 2011, Union Assurance PLC has completed the segregation of the Life and Non-Life insurance business on 1 January 2015. The Company, Union Assurance PLC will continue to carry on the Life insurance business and its Non-Life insurance business (inclusive of all assets, undertakings, property, rights and liabilities in respect of Non-Life business) will be undertaken by Union Assurance General Limited, a fully owned subsidiary of the Company.

Consequent to the unanimous Shareholder approval obtained at the Extraordinary General Meeting held on 28 November 2014 and the demerger sanctioned by way of a Scheme of Arrangement in terms of Section 256 of the

Companies Act No. 7 of 2007 by the Commercial High Court of Colombo, in Case No. H.C. (Civil) 48/2014 (CO) by Order dated 8 December 2014, the Non Life business of the Company was transferred to Union Assurance General Limited, subsequent to the reporting date on 1 January 2015.

Further, the Company has divested a 78% stake in its Subsidiary, Union Assurance General Limited to Fairfax Asia Limited after the segregation of the Life and Non Life businesses on 1 January 2015.

Accordingly, as required by SLFRS 5 Non Current assets held for sale and discontinued operations, the Non Life business segment has been presented as discontinued operations of the Company and Group in the financial statements for the year ended 31 December 2014. Please refer Note 08 on page 208.

Details of events after the reporting date are provided in Note 49 to the financial statements.

#### **Going Concern**

After considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the Code of Best Practice on Corporate Governance, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Auditors**

The Company's auditors during the period under review were Messrs. KPMG. A sum of Rs. 5,385,000 (2013 - Rs. 3,800,000) was paid to them as audit fees during the year under review and a sum of Rs. 603,000 (2013- 350,000) was paid by the Company for tax related services and other non-audit work.

#### **Independence of Auditors**

Based on the declaration from Messrs. KPMG, and as far as the Directors are aware, the auditors do not have any relationship or interest other than that of an Auditor in the Company or its Subsidiary.

#### **Appointment of Auditors**

The retiring auditor Messrs. KPMG have intimated their willingness to continue in office and a resolution to reappoint them as auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

#### **Auditors' Report**

Auditors' Report on the financial statements is given on page 176 of this annual report.

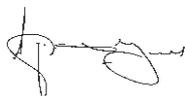
#### **Approval of Financial Statements**

The audited financial statements were approved by the Board of Directors on 25 February 2015.

#### **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 31 March 2015 at 9.00 a.m. The notice of the meeting relating to the twenty eighth Annual General Meeting is given on page 310.

This Annual Report is signed for and on behalf of the Board of Directors by:



**Ajit D Gunewardene**  
*Chairman*



**A S De Zoysa**  
*Director*



**Keells Consultants (Private) Limited**  
*Secretaries*

25 February 2015

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements of Union Assurance PLC and the consolidated financial statements of the Company and its subsidiary (Group) as at 31 December 2014 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 Act No. 43 of 2000 and subsequent amendments thereto
- ▶ Code of best practice on corporate governance issued jointly by the ICASL and the Securities and Exchange Commission of Sri Lanka (SEC)

Accordingly, the Company and its subsidiary have prepared the financial statements which comply with SLFRS/ LKAS and related interpretations applicable for the period ended 31 December 2014, together with the comparative period data as at and for the year ended 31 December 2013, 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 and its Subsidiary during the year under review. New policies relating to consolidation have been applied due to the requirement to present consolidated financial statements consequent to the formation of the subsidiary during the year as a result of the company segregation as required by the RII amendment Act No 03 of 2011. The accounting policies are provided in detail in Note 5 to these Financial Statements.

Significant accounting policies and estimates that involve a high degree of judgment and complexity were discussed with our External

Auditors and the Board Audit and Compliance Committee (BACC).

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the Company and its Subsidiary 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 and its Subsidiary is made known to us and for safeguarding the Group's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the Group's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report and on an ongoing basis.

We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees.

Our internal auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed. The financial statements were audited by Messrs. KPMG, Chartered Accountants, the Independent Auditors.

The BACC pre-approves the audit and non-audit services provided by Messrs. KPMG, in order to ensure that the provision of such services does not impair KPMG's independence. The BACC also reviews the external audit plan, the internal audit plan, all internal audit reviews and the 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 audit.

We confirm that the Company and its subsidiary have complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the

Company and its Subsidiary other than those arising in the normal course of conducting insurance business.

We also confirm that the Company has complied with the following IBSL requirements;

- a) The Company has complied with all the legal and regulatory provisions of the RII Act.
- b) The Company has arranged treaty and facultative reinsurance with approved reinsurers as per IBSL guidelines, for all risk commitments exceeding retention limits.
- c) Reserving and solvency guidelines have been complied with and total reserves are backed by matching admissible assets.
- d) The equity capital meets the set minimum capital requirements in accordance with the applicable regulations.
- e) The Company has implemented the necessary processes to implement the premium warranty clause.



**Dirk Pereira**  
Chief Executive Officer



**Sherin Cader**  
Chief Financial Officer

25 February 2015

# Certification of Incurred But Not Reported (IBNR) Claims and Liability Adequacy Test (LAT)



## To the shareholders of Union Assurance PLC

Union Assurance PLC 31 December 2014 Net IBNR and LAT Certification

I hereby certify that the undiscounted Central Estimate of IBNR provision of Rs. 353,376,523, is adequate in relation to the general insurance Claim Liabilities of Union Assurance PLC as at 31 December 2014, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2014, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). We hereby certify that the UPR amount of Rs. 2,366,354,743, set by the Company, net of reinsurance, is adequate in relation to the unexpired general insurance risks of Union Assurance PLC as at 31 December 2014, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

A handwritten signature in black ink, appearing to read 'M. Maguire'.

### Matthew Maguire

Fellow of the Institute of Actuaries of Australia (FIAA)

For and on behalf of NMG Consulting

Dated 23 January 2015

T: +65 6325 9855 F: +65 6325 4700 E: [contact@NMG-Group.com](mailto:contact@NMG-Group.com)

[www.NMG-Group.com](http://www.NMG-Group.com)

65 Chulia Street, #37-07/08 OCBC Centre, 049513 Singapore

# Actuary's Report Life



## Actuarial & Management Consultants (Pvt) Limited

1st Floor, 434, R.A. De Mel Mawatha, Colombo 03, Sri Lanka. Telephone (94)112575280 / (94)112301079 Fax : (94) 112301079

### To the shareholders of Union Assurance PLC

#### Actuarial Valuation Of The Long Term Insurance Business As At December, 2014

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31st December, 2014. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the Company, which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31st December, 2014, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date.
- 3) The Long Term Insurance Fund, excluding the Unit Fund and the Non-Unit Fund, as included in the audited accounts, exceeds the required actuarial reserves, excluding the reserves for the Unit Fund and the Non-Unit Fund, as at 31 December 2014 by Rs.1, 825.554 million, before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.
- 4) The Non-Unit Fund, as included in the audited accounts, exceeds the required actuarial reserves by Rs.154.922 million.
- 5) The solvency margin required under the Regulation of Insurance Industry Act No .43 of 2000 is Rs. 923.478 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2014 and the non-unit fund, is fully provided for.

**M POOPALANATHAN**

Actuary

30 January 2015

# Statement of Directors' Responsibility

The responsibility of the Directors in relation to the financial statements is set out in the following statement. The responsibility of the auditors in relation to the financial statements prepared in accordance with the provision of the Companies Act No. 7 of 2007 is set out in the Report of the Auditors.

As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare, for each financial year and place before a general meeting, financial statements which comprise of;

- ▶ a statement of income and statement of comprehensive income of the Company and its subsidiaries, which present a true and fair view of the profit or loss of the Company and its subsidiaries 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 and its subsidiaries as at the end of the financial year.

The Directors have ensured that, in preparing these financial statements;

- ▶ the appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained; and
- ▶ all applicable accounting standards in accordance with the Sri Lanka Accounting Standards (SLFRS / LKAS) as relevant have been applied; and
- ▶ reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected; and

▶ it provides the information required by and otherwise comply with the Companies Act No. 07 of 2007, Regulations of Insurance Industry Act No. 43, of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange or requirements of any other regulatory authority are provided in full.

The Directors have also ensured that the Company and its subsidiaries have adequate resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company and the Group.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give their audit opinion.

Further, as required by Section 56 (2) of the Companies Act No. 7 of 2007, the Board of Directors have confirmed that the Company, based on the information available, satisfies the solvency test immediately after the distribution, in

accordance with Section 57 of the Companies Act No. 7 of 2007, and have obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 6.50 per share for the year ended 31 December 2014, to be paid on 18 March 2015.

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 and its Subsidiary, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its Subsidiary, and all other known statutory dues as were due and payable by the Company and its subsidiary as at the reporting date have been paid or, where relevant provided for except as detailed in Note 50 to the financial statements, relating to contingent liabilities.

By order of the Board



**Keells Consultants (Private) Limited**  
Secretaries

25 February 2015

# 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  
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Internet : www.lk.kpmg.com

## To the Shareholders of Union Assurance PLC Report on the Financial Statements

We have audited the accompanying financial statements of Union Assurance PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31 December 2014, and the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 179 to 274.

## Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility,

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The

procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above

- b) In our opinion:

- ▶ We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
- ▶ The financial statements of the Company give a true and fair view of its financial position as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- ▶ The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

As required by section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000, the accounting records of the Company have been maintained in the manner required by the rules issued by the IBSL give a true and fair view of the financial position..

CHARTERED ACCOUNTANTS  
Colombo

25 February 2015

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N Rodrigo ACA  
**Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA**

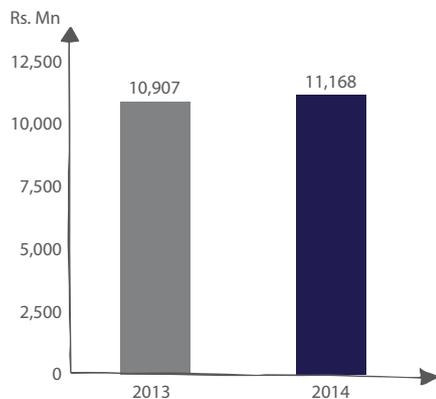
# Financial Statements

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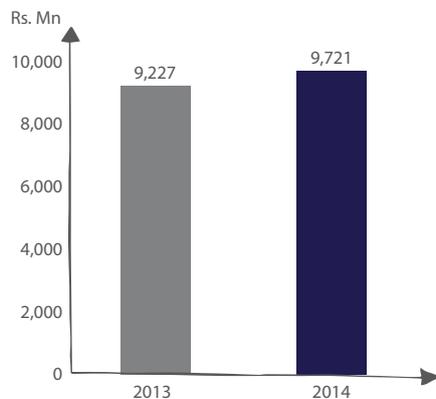
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# Financial Statements Highlights

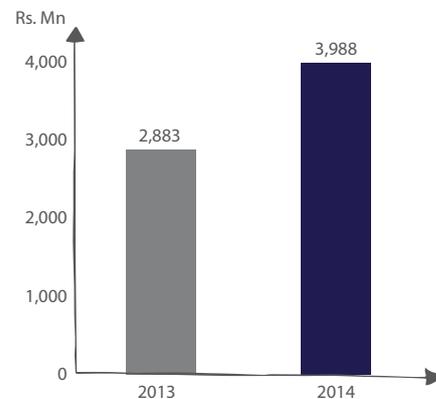
Gross Written Premium



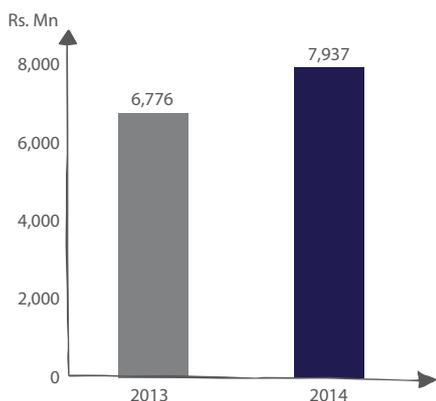
Net Earned Premium



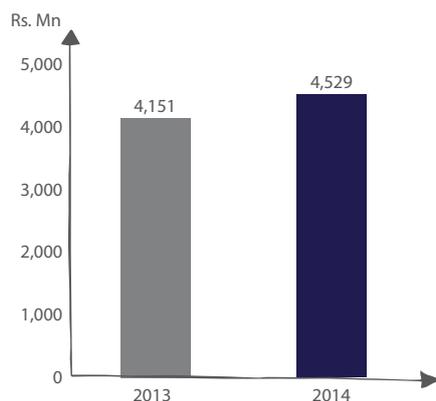
Other Revenue



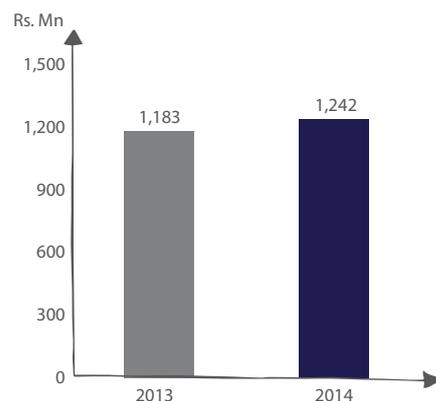
Net Benefits and Claims



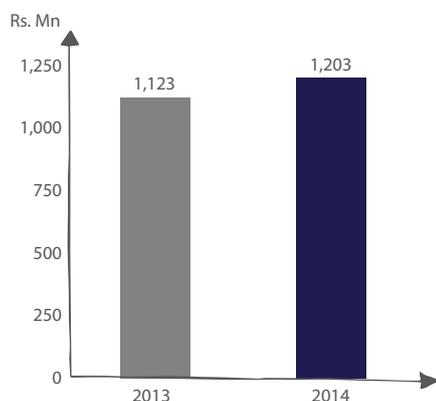
Expense including net acquisition costs



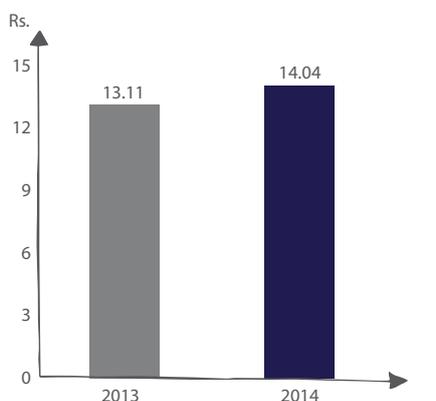
Profit Before Taxation



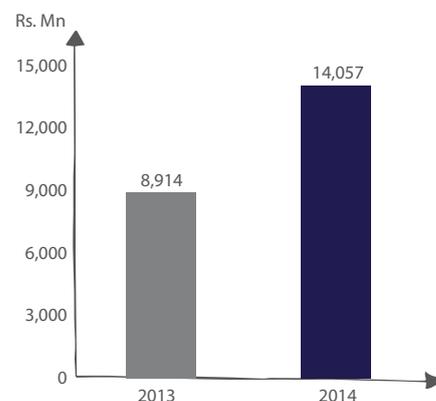
Profit After Taxation



Earnings Per Share



Market Capitalisation



# Income Statement - Company

For the year ended 31 December

Rs. '000	Note	2014			2013 (Restated)			Change %
		Continuing operations (Life)	Discontinued operations (Non Life)	Total	Continuing operations (Life)	Discontinued operations (Non Life)	Total	
Gross written premium	9	5,945,499	5,222,645	11,168,144	5,515,063	5,391,712	10,906,775	2
Change in reserve for unearned premium	11	-	(93,316)	(93,316)	-	(833,171)	(833,171)	(89)
<b>Gross earned premium</b>		5,945,499	5,129,329	11,074,828	5,515,063	4,558,541	10,073,604	10
Premium ceded to reinsurers	10	(328,064)	(1,070,182)	(1,398,246)	(280,542)	(1,256,181)	(1,536,723)	(9)
Change in reserve for unearned reinsurance premium	11	-	44,489	44,489	-	689,974	689,974	(94)
<b>Net earned premium</b>	11	5,617,435	4,103,636	9,721,071	5,234,521	3,992,334	9,226,855	5
<b>Other revenue</b>								
Net investment income	12	2,291,122	573,871	2,864,993	2,070,240	582,901	2,653,141	8
Net realised gains / (losses)	13	118,900	(5,792)	113,108	35,331	(3,607)	31,724	257
Net fair value gains	14	806,269	11,662	817,931	39,865	4,744	44,609	1,734
Other income	15	111,289	80,262	191,551	79,182	73,848	153,030	25
<b>Total other revenue</b>		3,327,580	660,003	3,987,583	2,224,618	657,886	2,882,504	38
<b>Total net revenue</b>		8,945,015	4,763,639	13,708,654	7,459,139	4,650,220	12,109,359	13
<b>Benefits, claims and expenses</b>								
Net benefits and claims	16	(5,201,025)	(2,736,436)	(7,937,461)	(3,976,248)	(2,799,257)	(6,775,505)	17
Underwriting and net acquisition costs (including reinsurance)	17	(1,115,834)	(280,120)	(1,395,954)	(968,181)	(245,740)	(1,213,921)	15
Other operating, administrative and selling expenses	18	(1,654,839)	(1,319,357)	(2,974,196)	(1,659,918)	(1,123,096)	(2,783,014)	7
Depreciation and amortisation	25/26	(92,577)	(66,580)	(159,157)	(63,828)	(90,487)	(154,315)	3
<b>Total benefits, claims and expenses</b>		(8,064,275)	(4,402,493)	(12,466,768)	(6,668,175)	(4,258,580)	(10,926,755)	14
<b>Profit before tax</b>	19	880,740	361,146	1,241,886	790,964	391,640	1,182,604	5
Income tax expense	20	-	(38,824)	(38,824)	-	(59,199)	(59,199)	(34)
<b>Profit for the year attributable to equity holders of the company</b>		880,740	322,322	1,203,062	790,964	332,441	1,123,405	7
<b>Earnings per share</b>								
Basic (Rs.)	21	10.28	3.76	14.04	9.23	3.88	13.11	7
Diluted (Rs.)	21	10.28	3.76	14.04	9.23	3.88	13.11	7

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Profit or Loss and Other Comprehensive Income - Company

For the year ended 31 December

Rs. '000	Note	2014			2013 (Restated)			Change %
		Continuing operations (Life)	Discontinued operations (Non Life)	Total	Continuing operations (Life)	Discontinued operations (Non Life)	Total	
Profit for the year		880,740	322,322	1,203,062	790,964	332,441	1,123,405	7
Other comprehensive income, net of tax								
Items that will never be reclassified to profit or loss								
Net gain on revaluation of land and buildings	25.5	-	-	-	105,037	-	105,037	
Reversal of deferred tax on revaluation reserve	20.2	25,371	-	25,371	-	-	-	-
Actuarial gains / (losses) on defined benefit plan	40.2	5,290	3,593	8,883	(2,402)	(2,183)	(4,585)	
Related tax	20.2	-	(1,006)	(1,006)	2,790	-	2,790	
		30,661	2,587	33,248	105,425	(2,183)	103,242	(68)
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		26,575	47,444	74,019	(2,072)	6,818	4,746	
Net change in fair value of available for sale financial assets transferred to the income statement		-	-	-	28	-	28	
Related tax		-	(13,284)	(13,284)	-	-	-	
		26,575	34,160	60,735	(2,044)	6,818	4,774	1,172
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets		381,812	-	381,812	3,364	-	3,364	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement		(78,649)	-	(78,649)	(1,612)	-	(1,612)	
Related tax		-	-	-	-	-	-	
		303,163	-	303,163	1,752	-	1,752	17,204
		329,738	34,160	363,898	(292)	6,818	6,526	5,476
Other comprehensive income for the year, net of tax		360,399	36,747	397,146	105,133	4,635	109,768	262
<b>Total comprehensive income</b>		<b>1,241,139</b>	<b>359,069</b>	<b>1,600,208</b>	<b>896,097</b>	<b>337,076</b>	<b>1,233,173</b>	<b>30</b>
<b>Total comprehensive income attributable to:</b>								
Owners of the company		1,241,139	359,069	1,600,208	896,097	337,076	1,233,173	30
Non-controlling interest		-	-	-	-	-	-	
		1,241,139	359,069	1,600,208	896,097	337,076	1,233,173	30

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Income Statement - Group

For the year ended 31 December

Rs. '000	Note	2014		Total
		Continuing operations (Life)	Discontinued operations (Non Life)	
Gross written premium	9	5,945,499	5,222,645	11,168,144
Change in reserve for unearned premium	11	-	(93,316)	(93,316)
<b>Gross earned premium</b>		<b>5,945,499</b>	<b>5,129,329</b>	<b>11,074,828</b>
Premium ceded to reinsurers	10	(328,064)	(1,070,182)	(1,398,246)
Change in reserve for unearned reinsurance premium	11	-	44,489	44,489
<b>Net earned premium</b>	<b>11</b>	<b>5,617,435</b>	<b>4,103,636</b>	<b>9,721,071</b>
<b>Other revenue</b>				
Net investment income	12	2,291,122	575,261	2,866,383
Net realised gains / (losses)	13	118,900	(5,792)	113,108
Net fair value gains	14	806,269	11,662	817,931
Other income	15	111,289	80,262	191,551
<b>Total other revenue</b>		<b>3,327,580</b>	<b>661,393</b>	<b>3,988,973</b>
<b>Total net revenue</b>		<b>8,945,015</b>	<b>4,765,029</b>	<b>13,710,044</b>
<b>Benefits, claims and expenses</b>				
Net benefits and claims	16	(5,201,025)	(2,736,436)	(7,937,461)
Underwriting and net acquisition costs (including reinsurance)	17	(1,115,834)	(280,120)	(1,395,954)
Other operating, administrative and selling expenses	18	(1,654,839)	(1,319,357)	(2,974,196)
Depreciation and amortisation	25/26	(92,577)	(66,580)	(159,157)
<b>Total benefits, claims and expenses</b>		<b>(8,064,275)</b>	<b>(4,402,493)</b>	<b>(12,466,768)</b>
<b>Profit before tax</b>	<b>19</b>	<b>880,740</b>	<b>362,536</b>	<b>1,243,276</b>
Income tax expense	20	-	(39,073)	(39,073)
<b>Profit for the year attributable to equity holders of the company</b>		<b>880,740</b>	<b>323,463</b>	<b>1,204,203</b>
<b>Earnings per share</b>				
Basic (Rs.)	21	10.28	3.77	14.05
Diluted (Rs.)	21	10.28	3.77	14.05

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Profit or Loss and Other Comprehensive Income - Group

For the year ended 31 December

Rs. '000	Note	2014		Total
		Continuing operations (Life)	Discontinued operations (Non Life)	
Profit for the year		880,740	323,463	1,204,203
<b>Other comprehensive income, net of tax</b>				
<b>Items that will never be reclassified to profit or loss</b>				
Reversal of deferred tax on revaluation reserve	35.1	25,371	-	25,371
Actuarial gain on defined benefit plan	40.2	5,290	3,593	8,883
Related tax		-	(1,006)	(1,006)
		30,661	2,587	33,248
<b>Items that are or may be reclassified to profit or loss</b>				
<b>Fair value reserve (available for sale financial assets)</b>				
Net change in fair value of available for sale financial assets	35.2	26,575	47,444	74,019
Related tax	20.2	-	(13,284)	(13,284)
		26,575	34,160	60,735
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	35.2	381,812	-	381,812
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	35.2	(78,649)	-	(78,649)
Related tax		-	-	-
		303,163	-	303,163
		329,738	34,160	363,898
<b>Other comprehensive income for the year, net of tax</b>		360,399	36,747	397,146
<b>Total comprehensive income</b>		1,241,139	360,210	1,601,349
<b>Total comprehensive income attributable to:</b>				
Owners of the company		1,241,139	360,210	1,601,349
Non-controlling interest		-	-	-
		1,241,139	360,210	1,601,349

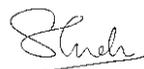
The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Financial Position - Company / Group

As at 31 December Rs. '000	Note	Company		Group
		2014	2013	2014
<b>Assets</b>				
Financial investments	24	24,038,978	24,297,498	24,038,978
Property, plant and equipment	25	1,203,934	1,337,498	1,203,934
Intangible assets	26	66,766	117,475	66,766
Loans to life policyholders	27	660,744	515,735	660,744
Reinsurance receivables	28	67,536	502,571	67,536
Premium receivables	29	159,117	1,844,831	159,117
Receivables and other assets	30	816,718	1,087,585	816,718
Deferred acquisition cost	31	-	149,145	-
Cash and cash equivalent	32	196,429	466,402	196,429
Assets held for sale	33	8,392,424	-	8,393,314
<b>Total assets</b>		<b>35,602,646</b>	<b>30,318,740</b>	<b>35,603,536</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Stated capital	34	1,138,433	1,138,433	1,138,433
Reserves	35	1,228,722	829,094	1,228,722
Retained earnings		3,843,063	3,149,766	3,843,704
<b>Total equity</b>		<b>6,210,218</b>	<b>5,117,293</b>	<b>6,210,859</b>
<b>Liabilities</b>				
Insurance contract liabilities - Life	36	20,435,876	17,518,016	20,435,876
Insurance contract liabilities - Unit Linked		2,618,007	1,807,137	2,618,007
Insurance contract liabilities - Non Life	37	-	3,440,249	-
Reinsurance payables	38	150,784	764,977	150,784
Deferred revenue	39	-	109,402	-
Employee benefits	40	90,437	186,078	90,437
Other liabilities	41	770,190	1,135,194	770,190
Current tax liabilities	42	-	59,199	-
Deferred tax liabilities	43	-	25,371	-
Bank overdraft	32	66,017	155,824	66,017
Liabilities held for sale	33	5,261,117	-	5,261,366
<b>Total liabilities</b>		<b>29,392,428</b>	<b>25,201,447</b>	<b>29,392,677</b>
<b>Total equity and liabilities</b>		<b>35,602,646</b>	<b>30,318,740</b>	<b>35,603,536</b>

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

I certify that the above financial statements comply with the requirements of the Companies Act No. 7 of 2007.



**Sherin Cader**  
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these financial statements.

Signed on behalf of the Board:



**Ajit D Gunewardene**  
Chairman



**A S De Zoysa**  
Director

Colombo  
25 February 2015

# Statement of Changes in Equity - Company

Rs. '000	Note	Reserves					Retained earnings	Total
		Stated capital	Revaluation reserve	Reserve on merger	Available for sale reserve	Other reserves Other capital reserves		
<b>Balance as at 1 January 2013</b>		1,133,305	692,236	16,752	11,842	-	2,454,923	4,309,058
Profit for the year		-	-	-	-	-	1,123,405	1,123,405
<b>Other comprehensive income for the year, net of tax</b>								
Net change in fair value of available for sale financial assets	35.2	-	-	-	4,774	-	-	4,774
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	35.2	-	-	-	1,752	-	-	1,752
Net gain on revaluation of land and buildings	25.5	-	105,037	-	-	-	-	105,037
Actuarial loss on defined benefit plan	40.2	-	-	-	-	(4,585)	-	(4,585)
Transfer from revaluation reserve to retained earnings		-	(5,137)	-	-	-	5,137	-
Tax on other comprehensive income		-	2,790	-	-	-	-	2,790
<b>Total other comprehensive income</b>		-	102,690	-	6,526	(4,585)	5,137	109,768
<b>Total comprehensive income for the year</b>		-	102,690	-	6,526	(4,585)	1,128,542	1,233,173
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions and distributions</b>								
First and final dividends 2012		-	-	-	-	-	(428,571)	(428,571)
Share based payments	35.2	-	-	-	-	3,633	-	3,633
Transfer of share issue expenses		5,128	-	-	-	-	(5,128)	-
<b>Total contributions and distributions</b>		5,128	-	-	-	3,633	(433,699)	(424,938)
<b>Balance as at 31 December 2013</b>		1,138,433	794,926	16,752	18,368	(952)	3,149,766	5,117,293
<b>Balance as at 1 January 2014</b>		1,138,433	794,926	16,752	18,368	(952)	3,149,766	5,117,293
Profit for the year		-	-	-	-	-	1,203,062	1,203,062
<b>Other comprehensive income for the year, net of tax</b>								
Net change in fair value of available for sale financial assets	35.2	-	-	-	74,019	-	-	74,019
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	35.2	-	-	-	303,163	-	-	303,163
Actuarial gain on defined benefit plan	40.2	-	-	-	-	8,883	-	8,883
Transfer from revaluation reserve to retained earnings		-	(4,521)	-	-	-	4,521	-
Reversal of deferred tax on revaluation reserve	20.2	-	25,371	-	-	-	-	25,371
Tax on other comprehensive income	20.2	-	-	-	(13,284)	(1,006)	-	(14,290)
<b>Total other comprehensive income</b>		-	20,850	-	363,898	7,877	4,521	397,146
<b>Total comprehensive income for the year</b>		-	20,850	-	363,898	7,877	1,207,583	1,600,208
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions and distributions</b>								
First and final dividends 2013		-	-	-	-	-	(514,286)	(514,286)
Share based payments	35.2	-	-	-	-	7,003	-	7,003
<b>Total contributions and distributions</b>		-	-	-	-	7,003	(514,286)	(507,283)
<b>Balance as at 31 December 2014</b>		1,138,433	815,776	16,752	382,266	13,928	3,843,063	6,210,218
							<b>2014</b>	<b>2013</b>
<b>Dividend per share (Rs.)</b>	22						6.50	6.00

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Changes in Equity - Group

Rs. '000	Note	Reserves					Retained earnings	Total
		Stated capital	Revaluation reserve	Reserve on merger	Available for sale reserve	Other reserves Other capital reserves		
<b>Balance as at 1 January 2014</b>		1,138,433	794,926	16,752	18,368	(952)	3,149,766	5,117,293
Profit for the year		-	-	-	-	-	1,204,203	1,204,203
<b>Other comprehensive income for the year, net of tax</b>								
Net change in fair value of available for sale financial assets	35.2	-	-	-	74,019	-	-	74,019
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	35.2	-	-	-	303,163	-	-	303,163
Actuarial gain on defined benefit plan	40.2	-	-	-	-	8,883	-	8,883
Transfer from revaluation reserve to retained earnings		-	(4,521)	-	-	-	4,521	-
Reversal of deferred tax on revaluation reserve	20.2	-	25,371	-	-	-	-	25,371
Tax on other comprehensive income	20.2	-	-	-	(13,284)	(1,006)	-	(14,290)
<b>Total other comprehensive income</b>		-	20,850	-	363,898	7,877	4,521	397,146
<b>Total comprehensive income for the year</b>		-	20,850	-	363,898	7,877	1,208,724	1,601,349
<b>Transactions with owners, recorded directly in equity</b>								
<b>Contributions and distributions</b>								
First and final dividends 2013		-	-	-	-	-	(514,286)	(514,286)
Share based payments	35.2	-	-	-	-	7,003	-	7,003
Share issue expenses		-	-	-	-	-	(500)	(500)
<b>Total contributions and distributions</b>		-	-	-	-	7,003	(514,786)	(507,783)
<b>Balance as at 31 December 2014</b>		1,138,433	815,776	16,752	382,266	13,928	3,843,704	6,210,859

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Cash Flows - Company

For the year ended 31 December		2014			2013 (Restated)		
Rs. '000	Note	Continuing operations (Life)	Discontinued operations (Non Life)	Total	Continuing operations (Life)	Discontinued operations (Non Life)	Total
Profit before tax		880,740	361,146	1,241,886	790,964	391,640	1,182,604
<b>Adjustment for:</b>							
Depreciation and amortisation	25/26	92,577	66,580	159,157	63,828	90,487	154,315
(Reversal) / Provision of impairment of reinsurance receivable	28.2	-	2,490	2,490	-	(1,413)	(1,413)
Provision for impairment of premium receivable	29.1	-	1,148	1,148	-	-	-
Provision for employee benefits	40.2	19,713	21,887	41,600	20,367	18,693	39,060
Provision for doubtful staff debtors		5,530	3,581	9,111	8,735	592	9,327
Fair value gains	14	(806,269)	(11,662)	(817,931)	(39,865)	(4,744)	(44,609)
Net realised (gains) / losses	13	(118,900)	5,792	(113,108)	(35,331)	3,607	(31,724)
Loss on sale of property, plant and equipment	15	143	108	251	637	1,593	2,230
Amortisation of deferred acquisition expenses (net)		-	3,054	3,054	-	9,450	9,450
Unrealised exchange (gains) / losses	15	-	2,074	2,074	5	(5,441)	(5,436)
Net Interest Income	12	(2,228,915)	(573,375)	(2,802,290)	(2,078,877)	(587,286)	(2,666,163)
Dividend Income	12	(97,733)	(1,002)	(98,735)	(63,992)	(1,770)	(65,762)
Share based payment expenses	35.2	4,903	2,100	7,003	2,543	1,090	3,633
<b>Loss before working capital changes</b>		<b>(2,248,211)</b>	<b>(116,079)</b>	<b>(2,364,290)</b>	<b>(1,330,986)</b>	<b>(83,502)</b>	<b>(1,414,488)</b>
<b>Net change in operational assets</b>							
Net change in reinsurance assets		58,545	(353,157)	(294,612)	4,319	244,732	249,051
Net change in premium receivables		(44,139)	177,846	133,707	76,111	(461,502)	(385,391)
Net change in receivables and other assets		(783,776)	448,888	(334,888)	(188,264)	(155,794)	(244,058)
<b>Net change in operational liabilities</b>							
Net change in life insurance contract liabilities		3,728,730	-	3,728,730	2,825,267	-	2,825,267
Net change in non - life insurance contract liabilities		-	212,799	212,799	-	239,411	239,411
Net change in other liabilities		252,670	173,000	425,670	155,445	46,514	201,959
<b>Cash generated from operating activities</b>		<b>963,819</b>	<b>543,297</b>	<b>1,507,116</b>	<b>1,541,893</b>	<b>(170,141)</b>	<b>1,371,752</b>
Retiring gratuity paid	40.2	(10,782)	(11,015)	(21,797)	(13,206)	(7,933)	(21,139)
Interest received		2,248,763	574,013	2,822,776	1,876,847	572,676	2,449,523
Dividend received		97,392	1,002	98,394	62,000	1,770	63,770
<b>Net cash from operating activities</b>		<b>3,299,192</b>	<b>1,107,297</b>	<b>4,406,489</b>	<b>3,467,534</b>	<b>396,372</b>	<b>3,863,906</b>
<b>Cash flows from / (used in) investing activities</b>							
Acquisition of investments	24.5	(33,379,457)	(9,584,659)	(42,964,116)	(31,376,993)	(4,354,065)	(35,731,058)
Maturity proceeds of investments	24.5	22,011,650	5,859,413	27,871,062	19,522,681	2,337,508	21,860,189
Proceeds from sale of investments	24.5	8,380,619	2,882,970	11,263,588	8,715,063	1,935,744	10,650,807
Acquisition of intangible assets		(6,405)	(10,199)	(16,604)	-	(35,910)	(35,910)
Acquisition of property, plant and equipment		(47,028)	(24,451)	(71,479)	(37,073)	(115,666)	(152,739)
Proceeds on sale of property, plant and equipment		-	4	4	-	388	388
Investment in subsidiary	23	-	(100,000)	(100,000)	-	-	-
<b>Net cash used in investing activities</b>		<b>(3,040,621)</b>	<b>(976,922)</b>	<b>(4,017,543)</b>	<b>(3,176,322)</b>	<b>(232,001)</b>	<b>(3,408,323)</b>
<b>Cash flows from / (used in) financing activities</b>							
Dividends paid to equity holders of the company		(327,879)	(135,307)	(463,186)	(215,400)	(167,748)	(383,148)
<b>Net cash used in financing activities</b>		<b>(327,879)</b>	<b>(135,307)</b>	<b>(463,186)</b>	<b>(215,400)</b>	<b>(167,748)</b>	<b>(383,148)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(69,308)</b>	<b>(4,932)</b>	<b>(74,240)</b>	<b>75,812</b>	<b>(3,377)</b>	<b>72,435</b>
Cash and cash equivalents as at 1 January	32.3	199,720	110,858	310,578	123,916	94,558	218,474
Effect of exchange rate fluctuations on cash held		-	(2,074)	(2,074)	(8)	19,677	19,669
<b>Cash and cash equivalents as at 31 December</b>	<b>32.3</b>	<b>130,412</b>	<b>103,852</b>	<b>234,264</b>	<b>199,720</b>	<b>110,858</b>	<b>310,578</b>

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Statement of Cash Flows - Group

For the year ended 31 December

Rs. '000	Note	2014		Total
		Continuing operations (Life)	Discontinued operations (Non Life)	
Profit before tax		880,740	362,536	1,243,276
<b>Adjustment for:</b>				
Depreciation and amortisation	25/26	92,577	66,580	159,157
Provision for impairment of reinsurance receivable	28.2	-	2,490	2,490
Provision for impairment on premium receivable	29.1	-	1,148	1,148
Provision for employee benefits	40.2	19,713	21,887	41,600
Provision for doubtful staff debtors		5,530	3,581	9,111
Fair value (gains)/ losses	14	(806,269)	(11,662)	(817,931)
Net realised (gains)/ losses	13	(118,900)	5,792	(113,108)
Losses on sale of property, plant and equipment	15	143	108	251
Amortisation of deferred acquisition expenses (net)		-	3,054	3,054
Unrealised exchange gains	15	-	2,074	2,074
Interest Income	12	(2,228,915)	(574,765)	(2,803,680)
Dividend Income	12	(97,733)	(1,002)	(98,735)
Share based payment expenses	35.2	4,903	2,100	7,003
<b>Loss before working capital changes</b>		<b>(2,248,211)</b>	<b>(116,079)</b>	<b>(2,364,290)</b>
<b>Net change in operational assets</b>				
Net change in reinsurance assets		58,545	(353,157)	(294,612)
Net change in premium receivables		(44,139)	177,846	133,707
Net change in receivables and other assets		(783,776)	448,888	(334,888)
<b>Net change in operational liabilities</b>				
Net change in life insurance contract liabilities		3,728,730	-	3,728,730
Net change in non - life insurance contract liabilities		-	212,799	212,799
Net change in other liabilities		252,670	173,000	425,670
<b>Cash generated from operating activities</b>		<b>963,819</b>	<b>543,297</b>	<b>1,507,116</b>
Retiring gratuity paid	40.2	(10,782)	(11,015)	(21,797)
Interest received		2,248,763	575,403	2,824,166
Dividend received		97,392	1,002	98,394
<b>Net cash from operating activities</b>		<b>3,299,192</b>	<b>1,108,687</b>	<b>4,407,879</b>
<b>Cash flows from / (used in) investing activities</b>				
Acquisition of investments		(33,379,457)	(9,686,049)	(43,065,506)
Maturity proceeds of investments		22,011,650	5,859,413	27,871,062
Proceeds from sale of investments		8,380,619	2,882,970	11,263,593
Acquisition of intangible assets		(6,405)	(10,199)	(16,604)
Acquisition of property, plant and equipment		(47,028)	(24,415)	(71,479)
Proceeds on sale of property, plant and equipment		-	4	4
<b>Net cash used in investing activities</b>		<b>(3,040,621)</b>	<b>(978,312)</b>	<b>(4,018,933)</b>
<b>Cash flows from / (used in) financing activities</b>				
Dividends paid to equity holders of the company		(327,879)	(135,307)	(463,186)
<b>Net cash used in financing activities</b>		<b>(327,879)</b>	<b>(135,307)</b>	<b>(463,186)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(69,308)</b>	<b>(4,932)</b>	<b>(74,240)</b>
Cash and cash equivalent as at 1 January	32.3	199,720	110,858	310,578
Effect of exchange rate fluctuations on cash held		-	(2,074)	(2,074)
<b>Cash and cash equivalent as at 31 December</b>	<b>32.3</b>	<b>130,412</b>	<b>103,852</b>	<b>234,264</b>

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Segmental Review

## Income Statement

For the year ended 31 December

Rs. '000	2014			2013 (Restated)			Change %
	Life insurance	Non Life insurance	Total	Life insurance	Non Life insurance	Total	
Gross written premium	5,945,499	5,222,645	11,168,144	5,515,063	5,391,712	10,906,775	2
Change in reserve for unearned premium	-	(93,316)	(93,316)	-	(833,171)	(833,171)	(89)
<b>Gross earned premium</b>	<b>5,945,499</b>	<b>5,129,329</b>	<b>11,074,828</b>	<b>5,515,063</b>	<b>4,558,541</b>	<b>10,073,604</b>	<b>10</b>
Premium ceded to reinsurers	(328,064)	(1,070,182)	(1,398,246)	(280,542)	(1,256,181)	(1,536,723)	(9)
Change in reserve for unearned reinsurance premium	-	44,489	44,489	-	689,974	689,974	(94)
<b>Net earned premium</b>	<b>5,617,435</b>	<b>4,103,636</b>	<b>9,721,071</b>	<b>5,234,521</b>	<b>3,992,334</b>	<b>9,226,855</b>	<b>5</b>
<b>Other revenue</b>							
Net investment income	2,291,122	573,871	2,864,993	2,070,240	582,901	2,653,141	8
Net realised gains / (losses)	118,900	(5,792)	113,108	35,331	(3,607)	31,724	257
Net fair value gains	806,269	11,662	817,931	39,865	4,744	44,609	1,734
Other income	111,289	80,262	191,551	79,182	73,848	153,030	25
	3,327,580	660,003	3,987,583	2,224,618	657,886	2,882,504	38
<b>Total net revenue</b>	<b>8,945,015</b>	<b>4,763,639</b>	<b>13,708,654</b>	<b>7,459,139</b>	<b>4,650,220</b>	<b>12,109,359</b>	<b>13</b>
<b>Benefits, claims and expenses</b>							
Net benefits and claims	(5,201,025)	(2,736,436)	(7,937,461)	(3,976,248)	(2,799,257)	(6,775,505)	17
Underwriting and net acquisition costs (including reinsurance)	(1,115,834)	(280,120)	(1,395,954)	(968,181)	(245,740)	(1,213,921)	15
Other operating, administrative and selling expenses	(1,654,839)	(1,319,357)	(2,974,196)	(1,659,918)	(1,123,096)	(2,783,014)	7
Depreciation and amortisation	(92,577)	(66,580)	(159,157)	(63,828)	(90,487)	(154,315)	3
<b>Total benefits, claims and expenses</b>	<b>(8,064,275)</b>	<b>(4,402,493)</b>	<b>(12,466,768)</b>	<b>(6,668,175)</b>	<b>(4,258,580)</b>	<b>(10,926,755)</b>	<b>14</b>
<b>Profit before tax</b>	<b>880,740</b>	<b>361,146</b>	<b>1,241,886</b>	<b>790,964</b>	<b>391,640</b>	<b>1,182,604</b>	<b>5</b>
Income tax expense	-	(38,824)	(38,824)	-	(59,199)	(59,199)	(34)
<b>Profit for the year attributable to equity holders of the company</b>	<b>880,740</b>	<b>322,322</b>	<b>1,203,062</b>	<b>790,964</b>	<b>332,441</b>	<b>1,123,405</b>	<b>7</b>

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Segmental Review

## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

Rs. '000	2014			2013 (Restated)			Change %
	Life insurance	Non Life insurance	Total	Life insurance	Non Life insurance	Total	
<b>Profit for the year</b>	880,740	322,322	1,203,062	790,964	332,441	1,123,405	7
<b>Other comprehensive income, net of tax</b>							
<b>Items that will never be reclassified to profit or loss</b>							
Net gain on revaluation of land and buildings	-	-	-	105,037	-	105,037	
Reversal of deferred tax on revaluation reserve	25,371	-	25,371	-	-	-	
Actuarial gain / (loss) on defined benefit plan	5,290	3,593	8,883	(2,402)	(2,183)	(4,585)	
Related tax	-	(1,006)	(1,006)	2,790	-	2,790	
	30,661	2,587	33,248	105,425	(2,183)	103,242	(68)
<b>Items that are or may be reclassified to profit or loss</b>							
<b>Fair value reserve (available for sale financial assets)</b>							
Net change in fair value of available for sale financial assets	26,575	47,444	74,019	(2,072)	6,818	4,746	
Net change in fair value of available for sale financial assets transferred to the income statement	-	-	-	28	-	28	
Related tax	-	(13,284)	(13,284)	-	-	-	
	26,575	34,160	60,735	(2,044)	6,818	4,774	1,172
Net change in liabilities of insurance contracts arising from fair value changes in available for sale financial assets	381,812	-	381,812	3,364	-	3,364	
Net change in fair value of available for sale financial assets of insurance liabilities transferred to the income statement	(78,649)	-	(78,649)	(1,612)	-	(1,612)	
Related tax	-	-	-	-	-	-	
	303,163	-	303,163	1,752	-	1,752	17,204
	329,738	34,160	363,898	(292)	6,818	6,526	5,476
<b>Other comprehensive income for the year, net of tax</b>	360,399	36,747	397,146	105,133	4,635	109,768	262
<b>Total comprehensive income</b>	1,241,139	359,069	1,600,208	896,097	337,076	1,233,173	30
<b>Total comprehensive income attributable to:</b>							
Owners of the company	1,241,139	359,069	1,600,208	896,097	337,076	1,233,173	30
Non-controlling interest	-	-	-	-	-	-	
	1,241,139	359,069	1,600,208	896,097	337,076	1,233,173	30

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Segmental Review

## Statement of Financial Position

As at 31 December	2014			2013		
	Rs. '000	Life insurance	Non Life insurance	Total	Life insurance	Non Life insurance
<b>Assets</b>						
Financial investments	24,038,978	5,338,016	29,376,994	19,854,434	4,443,064	24,297,498
Property, plant and equipment	1,203,934	84,635	1,288,569	1,109,206	228,292	1,337,498
Intangible assets	66,766	28,309	95,075	66,696	50,779	117,475
Investment in subsidiary	-	100,000	100,000	-	-	-
Loans to life policyholders	660,744	-	660,744	515,735	-	515,735
Reinsurance receivables	67,536	591,597	659,133	87,481	415,090	502,571
Premium receivables	159,117	1,550,859	1,709,976	114,978	1,729,853	1,844,831
Receivables and other assets	816,718	328,093	1,144,811	338,281	749,304	1,087,585
Deferred tax assets	-	29,204	29,204	-	-	-
Deferred acquisition cost	-	167,017	167,017	-	149,145	149,145
Cash and cash equivalent	196,429	174,694	371,123	238,444	227,958	466,402
<b>Total assets</b>	<b>27,210,222</b>	<b>8,392,424</b>	<b>35,602,646</b>	<b>22,325,255</b>	<b>7,993,485</b>	<b>30,318,740</b>
<b>Equity and liabilities</b>						
<b>Equity</b>						
Stated capital	625,000	513,433	1,138,433	625,000	513,433	1,138,433
Reserves	709,746	518,976	1,228,722	348,964	480,130	829,094
Retained earnings	1,744,165	2,098,898	3,843,063	1,203,459	1,946,307	3,149,766
<b>Total equity</b>	<b>3,078,911</b>	<b>3,131,307</b>	<b>6,210,218</b>	<b>2,177,423</b>	<b>2,939,870</b>	<b>5,117,293</b>
<b>Liabilities</b>						
Insurance contract liabilities - Life	20,435,876	-	20,435,876	17,518,016	-	17,518,016
Insurance contract liabilities - Unit Linked	2,618,007	-	2,618,007	1,807,137	-	1,807,137
Insurance contract liabilities - Non Life	-	3,653,048	3,653,048	-	3,440,249	3,440,249
Reinsurance payables	150,784	478,633	629,417	112,184	652,793	764,977
Deferred revenue	-	130,328	130,328	-	109,402	109,402
Employee benefits	90,437	106,561	196,998	116,383	69,695	186,078
Other liabilities	770,190	680,187	1,450,377	543,102	592,092	1,135,194
Current tax liabilities	-	141,518	141,518	-	59,199	59,199
Deferred tax liabilities	-	-	-	12,286	13,085	25,371
Bank overdraft	66,017	70,842	136,859	38,724	117,100	155,824
<b>Total liabilities</b>	<b>24,131,311</b>	<b>5,261,117</b>	<b>29,392,428</b>	<b>20,147,832</b>	<b>5,053,615</b>	<b>25,201,447</b>
<b>Total equity and liabilities</b>	<b>27,210,222</b>	<b>8,392,424</b>	<b>35,602,646</b>	<b>22,325,255</b>	<b>7,993,485</b>	<b>30,318,740</b>

The notes to the financial statements as set out in pages 191 to 274 form an integral part of these financial statements.

# Notes to the Financial Statements

## 1. Reporting Entity

### Corporate Information

Union Assurance PLC ("Company") is a public limited company incorporated and domiciled in Sri Lanka and the ordinary shares of the Company are listed on the Colombo Stock Exchange. The registered office of the company is located at Union Assurance Centre, No. 20, St. Michael's Road, Colombo 03.

### Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31 December 2014, comprise the Company (parent company) and its fully owned subsidiary, Union Assurance General Ltd (together referred to as the "Group" and individually as "Group Entities").

### Principal Activities and Nature of Operations

The Company is primarily involved in the Life and Non Life insurance business.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

The Subsidiary, Union Assurance General Ltd has not commenced commercial operations as at the reporting date.

### Number of Employees

The staff strength of the company as at 31 December 2014 is 1,134 (2013 – 1,157).

### Parent Entity and Ultimate Parent Entity

The Company's ultimate parent undertaking and controlling entity is John Keells Holdings PLC which is incorporated in Sri Lanka.

## 2. Basis Of Preparation

### Statement of Compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred to as SLFRS/ LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No.7 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and the listing rules of the Colombo Stock Exchange.

These financial statements include the following components:

▶ a Income Statement and Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Company and Group for the year under review; (Refer pages 179 to 182)

▶ a statement of financial position providing the information on the financial position of the Company and Group as at the year-end; (Refer page 183)

▶ a statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Company and Group; (Refer pages 184 to 185)

▶ a statement of cash flows providing the information to the users, on the ability of the company to generate cash and cash equivalents and the needs of the entity to utilise those cash flows; (Refer pages 186 to 187) and

▶ Notes to the financial statements comprising accounting policies and other explanatory information. (Refer pages 191 to 274).

Details of the Company / Group's accounting policies, including changes during the year, are included in Note 5.

### Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of the financial statements of the company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards. The responsibility of the Directors in relation to the financial statements is set out in detail in the Statement of Directors' Responsibility report in the annual report.

### Approval of Financial Statements

The financial statements for the year ended 31 December 2014 were authorised for issue by the Directors on 25 February, 2015.

### 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 277 to 285 continuing the past practice which is a requirement of the Statement of Recommended Practice (SoRP) for insurance contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

### Materiality and Aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on 'Presentation of financial statements'.

### Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### Basis of Consolidation

The consolidated financial statements comprise of financial statements of the Company and its Subsidiary as at 31 December 2014. The financial statements of the Subsidiary are prepared in compliance with the Group's accounting policies unless otherwise stated.

### Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

Items	Measurement basis	Note No.	Page reference
Non-derivative financial instruments at fair value through profit or loss	Fair value	5.29.1 (a)	198
Available for sale financial assets	Fair value	5.29.1 (d)	198
Unit linked financial assets	Fair value	5.37.3	204
Land and buildings	Fair value	5.31.4	201
Policyholders' liabilities	Measured at the actuarially valued valuation.	5.37	203
Net defined benefit assets/ (liabilities)	Actuarially valued and recognised at the present value	5.39.3	205
Disposal Groups Held for Sale	Lower of cost or Fair value less cost to sell	5.3	194

# Notes to the Financial Statements

No adjustments have been made for inflationary factors affecting the financial statements.

## 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. Functional and Presentation Currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency.

All amounts presented in rupees have been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

### 4. Use Of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group'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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included as follows;

## Defined Benefit Obligation

The defined benefit obligation liability of the Company / Group is based on the actuarial valuation carried out by Independent actuarial specialist. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, 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.

## 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. Judgment 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.

## Impairment of Non Financial Assets

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 Group 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.

## Provisions and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgment 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 respective legal jurisdictions.

## Fair Value of Financial Instruments

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 judgment is required in establishing fair values. The judgments 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.

## Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognised insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash

## Critical Accounting Estimates / Judgments

	Disclosure reference	
	Note to the financial statements	Page
Insurance contract liabilities – Life	5.37.1	203
Insurance contract liabilities – Non Life	5.37.2	203
Measurement of defined benefit obligations: Key actuarial assumptions	5.39.3	205
Recognition of deferred tax assets: Availability of future taxable profits against which carried forward losses can be used	5.26.2	196
Impairment test: Key assumptions underlying recoverable amounts	5.29.7	199
Recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources	5.40	205
Deferred acquisition cost	5.30.1	200
Determination of the fair value of financial instruments	5.29.6	199
Liability Adequacy Test – Life	5.37.1	203
Liability Adequacy Test – Non Life	5.37.2	203

flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates. Any deficiencies shall be recognised in the income statement by setting up a provision for liability adequacy.

## 5. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The Company / Group's financial position represents the assets, liabilities and equity. The Life insurance financial position presented as supplemental information on page 277 which represent assets, liabilities and reserves of the Life insurance fund. The Income Statement and Statement of Profit or Loss and Other Comprehensive Income reflects the total revenue, benefits and claims, surplus from Long term insurance business, expenses of the Non Life insurance business and the Life insurance business.

Set out below is an index of the significant accounting policies, the details of which are available on the pages that follow.

No.	Significant accounting policies	Page
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5.45	Operating Segments	206

# Notes to the Financial Statements

## 5.1 Basis of Consolidation

### Business combinations

Business combinations are accounted for using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

### Non-Controlling Interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transactions.

### Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

### Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

### Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Accounting for Investment in Subsidiaries

When separate financial statements are prepared, investments in subsidiaries are accounted for using the cost method. Investments in subsidiaries are stated in the Company's Statement of Financial Position at cost less accumulated impairment losses.

### Financial Period

The Consolidated Financial Statements are prepared to a common financial year ended 31 December. The accounting policies of Subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

## 5.2 Foreign Currency

### Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that 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 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 spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are

translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the available-for-sale equity instruments are recognised in OCI.

## 5.3 Discontinued Operations

A discontinued operations is a component of the Company / Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company / Group and which;

- ▶ represents a separate major line of business or geographic area of operations;
- ▶ is a part of single coordinated plan to dispose of a separate major line of a business or geographic area of operations; or
- ▶ is a subsidiary acquired exclusively with a view to resell.

Classification as a discontinued operation occurs at the earlier of the disposal or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative Income Statement and Statement of Profit or Loss and Other Comprehensive Income is re-presented as if the operation had been discontinued from the start of the comparative year.

### Statement of Comprehensive Income

#### Non Life Insurance

## 5.4 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.

## 5.5 Unearned Premium Reserve (UPR)

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the

portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24 basis except for the marine and title policies which are computed on a 60-40 basis. The proportion attributable to subsequent period is deferred as a provision for unearned premiums.

#### 5.6 Reinsurance Premiums

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered during the period, and are generally recognised on the date on which the policy incepts.

#### 5.7 Unearned Reinsurance Premiums

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated on the 1/24 basis except for the marine policies which are computed on a 60-40 basis.

#### 5.8 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.

#### 5.9 Acquisition Costs

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.

#### 5.10 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.

#### 5.11 Gross Claims Expense

Gross claims expense include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and

settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct cost of setting those claims. The provision in respect of IBNR is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

#### 5.12 Reinsurance Claims Recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. This includes reinsurance exposure of IBNR also.

#### Life Insurance

##### 5.13 Gross Written Premiums (GWP)

Gross recurring premiums on Life and investment contracts with DPF are recognised as revenue when receivable from the policyholder (policies within the 30 day grace period are considered as due). For single premium business, revenue is recognised on the date on which the policy is effective.

##### 5.14 Reinsurance Premiums

Reinsurance premiums on Life and investment contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

##### 5.15 Acquisition Costs

All acquisition cost are recognised as an expense when incurred.

#### 5.16 Reinsurance Commission Income

Reinsurance commission income on outwards reinsurance contracts are recognised as revenue when receivable.

#### 5.17 Gross Benefits and Claims Expense

Gross benefits and claims for Life insurance contracts include the cost of all claims arising during the year, including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Changes in the valuation of insurance contract liabilities are disclosed in the statement of financial position under increase in life fund.

#### 5.18 Reinsurance Claims Recoveries

Reinsurance claims recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

#### Other Revenue

##### 5.19 Finance Income

Finance income comprises interest income on funds invested (including available-for-sale financial assets) and dividend income. Interest income is recognised in the Income Statement as it accrues and is calculated by using the effective interest rate method (EIR). Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument.

Finance income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex-dividend.

Finance expenses consist of costs relating to investment such as custodial fees, bank guarantee fee and brokerage fee etc. These expenses are recognised on an accrual basis.

##### 5.20 Dividend Income

Dividend income is recognised when the company's right to receive the payment is established.

# Notes to the Financial Statements

## 5.21 Realised Gains and Losses

Realised gains and losses recorded in the Income Statement on investments include gains and losses on financial assets.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

## 5.22 Fair Value Gains and Losses

Fair value gains and losses recorded in the Income Statement on investments include fair value gains on financial assets at fair value through profit or loss.

## 5.23 Other Income

Other income comprises fees charged for policy administration services, disposal gains on property, plant and equipment, gains on foreign currency translations, and miscellaneous income. Gains on foreign currency translations are recognised on a net basis.

## EXPENSES AND TAXATION

### 5.24 Expenditure Recognition

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.

### 5.25 Finance Cost

Interest paid is recognised in the Income Statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

### 5.26 Income Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in items recognised directly in equity or in Income Statement and Statement of Profit or Loss and Other Comprehensive Income.

#### 5.26.1 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.

#### 5.26.2 Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for;

- ▶ Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- ▶ temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future and
- ▶ Taxable temporary differences arising on the initial recognition of goodwill

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based

on the laws that have been enacted or substantially enacted by the reporting date.

#### 5.26.3 Tax Exposures

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### 5.26.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No.13 of 2006 and the amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act.

#### 5.26.5 Crop Insurance Levy (CIL)

The Crop Insurance Levy was introduced under the provisions of the 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.

#### 5.26.6 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

#### 5.26.7 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.

## 5.27 Earnings per share (EPS)

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### Statement Of Financial Position

## 5.28 Insurance and Investment Contracts

### 5.28.1 Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are contracts under which one party (the Insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the Company issues and reinsurance contracts that the company holds.

Contracts where the company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified

interest rate financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participating features ("DPF").

### 5.28.2 Unit Linked Contracts

Unit-linked contracts are that do not meet the definition of insurance or investment contracts with discretionary participating features. For these Unit-Linked contracts, the liabilities are valued at current unit value, i.e. on the basis of the fair value of the financial investments backing those contracts at the reporting date together with Rights to future management fees.

### Discretionary Participating Features (DPF)

DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that

- ▶ are Likely to be a significant portion of the total contractual benefits;
- ▶ the amount or timing of which is contractually at the discretion of the issuer;

That are contractually based on:

- ▶ The performance of a specified pool of contracts or a specified type of contract,
- ▶ Realised and or unrealised investment returns on a specified pool of assets held by the issuer, 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.

IBSL regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF eligible surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the eligible surplus must be attributed to contract holders as a group (which can include future contract holders) and the amount and timing of the distribution to individual contract holders is at the discretion of the Company, subject to the advice of the appointed actuary. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance contract liabilities, as appropriate.

### 5.28.3 Impact of Unrealised Gains and Losses on Available For Sale Assets on Liabilities from Insurance Contracts

Where unrealised gains or losses arise on available-for-sale assets, the adjustment to the liabilities arising from insurance contracts and investment contracts with DPF is equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognised directly in other comprehensive income.

## 5.29 Financial Assets and Liabilities

### 5.29.1 Non Derivative Financial Assets Initial Recognition and Measurement

The Company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value

# Notes to the Financial Statements

plus transaction costs that are directly attributable to its acquisition or issue.

Depending on the intention and ability to hold the invested assets, the Company classifies its non derivative financial assets into following categories;

- ▶ Financial assets at fair value through profit or loss (FVTPL)
- ▶ Held to maturity (HTM)
- ▶ Loans and receivables (L&R) and
- ▶ Available for sale (AFS) financial assets as appropriate.

Income and expenses are presented on a net basis only when permitted under SLFRS/LKAS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

## Subsequent measurement

### (a) Fair value through profit or loss (FVTPL)

A financial asset is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's investment strategy. Attributable transaction costs are recognised in Income Statement as incurred.

Financial assets at fair value through profit and loss investments are carried in the statement of financial position at fair value with changes in fair value recognised in the Income Statement.

Financial assets designated at fair value through profit or loss comprises of quoted equity instruments unless otherwise have been classified as available-for-sale.

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

Financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Company has the positive intention and ability to hold it to maturity. Held-to- maturity financial assets are recognised initially at fair value plus any directly attributable transaction

costs. Subsequent to initial recognition held to- maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortisation is included in finance income in the Income Statement. The losses arising from impairment are recognised as finance cost in the Income Statement.

Held-to-maturity financial assets comprise of debt securities and treasury bonds.

### (c) Loans and Receivables (L&R)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents.

## Cash and Cash Equivalent

Cash and cash equivalents comprise cash balances, and call deposits with original maturities of three months or less. Bank overdrafts are included in the statement of financial position under liabilities.

For the purpose of the cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## Premiums Receivable

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognized in the Income Statement.

Premium receivables are derecognised when the derecognition criteria for financial assets, as described in Note 24, have been met.

### (d) Available for sale financial assets (AFS)

Available-for-sale financial assets are financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments are recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in Income Statement and Statement of Profit or Loss and Other Comprehensive Income is transferred to the Income Statement.

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Company is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and management has the intention

and ability to hold these assets for the foreseeable future or until maturity. This classification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos' and investments in treasury bills and bonds.

### 5.29.2 Non Derivative Financial Liabilities Initial Recognition and Measurement

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise interest bearing borrowings, reinsurance payables, other liabilities and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.

#### Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification, as follows:

#### Interest Bearing Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of

the EIR. The EIR amortisation is included in finance cost in the Income Statement.

#### Insurance Payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

#### Derecognition of Insurance Payables

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

### 5.29.3 Derecognition

The Company derecognises a financial asset when:

- ▶ The rights to receive cash flows from the asset have expired or
- ▶ The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either;

- (a) The Company has transferred substantially all the risks and rewards of the asset, or
- (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

### 5.29.4 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.

### 5.29.5 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### 5.29.6 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

#### Determination of Fair Value

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

### 5.29.7 Impairment Financial Assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as result of one or more events that has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

# Notes to the Financial Statements

## *(a) Impairment losses on financial assets carried at amortised cost*

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in Income Statement under other cost and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

## *(b) Impairment losses on available for sale financial assets*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to the 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 measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, impairment losses on equity investments are not reversed through the Income Statement and increases in their fair value after impairment are recognised directly in Income Statement and Statement of Profit or Loss and Other Comprehensive Income.

## **5.30 Deferred Expenses**

### **5.30.1 Deferred Acquisition Costs (DAC) – Non Life**

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

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 of.

### **5.30.2 Reinsurance Commissions - Unearned Commission Reserve (UCR) – Non Life**

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

## **5.30.3 Deferred Expenses - Investment Management Services**

Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF (under which the Company will render investment management services), are deferred and recognised as an asset, to the extent that they can be identified separately, measured reliably and it is probable that they will be recovered from future revenue margins. Incremental cost is a cost that would not have been incurred if the company had not secured the investment contract without DPF. All other origination costs are recognised as an expense when incurred.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the financial liability. Subsequent to initial recognition, these costs are amortised in line with fee income. Amortisation is recorded in the Income Statement.

An impairment review is performed at each reporting date, or more frequently, when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Income Statement. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Investment management services are derecognised when the related contracts are settled or disposed.

## **5.31 Property, Plant and Equipment**

### **5.31.1 Recognition and Measurement**

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

### **Basis of Recognition**

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the

asset will flow to the company and cost of the asset can be reliably measured.

#### Basis of Measurement

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- ▶ The cost of materials and direct labour;
- ▶ Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- ▶ When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- ▶ Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in "other operating income" in the Income Statement. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

#### 5.31.2 Subsequent Costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in Income Statement as incurred.

#### 5.31.3 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.

#### 5.31.4 Revaluations

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment losses are recognised after the date of the revaluation. Valuations are performed every two years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income and accumulated in equity in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement. A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

#### 5.31.5 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

and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Asset Class	Basis
Buildings	50 years
Office furniture	5 years
Furniture and fittings	5 years
Computer equipment	5 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 25 on page 230.

#### 5.31.6 Carrying Amount

The carrying amount of an asset or significant group of assets within the class is assessed annually with its fair value and where the fair value is less than the carrying amount, the asset is written down to its fair value. The consequent adjustment is recognised in the Income Statement.

The residual values of assets that are not insignificant are reassessed annually.

Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.

# Notes to the Financial Statements

## 5.31.7 De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is de-recognised.

## 5.32 Intangible Assets

### Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate

## 5.33 Leased Assets – Lessee

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date.

## Finance Leases

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Income Statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

## Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

## 5.34 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is generally determined by reference to weighted average cost. Net realisable value is the estimated market price in the ordinary course of business less any estimated expense to sell.

## 5.35 Impairment of Non Financial Assets

The carrying amounts of the Company's non-financial assets, other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and infinite intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in the Income Statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss 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.

## 5.36 Equity movements

### Ordinary shares

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

### Dividends on Ordinary Shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's Board of Directors in accordance with the Articles of Association.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Share Issue Costs

Share issue related expenses are charged against the retained earnings in the equity statement.

## 5.37 Insurance Contract Liabilities

### 5.37.1 Life Insurance Contract Liabilities

These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case, a margin for risk and adverse deviation is generally included. Adjustments to the liabilities at each reporting date are recorded in the Income Statement in 'Increase in life insurance contract liabilities'.

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using an existing liability adequacy test in accordance with SLFRS 4 as set out in Note 5.37.1

For products containing DPF the amount of the DPF is deemed to be the investment return on all related assets where the apportionment between the shareholder and the policyholder has not yet been determined. The liability includes certain elements of net unrealized gains/ (losses) and retained earnings attributable to the DPF, based on the mandated rates applied to these gains and earnings on the assumption that they had been realized as of the statement of financial position date.

The minimum mandated amounts, which are to be paid to policyholders plus any declared/ undeclared additional benefits, are recorded in liabilities.

### Liability Adequacy Test (LAT) - Life Insurance

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows to the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Any deficiency shall be recognised in the Income Statement by setting up a provision for liability adequacy.

### 5.37.2 Non Life insurance liabilities

Non-life insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and incurred but not reported, and incurred and not enough reported - IBNR/ IBNER) and the provision for unearned premium and the provision for premium deficiency.

#### 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 decided 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 as disclosed in Note 5.37.2.2.

The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the statement in comprehensive income by setting up a provision for premium deficiency.

#### Title Insurance Reserve

Title insurance reserve is maintained by the Company to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised until validity of the policy expires.

#### Liability Adequacy Test (LAT) - Non-Life Insurance

At the end of each reporting period the Company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account

# Notes to the Financial Statements

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.

## 5.37.3 Investment Contract Liabilities - Unit Linked

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position and are not recognised as gross premium in the Income Statement.

Fair value adjustments are performed at each reporting date and are recognised in the Income Statement in "gross change in contract liabilities". Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued and adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non - unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same basis as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position as described above.

## 5.38 Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Reinsurance is recorded gross in the financial position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

## 5.39 Employee Benefits

### 5.39.1 Short term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

### 5.39.2 Employee Share Option Plan

Employees receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of the employee services received in respect of the shares or share options granted is recognised in the income statement over the period that employees provide services, from the time when the award is granted up to the vesting date of the options. The overall cost of the award is calculated using the number of share options expected to vest and the fair value of the options at the date of grant.

The employee remuneration expense resulting from the John Keells Holdings PLC Employees share option (ESOP) scheme to the employees of Union Assurance PLC is recognised in the income statements of the Company. This transaction does not result in a cash outflow and the expense recognised is met with a corresponding equity reserve increase, thus having no impact on the statement of financial position (SOPF). The fair value of the options granted is determined by using an option pricing model.

The Group applies SLFRS 2 Share Based Payments in accounting for employee remuneration in the form of shares from 2013/14 financial year onwards.

### 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 (Note 18).

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.

### 5.39.3 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which

an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan and which are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

### Employees' Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to Employees' Provident Fund managed by the Central Bank of Sri Lanka.

### Employees' Trust Fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

### 5.39.4 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods and discounting that amount to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit method.

With the adoption of LKAS 19 - "Employee Benefits", which became effective from 1 January 2013, the re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in Income Statement and 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.

### 5.40 Provisions and Contingencies (other than insurance provisions)

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

### 5.41 Capital Commitments

Capital commitments of the Company are disclosed in the financial statements.

### 5.42 Events Occurring after the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

### 5.43 Dividend Declaration

Dividend declared by the Board of Directors after the reporting date is not recognised as a liability and is disclosed as a note to the financial statements.

### 5.44 Cash Flow Statements

The cash flow statement has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, "Cash Flow Statements"

# Notes to the Financial Statements

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

## 5.45 Operating Segments

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the company's other components. All operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions regarding resources to be allocated to the segments and to assess its performance, and for which finance information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 6. New Account in Standards

### 6.1 New standards adopted during the year

The following standards which were issued in the prior years became effective during the year. Accordingly the company has adopted these standard.

SLFRS 10 Consolidated Financial Statements	SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. SLFRS 10 has had no impact on the consolidation of investments held by the Group.
SLFRS 12 Disclosure of Interests in Other Entities	SLFRS 12 requires that an entity disclose information about significant judgments and assumptions it has made (and changes to those judgments and assumptions) in determining that it has control of another entity. The Group does not have any interest in unconsolidated structured entities. Interests in such entities require the disclosures under SLFRS 12.
SLFRS 13 Fair Value Measurement	SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The application of SLFRS 13 has not materially impacted the fair value measurements carried out by the Group.

### 6.2 Standards issued but not yet effective

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Consolidated Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these financial statements.

#### 6.2.1 Standards issued but not yet adopted which may have an impact

New or amended standard	Summary of the requirement	Possible impact on consolidated financial statements
SLFRS 9 Financial Instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.  SLFRS 9 is effective from 01st January 2018.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.

#### 6.2.2 Standards issued but not yet adopted which may not have a significant impact

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

▶ SLFRS 15 Revenue from Contracts with Customers – effective from 01 January 2017

#### 6.2.3 Standards issued but not yet adopted which is not expected to have an impact

The following new or amended standards are not expected to have an impact of the Group's consolidated financial statements.

▶ SLFRS 14 Regulatory Deferral Accounts – effective from 01 January 2016

▶ Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – effective from 01 January 2016

## 7. Operating Segments

For management purposes, the Company is organised into business units based on their products and services and has two reportable operating segments as follows:

The Life insurance segment offers savings, protection products and other long-term contracts (both with and without insurance risk and with and without discretionary participating features). It comprises a wide range of whole life, term assurance, guaranteed pensions, pure endowment pensions and mortgage endowment products. Revenue from this segment is derived primarily from insurance premium, fees and commission income, investment income and fair value gains and losses on investments.

The Non Life insurance segment comprises Non Life insurance to individuals and businesses. Non life insurance products offered include motor, fire, accident and liability, cargo and workmen compensation. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of policyholder's accident, e.g. employee liability claims. Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.

No operating segments have been aggregated to form the above reportable operating segments.

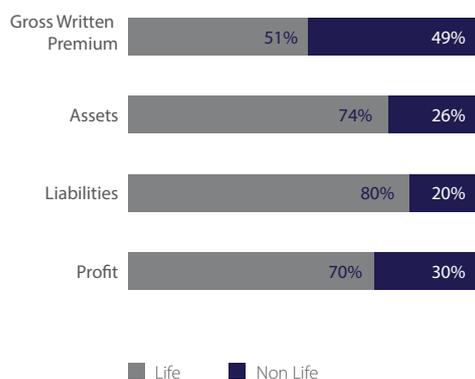
Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from

profit or loss in the financial statements. The Company's stated capital and retained earnings are managed on a company basis and are not allocated to individual operating segments. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The activities of the Company are located mainly in Sri Lanka. Consequently, the economic environment in which the Company operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

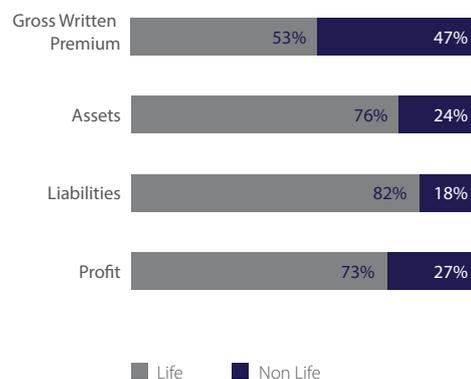
Rs. '000	Life		Non-Life		Total	
	2014	2013	2014	2013	2014	2013
Gross written premium	5,945,499	5,515,063	5,222,645	5,391,712	11,168,144	10,906,775
Net earned premium	5,617,435	5,234,521	4,103,636	3,992,334	9,721,071	9,226,855
Total net revenue	8,945,015	7,459,139	4,763,639	4,650,220	13,708,654	12,109,359
Total revenue from external customers	8,913,225	7,439,473	4,753,316	4,632,702	13,666,541	12,072,175
Inter segment revenue	31,790	19,666	10,323	17,518	42,113	37,184
Total operating income	8,945,015	7,459,139	4,763,639	4,650,220	13,708,654	12,109,359
Benefits, losses and expenses	7,971,698	6,604,347	4,335,913	4,168,093	12,307,611	10,772,440
Depreciation and amortisation	92,577	63,828	66,580	90,487	159,157	154,315
Segment results	880,740	790,964	361,146	391,640	1,241,886	1,182,604
Less: Income tax expenses	-	-	(38,824)	(59,199)	(38,824)	(59,199)
Profit for the year	880,740	790,964	322,322	332,441	1,203,062	1,123,405
Segment assets	27,210,222	22,325,255	8,392,424	7,993,485	35,602,646	30,318,740
Unallocated assets	-	-	-	-	-	-
Total assets	27,210,222	22,325,255	8,392,424	7,993,485	35,602,646	30,318,740
Segment liabilities	24,131,311	20,147,832	5,261,117	5,053,615	29,392,428	25,201,447
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	24,131,311	20,147,832	5,261,117	5,053,615	29,392,428	25,201,447
Cash flows from operating activities	3,299,192	3,467,534	1,107,297	396,377	4,406,489	3,863,911
Cash flows from investing activities	(3,040,621)	(3,176,322)	(976,922)	(232,006)	(4,017,543)	(3,408,328)
Cash flows from financing activities	(327,879)	(215,400)	(135,307)	(167,748)	(463,186)	(383,148)
Capital expenditure	53,433	37,073	34,650	151,576	88,083	188,649

# Notes to the Financial Statements

Operating Segments - 2013



Operating Segments - 2014



## 8. Discontinued Operations

In compliance with the requirements of the Regulations of Insurance Industry Act No 3 of 2011, Union Assurance PLC has completed the segregation of the Life and Non-Life insurance business on January 2015. The Company, Union Assurance PLC will continue to carry on the Life insurance business and its Non Life insurance business (inclusive of all assets, undertakings, property, rights and liabilities in respect of Non Life business) will be undertaken by Union Assurance General Limited, a fully owned subsidiary of the Company.

Further, the Company divested a 78% stake in its subsidiary, Union Assurance General Limited to Fairfax Asia Limited, subsequent to the segregation of the Life and Non Life businesses on 1 January 2015.

Although the segregation of business segments and the sale to a third party occurred subsequent to the reporting date, these financial statements have been prepared to reflect the impact of the discontinuation of a significant business segment, Non Life, on both the

Company and the Group as required by SLFRS 5 "Non-Current Asset Held for Sale and Discontinued Operations".

The Non Life business segment was not previously classified as Held for sale or as a discontinued operation. The comparative Statements of Profit or Loss and OCI have been re stated. The Company has opted to apply the columnar format to these financial statements to present the disclosures required by SLFRS 5 as give below;

Disclosure required	Presentation	Note / Page reference
Results of discontinued operation	Columnar presentation of Statements of Profit or Loss and OCI	179 to 182
Cashflows from/(used) in discontinued operations	Columnar presentation of Statements Cashflows	186 to 187
Effect of disposal on the financial position of the Group	Not applicable as neither the transfer of business segment to the subsidiary nor the sale to Fairfax Asia Limited were completed by the reporting date.	N/A

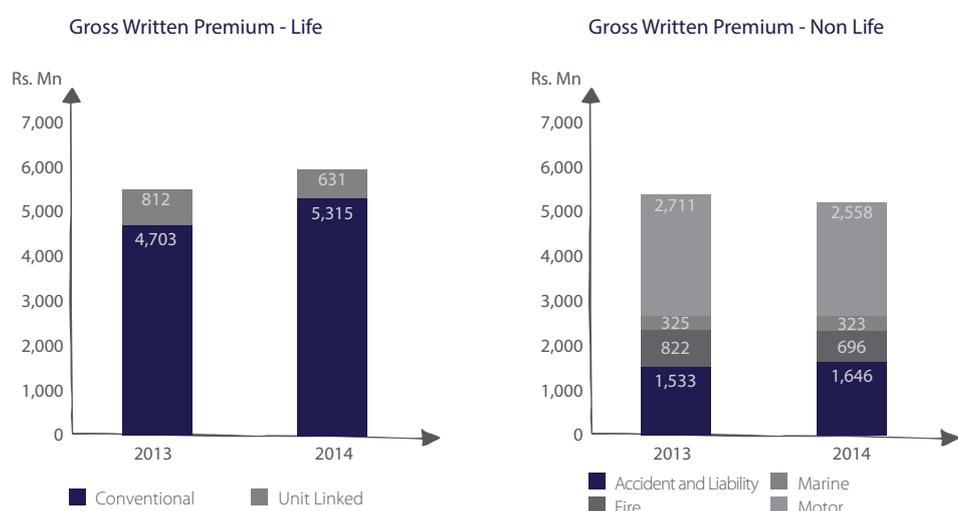
## 9 Gross Written Premium

Refer Notes 5.4 and 5.13 for the Accounting Policies.

Gross written premium (GWP) represents the premium charged by the Company to underwrite risks. GWP is accounted on an accrual basis.

For the year ended 31 December	Rs. '000	Note	Company / Group 2014			Company 2013 (Restated)		
			Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Life insurance		9.1	5,945,499	-	5,945,499	5,515,063	-	5,515,063
Non Life insurance		9.2	-	5,222,645	5,222,645	-	5,391,712	5,391,712
<b>Total gross written premium</b>			<b>5,945,499</b>	<b>5,222,645</b>	<b>11,168,144</b>	<b>5,515,063</b>	<b>5,391,712</b>	<b>10,906,775</b>

The premium income for the year by major classes of business is as follows.



### 9.1 Life insurance

For the year ended 31 December	Company / Group 2014	Company 2013 (Restated)
Rs. '000		
Conventional	5,314,754	4,702,710
Unit linked	630,745	812,353
	<b>5,945,499</b>	<b>5,515,063</b>

### 9.2 Non Life insurance

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total
Rs. '000						
Accident and liability	1,595,153	50,793	1,645,946	1,489,525	43,871	1,533,396
Fire	508,614	187,699	696,313	649,001	172,706	821,707
Marine	321,407	1,453	322,860	323,426	1,842	325,268
Motor	2,557,526	-	2,557,526	2,711,341	-	2,711,341
	<b>4,982,700</b>	<b>239,945</b>	<b>5,222,645</b>	<b>5,173,293</b>	<b>218,419</b>	<b>5,391,712</b>

\* Non motor Strike Riot and Civil Commotion Cover (SRCC) and Terrorism Cover (TC) premiums are collected on behalf of the National Insurance Trust Fund (NITF).

# Notes to the Financial Statements

## 10 Premium Ceded to Reinsurers

Refer Notes 5.6 and 5.14 for the Accounting Policies.

Premium ceded to reinsurers represents the premium paid by the company to its reinsurers in order to manage its underwriting risks. This is accounted on an accrual basis.

For the year ended 31 December	Rs. '000	Note	Company / Group 2014			Company 2013 (Restated)		Total
			Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	
Life insurance		10.1	328,064	-	328,064	280,542	-	280,542
Non Life insurance		10.2	-	1,070,182	1,070,182	-	1,256,181	1,256,181
<b>Total premium ceded to reinsurers</b>			328,064	1,070,182	1,398,246	280,542	1,256,181	1,536,723

### 10.1 Life insurance

For the year ended 31 December	Rs. '000	Company / Group 2014	Company 2013 (Restated)
Conventional		326,873	278,753
Unit linked		1,191	1,789
		328,064	280,542

### 10.2 Non Life insurance

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
Rs. '000	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total	GWP excluding non motor SRCC/TC	Non motor SRCC/TC*	Total
Accident and liability	143,619	50,793	194,412	138,414	43,871	182,285
Fire	434,576	187,699	622,275	586,400	172,706	759,106
Marine	204,064	1,453	205,517	201,205	1,842	203,047
Motor	47,978	-	47,978	111,743	-	111,743
	830,237	239,945	1,070,182	1,037,762	218,419	1,256,181

## 11 Net Earned Premium

Refer Notes 5.5 and 5.7 for the Accounting Policies.

This represents the net earned premium for the financial year subsequent to deduction of reinsurance and net change in unearned premium of gross written premium. There is no unearned premium adjustment for life insurance business.

For the year ended 31 December	Rs. '000	Note	Company / Group 2014			Company 2013 (Restated)		Total
			Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	
Gross written premium		9	5,945,499	5,222,645	11,168,144	5,515,063	5,391,712	10,906,775
Premium ceded to reinsurers		10	(328,064)	(1,070,182)	(1,398,246)	(280,542)	(1,256,181)	(1,536,723)
<b>Total net written premium</b>			5,617,435	4,152,463	9,769,898	5,234,521	4,135,531	9,370,052
Change in reserve for unearned premium		11.1	-	(93,316)	(93,316)	-	(833,171)	(833,171)
Change in reserve for unearned reinsurance premium		11.2	-	44,489	44,489	-	689,974	689,974
Net change in reserve for unearned premium			-	(48,827)	(48,827)	-	(143,197)	(143,197)
<b>Total net earned premium</b>			5,617,435	4,103,636	9,721,071	5,234,521	3,992,334	9,226,855

**11.1** The change represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

**11.2** The change in reserve represents the net portion of the reinsurance premium transferred to the unearned reinsurance premium reserve during the year to cover the unexpired period of the policies.

## 12 Net Investment Income

Refer Notes 5.19, 5.20 and 5.25 for the Accounting Policies.

For the year ended 31 December	Note	Company						Group		
		2014			2013 (Restated)			2014		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000										
Dividend income	12.1	97,733	1,002	98,735	63,992	1,770	65,762	97,733	1,002	98,735
Interest income	12.2	2,228,915	573,375	2,802,290	2,078,877	587,286	2,666,163	2,228,915	574,765	2,803,680
Investment related expenses		(35,526)	(506)	(36,032)	(72,629)	(6,155)	(78,784)	(35,526)	(506)	(36,032)
<b>Total net investment income</b>		<b>2,291,122</b>	<b>573,871</b>	<b>2,864,993</b>	<b>2,070,240</b>	<b>582,901</b>	<b>2,653,141</b>	<b>2,291,122</b>	<b>575,261</b>	<b>2,866,383</b>

### 12.1 Dividend income

For the year ended 31 December	Rs. '000	Company						Group		
		2014			2013 (Restated)			2014		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Fair value through profit or loss										
Held for trading - Conventional		43,150	-	43,150	24,907	-	24,907	43,150	-	43,150
Held for trading - Unit linked		54,583	-	54,583	39,085	-	39,085	54,583	-	54,583
Held for trading - Non Life		-	814	814	-	1,676	1,676	-	814	814
		97,733	814	98,547	63,992	1,676	65,668	97,733	814	98,547
Available for sale financial assets		-	188	188	-	94	94	-	188	188
<b>Total dividend income</b>		<b>97,733</b>	<b>1,002</b>	<b>98,735</b>	<b>63,992</b>	<b>1,770</b>	<b>65,762</b>	<b>97,733</b>	<b>1,002</b>	<b>98,735</b>

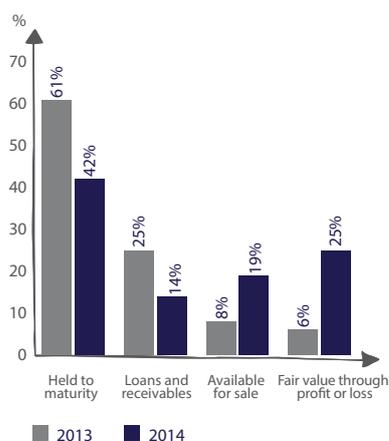
### 12.2 Interest income

For the year ended 31 December	Rs. '000	Company						Group		
		2014			2013 (Restated)			2014		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Financial assets at fair value through profit or loss										
Treasury bills		3,078	-	3,078	6,851	-	6,851	3,078	-	3,078
Quoted debentures		2,885	-	2,885	143	-	143	2,885	-	2,885
Reverse REPO		18,702	-	18,702	16,410	-	16,410	18,702	-	18,702
Fixed deposits		593	-	593	5,141	-	5,141	593	-	593
		25,258	-	25,258	28,545	-	28,545	25,258	-	25,258
Held to maturity financial assets										
Quoted debentures		232,418	52,339	284,757	267,919	61,481	329,400	232,418	52,339	284,757
Treasury bonds		1,051,948	281,565	1,333,513	1,095,543	296,306	1,391,849	1,051,948	281,565	1,333,513
		1,284,366	333,904	1,618,270	1,363,462	357,787	1,721,249	1,284,366	333,904	1,618,270
Available for sale financial assets										
Treasury bills		33,596	7,937	41,533	19,129	6,432	25,561	33,596	7,937	41,533
Treasury bonds		180,822	44,556	225,378	50,486	46,664	97,150	180,822	44,556	225,378
Quoted debentures		306,668	59,577	366,245	75,926	22,578	98,504	306,668	59,577	366,245
		521,086	112,070	633,156	145,541	75,674	221,215	521,086	112,070	633,156

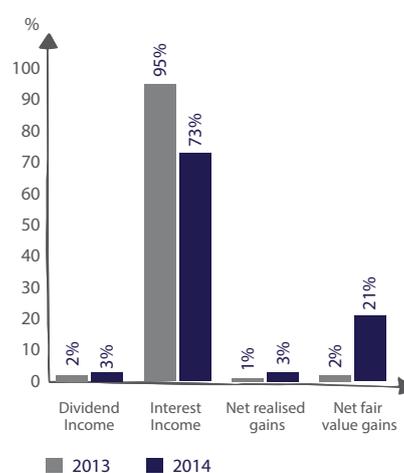
# Notes to the Financial Statements

For the year ended 31 December	Company						Group		
	2014			2013 (Restated)			2014		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000									
<b>Loans and receivables</b>									
Unquoted debentures	71,138	16,750	87,888	68,635	19,464	88,099	71,138	16,750	87,888
Reverse REPO	90,679	34,405	125,084	54,586	66,841	121,427	90,679	34,405	125,084
Fixed deposits	103,062	17,893	120,955	253,187	1,984	255,171	103,062	17,893	120,955
Call deposits	-	-	-	-	-	-	-	1,390	1,390
Property Deposits	-	-	-	51,443	-	51,443	-	-	-
Interest income on policy loans	90,565	-	90,565	65,072	-	65,072	90,565	-	90,565
Interest income on loans given to staff	42,761	58,353	101,114	48,406	65,536	113,942	42,761	58,353	101,114
	398,205	127,401	525,606	541,329	153,825	695,154	398,205	128,791	526,996
<b>Total interest income</b>	<b>2,228,915</b>	<b>573,375</b>	<b>2,802,290</b>	<b>2,078,877</b>	<b>587,286</b>	<b>2,666,163</b>	<b>2,228,915</b>	<b>574,765</b>	<b>2,803,680</b>

Investment Income - Reporting Category wise



Investment Income - Instrument Wise



### 13 Net Realised Gains / (Losses)

Refer Note 5.21 for the Accounting Policy.

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
<b>Rs. '000</b>						
<b>Available for sale financial assets</b>						
Unquoted equity securities	76,471	-	76,471	-	-	-
Treasury bills	59	-	59	(59)	-	(59)
Treasury bonds	2,119	-	2,119	1,643	-	1,643
	78,649	-	78,649	1,584	-	1,584
<b>Fair value through profit or loss financial assets</b>						
Quoted equity securities	40,251	(5,792)	34,459	29,201	(3,607)	25,594
Listed warrants	-	-	-	4,546	-	4,546
	40,251	(5,792)	34,459	33,747	(3,607)	30,140
<b>Total net realised gains / (losses)</b>	<b>118,900</b>	<b>(5,792)</b>	<b>113,108</b>	<b>35,331</b>	<b>(3,607)</b>	<b>31,724</b>

### 14 Net Fair Value Gains

Refer Note 5.22 for the Accounting Policy.

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
<b>Rs. '000</b>						
<b>Fair value through profit or loss financial assets</b>						
<b>Unrealised Gains</b>						
Quoted equity securities	887,546	11,662	899,208	349,464	7,055	356,519
Treasury bills	28	-	28	140	-	140
Debentures	2,454	-	2,454	68	-	68
	890,028	11,662	901,690	349,672	7,055	356,727
<b>Unrealised Losses</b>						
Quoted equity securities	(83,485)	-	(83,485)	(309,750)	(2,311)	(312,061)
Treasury bills	(274)	-	(274)	(57)	-	(57)
	(83,759)	-	(83,759)	(309,807)	(2,311)	(312,118)
<b>Total net fair value gains</b>	<b>806,269</b>	<b>11,662</b>	<b>817,931</b>	<b>39,865</b>	<b>4,744</b>	<b>44,609</b>

# Notes to the Financial Statements

## 15 Other Income

Refer Note 5.23 for the Accounting Policy.

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)			
	Rs.'000	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Policy administration fee		10,557	65,426	75,983	9,362	51,605	60,967
Gains/ (losses) on foreign currency translation		-	(2,074)	(2,074)	(5)	5,441	5,436
Mortality charges		12,881	-	12,881	14,227	-	14,227
Losses on sale of property, plant and equipment		(143)	(108)	(251)	(637)	(1,593)	(2,230)
Miscellaneous income		12,507	1,006	13,513	31,026	5,920	36,946
Sale of real estate property rights		37,987	-	37,987	-	-	-
Reversal of unclaimed premiums due		-	16,012	16,012	-	12,475	12,475
Rent income		37,500	-	37,500	25,209	-	25,209
<b>Total other income</b>		<b>111,289</b>	<b>80,262</b>	<b>191,551</b>	<b>79,182</b>	<b>73,848</b>	<b>153,030</b>

## 16 Net Benefits and Claims

Refer Notes 5.11, 5.12, 5.17 and 5.18 for the Accounting Policies.

Non Life insurance net claims incurred reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are based on the information available as at a particular date, the charge for the year includes any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the reporting date. Such claims are commonly referred to as Incurred But Not Reported (IBNR) claims, and is computed based on internationally accepted actuarial principles.

Life insurance policyholders are entitled to maturity proceeds, interim payments (e.g. payments made before the expiry of the policy etc). They may also require to surrender their policies or make claims on account of death, disability or hospitalisation. These amounts net of reinsurance receivable are recorded under insurance claims and benefits.

For the year ended 31 December	Rs'000	Note	Company / Group 2014			Company 2013 (Restated)		
			Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Gross benefits and claims paid			1,326,361	2,937,825	4,264,186	1,224,263	2,993,615	4,217,878
Claims ceded to reinsurers			(88,403)	(188,840)	(277,243)	(82,569)	(231,882)	(314,451)
<b>Net insurance benefits and claims paid</b>		16.1	<b>1,237,958</b>	<b>2,748,985</b>	<b>3,986,943</b>	<b>1,141,694</b>	<b>2,761,733</b>	<b>3,903,427</b>
Gross change in liabilities			3,943,122	163,957	4,107,079	2,877,849	96,173	2,974,022
Change in liabilities ceded to reinsurers			19,945	(176,506)	(156,561)	(43,295)	(58,649)	(101,944)
<b>Total net benefits and claims</b>		16.2	<b>5,201,025</b>	<b>2,736,436</b>	<b>7,937,461</b>	<b>3,976,248</b>	<b>2,799,257</b>	<b>6,775,505</b>

### 16.1 Net insurance benefits and claims paid

Net Life insurance claims and benefits	16.1(a)	1,237,958	-	1,237,958	1,141,694	-	1,141,694
Net Non Life insurance claims	16.1(b)	-	2,748,985	2,748,985	-	2,761,733	2,761,733
<b>Total net insurance benefits and claims paid</b>		<b>1,237,958</b>	<b>2,748,985</b>	<b>3,986,943</b>	<b>1,141,694</b>	<b>2,761,733</b>	<b>3,903,427</b>

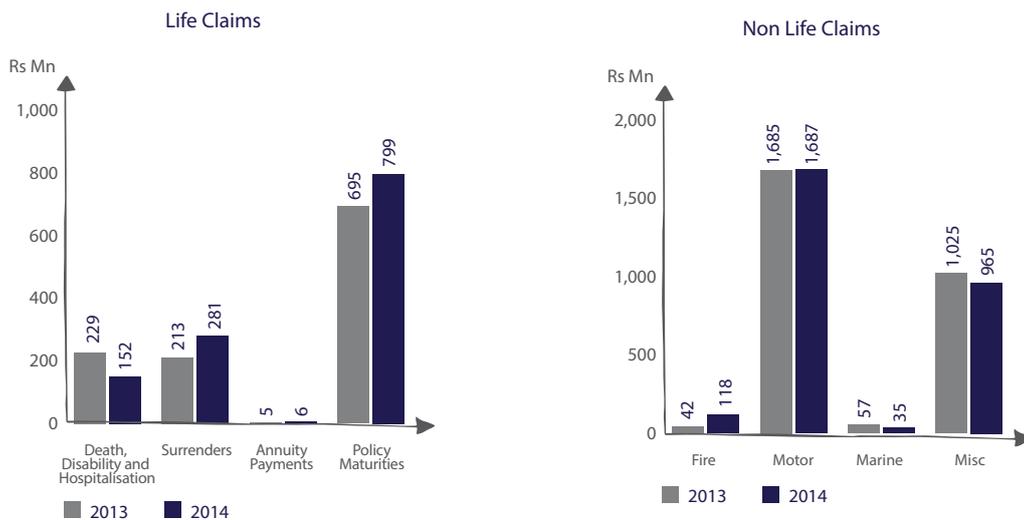
16.1(a) Net Life insurance claims and benefits

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	Gross claims paid	Claims recovered from reinsurers	Net claims paid	Gross claims paid	Claims recovered from reinsurers	Net claims paid
Rs.'000						
Death, Disability and Hospitalisation	240,525	(88,403)	152,122	311,321	(82,569)	228,752
Surrenders	280,985	-	280,985	212,582	-	212,582
Annuity payments	6,328	-	6,328	5,493	-	5,493
Policy maturities	798,523	-	798,523	694,867	-	694,867
<b>Total net life insurance claims and benefits</b>	<b>1,326,361</b>	<b>(88,403)</b>	<b>1,237,958</b>	<b>1,224,263</b>	<b>(82,569)</b>	<b>1,141,694</b>

16.1(b) Net Non Life insurance claims

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	Gross claims paid	Claims recovered from reinsurers	Net claims paid	Gross claims paid	Claims recovered from reinsurers	Net claims paid
Rs.'000						
Fire	127,804	(9,774)	118,030	119,509	(77,518)	41,991
Motor	1,796,359	(108,879)	1,687,480	1,751,813	(66,906)	1,684,907
Marine	79,277	(44,771)	34,506	108,290	(51,635)	56,655
Miscellaneous	990,071	(25,416)	964,655	1,060,505	(35,823)	1,024,682
Recoveries from sale of salvage	(55,686)	-	(55,686)	(46,502)	-	(46,502)
<b>Total net Non Life insurance claims</b>	<b>2,937,825</b>	<b>(188,840)</b>	<b>2,748,985</b>	<b>2,993,615</b>	<b>(231,882)</b>	<b>2,761,733</b>

Movement in Life and Non Life net claims and benefit



# Notes to the Financial Statements

## 16.2 Total net benefits and claims

For the year ended 31 December Rs. '000	Company / Group 2014	Company 2013 (Restated)
<b>Life insurance</b>		
Gross benefits and claims incurred	1,401,280	1,167,753
Reinsurance recoveries	(68,458)	(125,864)
Life insurance net claims and benefits excluding actuarial change in Life contract liability	1,332,822	1,041,889
Change in Life insurance contract liabilities due to actuarial reserving	3,868,203	2,934,359
<b>Total net benefits and claims - Life insurance</b>	<b>5,201,025</b>	<b>3,976,248</b>
<b>Non Life insurance</b>		
Gross claims incurred	3,101,782	3,089,788
Reinsurance recoveries	(365,346)	(290,531)
<b>Total net benefits and claims- Non Life insurance</b>	<b>2,736,436</b>	<b>2,799,257</b>
<b>Total net benefits and claims</b>	<b>7,937,461</b>	<b>6,775,505</b>

## 17 Underwriting and Net Acquisition Costs (Including Reinsurance)

Refer Notes 5.9, 5.10, 5.15 and 5.16. for the Accounting Policies.

For the year ended 31 December Rs. '000	Company / Group 2014			Company 2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Acquisition cost	1,147,970	504,758	1,652,728	1,031,002	484,523	1,515,525
Net change in reserve for deferred acquisition cost (DAC)	-	(17,872)	(17,872)	-	(3,048)	(3,048)
	1,147,970	486,886	1,634,856	1,031,002	481,475	1,512,477
Reinsurance commission income	(32,136)	(227,692)	(259,828)	(62,821)	(248,233)	(311,054)
Net change in reserve for unearned commission (UCR)	-	20,926	20,926	-	12,498	12,498
	(32,136)	(206,766)	(238,902)	(62,821)	(235,735)	(298,556)
<b>Total underwriting and net acquisition costs</b>	<b>1,115,834</b>	<b>280,120</b>	<b>1,395,954</b>	<b>968,181</b>	<b>245,740</b>	<b>1,213,921</b>

## 18 Other Operating, Administrative and Selling Expenses

Refer Note 5.24 for the Accounting Policy.

For the year ended 31 December Rs. '000	Note	Company / Group 2014			Company 2013 (Restated)		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Employee benefits expenses	18.1	633,845	621,217	1,255,062	608,470	508,541	1,117,011
Administration and establishment expenses		758,510	484,874	1,243,384	766,899	396,085	1,162,984
Selling expenses		262,484	213,266	475,750	284,549	218,470	503,019
<b>Total other operating, administrative and selling expenses</b>		<b>1,654,839</b>	<b>1,319,357</b>	<b>2,974,196</b>	<b>1,659,918</b>	<b>1,123,096</b>	<b>2,783,014</b>

## 18.1 Employee benefits expenses

For the year ended 31 December		Company / Group 2014			Company 2013 (Restated)		
Rs. '000	Note	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Staff remuneration		499,413	515,868	1,015,281	466,627	411,473	878,100
Defined contribution plan cost - EPF		45,607	45,141	90,748	43,697	40,024	83,721
Defined contribution plan cost - ETF		11,402	11,285	22,687	10,924	10,006	20,930
Defined benefit plan cost	40.2 (a)	19,713	21,887	41,600	20,367	18,693	39,060
Staff welfare		26,177	11,443	37,620	22,158	13,209	35,367
Training expenses		21,398	9,309	30,707	24,515	13,632	38,147
Share based payment expense	35.2 (c)	4,903	2,100	7,003	2,543	1,090	3,633
Other costs		5,232	4,184	9,416	17,639	414	18,053
		633,845	621,217	1,255,062	608,470	508,541	1,117,011

## 19 Profit Before Tax

For the year ended 31 December		Company / Group 2014			Company 2013 (Restated)		
Rs. '000		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Directors fee *		4,095	2,205	6,300	3,308	2,092	5,400
<b>Auditors remuneration</b>							
Statutory audit services		1,534	826	2,360	1,505	645	2,150
Audit related services		1,966	1,059	3,025	1,155	495	1,650
Non audit related services		392	211	603	245	105	350
Legal fees		383	614	997	106	2,908	3,014
Depreciation		64,222	55,931	120,153	37,485	82,762	120,247
Amortisation		28,355	10,649	39,004	26,343	7,725	34,068
Defined contribution plan cost - EPF		45,607	45,141	90,748	43,697	40,024	83,721
Defined contribution plan cost - ETF		11,402	11,285	22,687	10,924	10,006	20,930
Defined benefit plan cost		19,713	21,887	41,600	20,367	18,693	39,060
Research and development costs		226	391	617	231	280	511
Donations and CSR expenses		11,939	3,258	15,197	7,766	12,965	20,731
(Reversal) / Provision of impairment of reinsurance receivable		-	2,490	2,490	-	(1,413)	(1,413)
Provision for impairment of premium receivable		-	1,148	1,148	-	-	-

\* Directors fee consists the fee paid to non executive Directors of the Company / Group.

# Notes to the Financial Statements

## 20 Income Tax Expense

Refer Note 5.26 for the Accounting Policy.

### 20.1 Amount recognised in the profit or loss

For the year ended 31 December	Company						Group		
	2014			2013 (Restated)			2014		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000									
<b>Current tax expense</b>									
Current tax expense for the year	-	82,804	82,804	-	58,222	58,222	-	83,053	83,053
Change to estimates for prior years	-	(486)	(486)	-	977	977	-	(486)	(486)
	-	82,318	82,318	-	59,199	59,199	-	82,567	82,567
<b>Deferred tax expense</b>									
Origination of deferred tax assets	-	(31,659)	(31,659)	-	(6,751)	(6,751)	-	(31,659)	(31,659)
Origination of deferred tax liabilities	-	(11,835)	(11,835)	-	6,751	6,751	-	(11,835)	(11,835)
<b>Net Deferred tax reversal</b>	-	(43,494)	(43,494)	-	-	-	-	(43,494)	(43,494)
<b>Income tax expense</b>	-	38,824	38,824	-	59,199	59,199	-	39,073	39,073

### 20.2 Amount recognised in other comprehensive income

For the year ended 31 December	Company / Group 2014			Company 2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000						
Available for sale investment securities	-	(13,284)	(13,284)	-	-	-
Remeasurement of defined benefit liability	-	(1,006)	(1,006)	-	-	-
Revaluation of property plant and equipment	25,371	-	25,371	(2,790)	-	(2,790)
	25,371	(14,290)	11,081	(2,790)	-	(2,790)

### 20.3 Reconciliation of effective tax rate

A reconciliation between tax expense and the product of accounting profit.

For the year ended 31 December	Company				Group 2014		
	2014		2013 (Restated)		Discontinued operations		
Rs. '000							
Profit for the year		322,322		332,441		323,463	
Income tax expense		38,824		59,199		39,073	
Profit before tax		361,146		391,640		362,536	
Tax using the domestic tax rate	28%	101,121	28%	109,659	28%	101,510	
Aggregate Non-deductible expenses	21%	74,825	9%	36,029	21%	74,826	
Aggregate allowable expenses	-11%	(40,795)	-15%	(59,961)	-11%	(40,936)	
Tax-exempt income	-5%	(19,464)	-2%	(7,958)	-5%	(19,464)	
Recognition of previously unrecognised tax losses	-12%	(44,325)	-8%	(31,615)	-12%	(44,325)	
Notional Tax credit added for tax purpose	3%	11,442	3%	12,068	3%	11,442	
Change in estimates relating to prior years	-0.13%	(486)	0.25%	977	0.13%	(486)	
Deferred tax reversal	-12%	(43,494)	0%	-	-12%	(43,494)	
<b>Total income tax expenses</b>		11%	38,824	15%	59,199	11%	39,073

Union Assurance PLC is liable to income tax at 28% (2013 - 28%) in terms of the Inland Revenue Act No. 10 of 2006 and amendments thereto. Current year income tax charge wholly consists of income tax on Non Life insurance business as life insurance business continues to report taxable losses. However, there is no payment due to the Department of Inland Revenue as the tax liability is fully absorbed by the available credits.

## 20.4 Tax loss analysis

The tax loss carried forward as at 31 December 2014 is Rs. 3,623 million (2013 - Rs. 2,883 million) which is made up as follows;

For the year ended 31 December	Company					
	2014			2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000						
Balance as at 1 January	2,721,689	161,344	2,883,033	2,317,852	272,716	2,590,568
Utilised during the year	-	(158,305)	(158,305)	-	(113,845)	(113,845)
	2,721,689	3,039	2,724,728	2,317,852	158,871	2,476,723
Loss incurred in the business of life insurance	522,824	-	522,825	403,837	-	403,837
Unrecognised tax losses from previous year	116,652	936	117,588	-	2,473	2,473
<b>Balance as at 31 December</b>	<b>3,361,165</b>	<b>3,975</b>	<b>3,365,141</b>	<b>2,721,689</b>	<b>161,344</b>	<b>2,883,033</b>

## 20.5 Notional tax credit for withholding tax on treasury bills and bonds

The Inland Revenue Act No. 10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in government securities on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income, provided such interest income forms part of the statutory income of the company.

The notional tax credit available for set off against the future tax liability of the Company is as follows;

For the year ended 31 December	Company					
	2014			2013 (Restated)		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Rs. '000						
Balance as at 1 January	904,643	257,446	1,162,089	760,808	214,207	975,015
Tax credit for the year	152,941	40,866	193,807	143,835	43,239	187,074
<b>Balance as at 31 December</b>	<b>1,057,584</b>	<b>298,312</b>	<b>1,355,896</b>	<b>904,643</b>	<b>257,446</b>	<b>1,162,089</b>

## 21 Earnings Per Share

Refer Note 5.27 for the Accounting Policy.

### 21.1 Basic earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding as at the reporting date.

For the year ended 31 December	Company						Group			
	Note	2014			2013 (Restated)			2014		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Profit for the year attributable to the owners of the Company (Rs. '000)		880,740	322,322	1,203,062	790,964	332,441	1,123,405	880,740	323,463	1,204,203
Weighted average number of ordinary shares ('000)	21.2	85,714	85,714	85,714	85,714	85,714	85,714	85,714	85,714	85,714
Basic Earnings Per Share (Rs.)		10.28	3.76	14.04	9.23	3.88	13.11	10.28	3.77	14.05

### 21.2 Weighted average number of ordinary shares

'000	Shares 2014	Shares 2013
Issued ordinary shares as at 1 January	85,714	85,714
Weighted average number of ordinary shares at 31 December	85,714	85,714

### 21.3 Diluted earnings per share

There was no dilution of ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is the same as basic earning per share as shown in Note 21.1

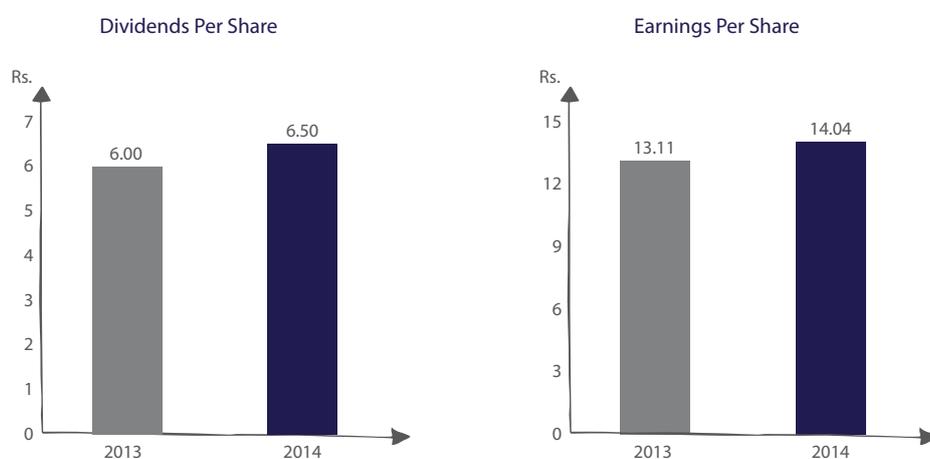
# Notes to the Financial Statements

## 22 Dividends Per Share

Refer Note 5.43 for the Accounting Policy.

The Board of Directors of the Company has declared a first and final dividend of Rs. 6.50 per share (2013 - Rs. 6.00 per share) for the financial year ended 31 December 2014.

	2014	2013
Dividend declared (Rs. '000)	557,141	514,286
Number of ordinary shares ('000)	85,714	85,714
Dividend per share (Rs.)	6.50	6.00



### 22.1 Compliance with section 56 and 57 of Companies Act No. 7 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 25 February 2015 has been audited by Messrs. KPMG.

### 22.2 Dividend paid during the year

	2014 Rs. '000	2013 Rs. '000
First and final dividend for 2013 - Rs. 6.00 per share (2012 - Rs. 5.00 per share)	514,286	428,571

## 23 Investment in Subsidiary

Refer Note 5.1 for the Accounting Policy.

As at 31 December 2014

Rs. '000	Company		
	Holding %	Cost	Market value/ Directors valuation
Union Assurance General Limited	100	100,000	100,000

The Company incorporated a fully owned Subsidiary on 11 July 2014 by investing Rs. 100 million in order to facilitate the segregation of the insurance businesses as required by RII (Amendment) Act No. 03 of 2011, with the intention of transferring the Non Life insurance business of Union Assurance PLC.

As explained in Note 08, the Non Life insurance business has been transferred to Union Assurance General Limited on 1 January 2015 and subsequently a 78% stake of Union Assurance General Limited was transferred to Fairfax Asia Limited for a consideration of Rs. 3,664 million. Accordingly, the investment in Subsidiary has been classified as Assets Held for Sale as at reporting date (Refer Note 33).

## 24 Financial Investments

Refer Note 5.29 for the Accounting Policy.

The following provides details of how Life and Non Life insurance funds have been invested. The risk management practices adopted by the Company in relation to the investment portfolio and risk management disclosures are outlined on Note 44. The decision making process adopted by the Investment Committee with regard to which assets / classes / duration to invest is detailed on page 251. The majority of the Company's investments, i.e. 61% (2013 - 60%) are in Government securities. Corporate debt securities (which comprise quoted and unquoted debentures) account for a further 25% of investments (2013 - 21%) and 12% in equities (2013 - 9%).

The Company's financial instruments are summarised in to the following categories:

As at 31 December	Rs. '000	Company				Group	
		Note	2014 Carrying value	Fair Value	2013 Carrying value	Fair Value	2014 Carrying value
Held to maturity financial assets (HTM)	24.1	13,532,621	15,140,434	14,408,803	15,196,822	13,532,621	15,140,435
Loans and receivables (L&R)	24.2	3,264,245	3,229,013	3,992,502	4,026,437	3,365,635	3,365,635
Available for sale financial assets (AFS)	24.3	8,575,135	8,575,135	3,530,880	3,530,880	8,575,135	8,574,510
Financial assets at fair value through profit or loss (FVTPL)	24.4	4,004,993	4,004,993	2,365,313	2,365,313	4,004,993	4,004,993
<b>Total financial investments</b>		<b>29,376,994</b>	<b>30,949,575</b>	<b>24,297,498</b>	<b>25,119,452</b>	<b>29,478,384</b>	<b>31,085,573</b>
<b>Reclassification to assets held for sale</b>							
Held to maturity financial assets (HTM)	24.1	(2,783,126)	(3,100,398)	-	-	(2,783,126)	(3,100,398)
Loans and receivables (L&R)	24.2	(1,013,626)	(1,008,391)	-	-	(1,115,016)	(1,008,391)
Available for sale financial assets (AFS)	24.3	(1,541,264)	(1,541,264)	-	-	(1,541,264)	(1,540,639)
<b>Total financial investments classified to assets held for sale</b>	<b>33</b>	<b>(5,338,016)</b>	<b>(5,650,053)</b>	<b>-</b>	<b>-</b>	<b>(5,439,406)</b>	<b>(5,649,428)</b>
<b>Total financial investments excluding assets held for sale</b>		<b>24,038,978</b>	<b>25,299,522</b>	<b>24,297,498</b>	<b>25,119,452</b>	<b>24,038,978</b>	<b>25,436,145</b>

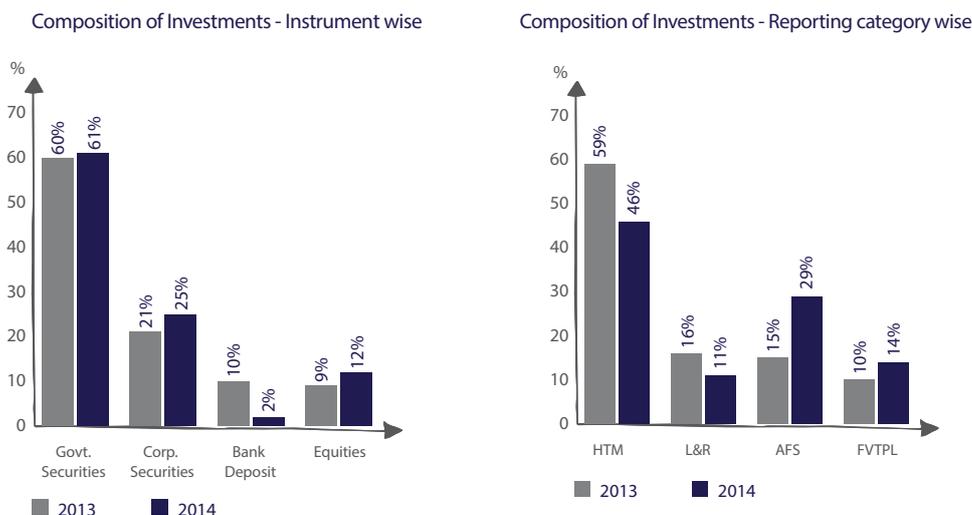
As per the sale agreement with Fairfax Asia Limited the financial assets classified to assets held for sale have been reported at carrying value.

The current portion of financial assets is Rs. 9,502 million (2013 - Rs. 7,489 million) the remaining being non current.

Financial investments are not pledged as security as at reporting date.

Union Assurance's investment portfolio is mainly derived from our core business of insurance.

The composition of financial investments is analysed below.



# Notes to the Financial Statements

## 24.1 Held to maturity financial assets (HTM)

As at 31 December	Note	Company / Group 2014	Company 2013
		Rs. '000	Rs. '000
<b>Amortised Cost</b>			
Quoted debentures	24.1(a)	2,128,902	2,106,788
Treasury bonds		11,403,719	12,302,015
		13,532,621	14,408,803
<b>Reclassification to assets held for sale</b>			
Quoted debentures	24.1(a)	393,156	-
Treasury bonds		2,389,970	-
<b>Total HTM investments classified as assets held for sale</b>		<b>2,783,126</b>	<b>-</b>
<b>Total HTM investments excluding assets held for sale</b>		<b>10,749,495</b>	<b>14,408,803</b>

## 24.1 (a) Quoted debentures (HTM)

Issuer	Maturity date	No. of debentures	Company / Group 2014		
			Carrying value	Market value	Interest
			Rs. '000	Rs. '000	rate %
Bank of Ceylon	30/11/2017	5,000,000	507,014	527,014	16.00
DFCC Bank PLC	26/09/2016	200,000	228,000	228,000	14.00
DFCC Vardhana Bank PLC	07/09/2016	1,481,481	148,195	148,195	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Merchant Bank of Sri Lanka PLC	15/11/2015	1,050,000	111,246	111,246	11.80
Peoples' Leasing Company PLC	19/03/2018	686,300	80,220	93,843	16.75
Sampath Bank PLC	12/10/2017	476,900	55,808	62,388	16.50
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
Nations Trust Bank PLC	04/08/2016	200,000	209,452	211,972	11.50
			1,735,746	1,766,163	
<b>Reclassified as assets held for sale</b>					
Bank of Ceylon	30/11/2017	1,000,000	101,403	105,403	16.00
DFCC Bank PLC	26/09/2016	50,000	57,000	57,000	14.00
DFCC Vardhana Bank PLC	07/09/2016	740,741	74,097	74,097	11.50
Peoples' Leasing Company PLC	19/03/2018	500,000	54,222	64,147	16.75
Sampath Bank PLC	12/10/2017	238,600	27,889	31,214	16.50
Nations Trust Bank PLC	04/08/2016	75,000	78,545	79,490	11.50
			393,156	411,351	
			2,128,902	2,177,514	

Issuer	Maturity date	No. of debentures	Company / Group 2013		
			Carrying value	Market value	Interest
			Rs. '000	Rs. '000	rate %
Bank of Ceylon	29/11/2017	6,000,000	608,416	608,416	16.00
DFCC Bank PLC	26/09/2016	250,000	257,000	257,000	14.00
DFCC Vardhana Bank PLC	30/08/2016	2,222,222	235,105	235,105	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Merchant Bank of Sri Lanka PLC	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	04/08/2016	275,000	287,997	287,997	11.50
Peoples' Leasing Company PLC	19/03/2018	1,186,300	127,455	135,190	16.75
Sampath Bank PLC	10/11/2017	715,500	83,758	88,364	16.50
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
			2,106,788	2,106,823	

## 24.2 Loans and receivables (L&R)

As at 31 December	Company		Group
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000
<b>Amortised Cost</b>			
Bank deposits	574,716	2,315,373	574,716
Unquoted debentures	607,780	616,627	607,780
Reverse repurchase agreements	2,081,749	1,060,502	2,081,749
Call deposit	-	-	101,390
	3,264,245	3,992,502	3,365,635
<b>Reclassification to assets held for sale</b>			
Bank deposits	114,754	-	114,754
Unquoted debentures	122,680	-	122,680
Reverse repurchase agreements	776,192	-	776,192
Call deposit	-	-	101,390
<b>Total L&amp;R investments classified as assets held for sale</b>	1,013,626	-	1,115,016
<b>Total L&amp;R investments excluding assets held for sale</b>	2,250,619	3,992,502	2,250,619
The effective interest rates on non-current portion of portfolio	15.66%	13.82%	15.66%

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

## 24.3 Available for sale financial assets (AFS)

As at 31 December	Note	Company / Group	Company
		2014 Rs. '000	2013 Rs. '000
<b>Fair value</b>			
Equity - unlisted	24.3.(a)	625	100,625
Debt securities - listed	24.3.(b)	4,447,975	2,441,720
Debt securities - unlisted			
Treasury bonds		4,079,093	614,587
Treasury bills		47,442	373,948
		8,575,135	3,530,880
<b>Reclassification to assets held for sale</b>			
Equity securities - unlisted	24.3.(a)	625	-
Debt securities - listed	24.3.(b)	754,685	-
Debt securities - unlisted			-
Treasury bonds		785,954	-
<b>Total AFS investments classified as assets held for sale</b>		1,541,264	-
<b>Total AFS investments excluding assets held for sale</b>		7,033,871	3,530,880

All debt securities, both listed and unlisted, pay a fixed interest rate.

Unlisted equity security classified at AFS is designated in this category upon initial recognition. At the reporting date there were no AFS assets that were overdue but impaired.

### 24.3 (a) Equity - unlisted (AFS)

As at 31 December	Company / Group		Company	
	2014 No of shares	2014 Rs. '000	2013 No of shares	2013 Rs. '000
Fitch Rating Lanka Limited	62,500	625	62,500	625
Central Hospitals Limited	-	-	5,882,353	100,000
	62,500	625	5,944,853	100,625
<b>Reclassification to assets held for sale</b>				
Fitch Rating Lanka Limited	62,500	625	-	-
<b>Total AFS unlisted equity securities classified as assets held for sale</b>	62,500	625	-	-
<b>Total AFS unlisted equity securities excluding assets held for sale</b>	-	-	5,944,853	100,625

# Notes to the Financial Statements

## 24.3 (b) Debt securities - listed (AFS)

As at 31 December

Company / Group  
2014

Issuer	Maturity date	No. of debentures	Company / Group		Interest rate %
			Carrying value	Market value	
			Rs. '000	Rs. '000	
Bank of Ceylon	24/10/2021	242,499	31,044	31,044	13.25
Bank of Ceylon	25/10/2023	452,300	60,604	60,604	13.75
Central Finance Company PLC	17/06/2016	24,500	27,003	27,003	14.25
Central Finance Company PLC	17/06/2018	155,200	181,988	181,988	14.75
Central Finance Company PLC	12/12/2018	446,900	47,731	47,731	13.50
Central Finance Company PLC	12/12/2018	710,500	88,194	88,194	13.95
DFCC Bank PLC	18/08/2017	3,000,000	309,261	309,261	8.50
Hayleys PLC	09/07/2016	65,400	74,067	74,067	14.25
Hemas Holdings PLC	29/04/2019	1,452,900	152,471	152,471	11.00
Hatton National Bank PLC	13/06/2018	2,533,733	273,005	273,005	14.00
Hatton National Bank PLC	30/08/2023	1,204,706	87,760	87,760	8.00
Lion Brewery (Ceylon) PLC	17/06/2016	47,100	52,728	52,728	13.50
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	34,777	34,777	13.75
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	51,616	51,616	14.00
Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	101,057	101,057	9.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	65,312	65,312	17.50
Merchant Bank of Sri Lanka PLC	12/11/2019	500,000	50,616	50,616	9.00
National Development Bank PLC	19/12/2023	4,500,000	590,760	590,760	13.90
Nations Trust Bank PLC	19/12/2018	2,881,300	341,444	341,444	13.00
People'S Leasing Company PLC	19/03/2018	595,000	76,335	76,335	16.75
People'S Leasing Company PLC	24/09/2018	194,800	20,803	20,803	9.625
Sampath Bank PLC	04/12/2018	1,114,800	139,789	139,789	13.00
Sampath Bank PLC	04/12/2018	1,114,800	144,199	144,199	13.40
Sampath Bank PLC	15/12/2019	3,000,000	302,353	302,353	8.25
Seylan Bank PLC	23/12/2019	2,000,000	200,424	200,424	8.60
Senkadagala Finance PLC	28/05/2017	185,014	22,486	22,486	17.25
Singer Sri Lanka PLC	29/05/2015	437,312	46,322	46,322	14.50
Singer Sri Lanka PLC	29/05/2016	655,968	72,376	72,376	14.50
Singer Sri Lanka PLC	23/12/2017	216,700	21,714	21,714	8.25
Siyapatha Finance Limited	24/12/2019	250,000	25,051	25,051	8.90
			3,693,290	3,693,290	
<b>Reclassified as assets held for sale</b>					
Bank of Ceylon	25/10/2018	288,000	29,498	29,498	13.00
Central Finance Company PLC	12/12/2017	35,900	3,832	3,830	13.25
Central Finance Company PLC	17/06/2018	35,900	43,431	43,431	14.75
Central Finance Company PLC	12/12/2018	78,200	8,352	8,352	13.50
Central Finance Company PLC	12/12/2018	108,700	13,493	13,493	13.95
DFCC Bank PLC	18/08/2017	250,000	25,772	25,772	8.50
Hemas Holdings PLC	29/04/2019	566,600	59,460	59,460	11.00
Hatton National Bank PLC	13/06/2018	316,716	34,125	34,125	14.00
Lion Brewery (Ceylon) PLC	17/06/2016	15,000	16,792	16,792	13.50
Lion Brewery (Ceylon) PLC	17/06/2017	15,000	15,526	15,526	13.75
Lion Brewery (Ceylon) PLC	17/06/2018	20,000	23,043	23,043	14.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	65,312	65,312	17.50
Merchant Bank of Sri Lanka PLC	12/11/2019	250,000	25,308	25,308	9.00
National Development Bank PLC	19/12/2018	41,700	5,258	5,258	13.00
National Development Bank PLC	19/12/2018	203,000	25,509	25,509	13.40
Nations Trust Bank PLC	19/12/2018	25,000	29,626	29,626	13.00
People'S Leasing Company PLC	26/03/2017	225,000	27,735	27,735	16.50
People'S Leasing Company PLC	23/09/2017	100,000	10,428	10,428	8.75
People'S Leasing Company PLC	24/09/2018	14,500	1,548	1,548	9.625
Sampath Bank PLC	04/12/2018	298,000	38,546	38,546	13.40
Sampath Bank PLC	15/12/2019	750,000	75,588	75,588	8.25
Seylan Bank PLC	23/12/2019	750,000	75,159	75,159	8.60
Senkadagala Finance PLC	28/05/2017	181,097	22,010	22,010	17.25
Singer Sri Lanka PLC	29/05/2015	200,000	21,185	21,185	14.50
Singer Sri Lanka PLC	29/05/2016	300,000	33,100	33,100	14.50
Siyapatha Finance Limited	24/12/2019	250,000	25,049	25,049	8.90
			754,685	754,685	
			4,447,975	4,447,975	

## 24.3 (b) Debt securities - listed (AFS)

As at 31 December

Issuer	Maturity date	No of debentures	Company 2013		Interest rate %
			Carrying value	Market value	
			Rs. '000	Rs. '000	
Bank of Ceylon	25/10/2018	288,000	29,498	29,498	13.00
Bank of Ceylon	25/10/2023	402,300	41,261	41,261	13.75
Central Finance Company PLC	17/06/2016	24,500	25,380	25,380	14.24
Central Finance Company PLC	12/12/2017	35,900	3,616	3,616	13.25
Central Finance Company PLC	17/06/2018	35,900	42,178	42,178	14.75
Central Finance Company PLC	17/06/2018	140,100	140,100	140,100	14.74
Central Finance Company PLC	12/12/2018	525,100	52,898	52,898	13.50
Central Finance Company PLC	12/12/2018	819,200	82,546	82,546	13.95
Hatton National Bank PLC	13/06/2018	2,850,449	304,330	304,330	14.00
Hatton National Bank PLC	30/08/2023	1,124,225	78,488	78,488	14.25
Hayleys PLC	09/7/2016	65,400	67,775	67,775	14.24
Lion Brewery (Ceylon) PLC	17/06/2016	15,000	16,672	16,672	13.50
Lion Brewery (Ceylon) PLC	17/06/2016	33,600	33,600	33,600	13.40
Lion Brewery (Ceylon) PLC	17/06/2017	15,000	16,703	16,703	13.75
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	33,600	33,600	13.67
Lion Brewery (Ceylon) PLC	17/06/2018	20,000	22,311	22,311	14.00
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	44,800	44,800	13.93
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	105,791	105,791	17.50
National Development Bank PLC	19/12/2018	203,000	20,397	20,397	13.40
National Development Bank PLC	19/12/2023	4,500,000	452,228	452,228	13.90
Nations Trust Bank PLC	19/12/2018	3,081,300	309,557	309,557	13.00
People's Leasing Company PLC	19/03/2018	250,000	26,630	26,630	14.00
People's Leasing Company PLC	19/03/2018	280,000	33,086	33,086	14.75
Sampath Bank PLC	04/12/2018	298,000	143,655	143,655	13.40
Sampath Bank PLC	04/12/2018	1,114,800	112,198	112,198	13.00
Senkadagala Finance PLC	28/05/2017	366,111	38,201	38,201	17.25
Singer Sri Lanka PLC	29/05/2015	1,593,280	164,221	164,221	14.50
			2,441,720	2,441,720	

# Notes to the Financial Statements

## 24.4 Financial assets at fair value through profit or loss (FVTPL)

As at 31 December	Note	Company / Group	Company
		2014	2013
		Rs. '000	Rs. '000
Quoted equities	24.4 (a)	1,386,071	566,020
Investments in unit linked funds			
Quoted equities	24.4 (b)	2,233,992	1,428,268
Reverse repurchase agreements		244,005	259,395
Treasury bills		114,382	61,217
Bank deposits		-	28,502
Debentures		26,543	21,911
Total FVTPL instruments		4,004,993	2,365,313

24.4 (a) This note indicates our investments in quoted equities excluding unit linked investments. As per accounting policy in Note 5.29 these investments are measured at fair Value through profit and loss. Approximately 62% of quoted equities are invested in the Banks, Finance and Insurance sectors and Manufacturing sector accounts for 22% of the total equity portfolio.

As at 31 December	Company / Group			Company		
	2014			2013		
Rs. '000	No of shares	Cost	Carrying value	No of shares	Cost	Carrying value
<b>Banks, Finance and Insurance</b>						
Commercial Bank PLC (non-voting)	565,107	40,414	70,695	429,739	25,099	39,966
Commercial Bank PLC	346,996	36,106	59,336	341,626	36,106	41,132
Hatton National Bank PLC	1,458,678	173,175	240,290	521,346	37,140	62,040
Sampath Bank PLC	510,811	104,400	120,705	-	-	-
HNB Assurance PLC	336,266	23,645	28,078	336,266	23,645	17,654
Central Finance Company PLC	207,711	39,522	51,928	-	-	-
DFCC Bank PLC	191,520	35,615	41,943	-	-	-
National Development Bank PLC	619,907	120,842	154,977	-	-	-
Peoples Leasing and Finance PLC	3,821,672	67,308	93,631	-	-	-
		641,027	861,583		121,990	160,792
<b>Diversified Holding</b>						
Hemas Holdings PLC	482,975	14,780	35,885	405,750	6,708	13,796
Expolanka Holdings PLC	-	-	-	6,376,700	89,589	47,825
Softlogic Holdings PLC	1,117,806	32,416	18,444	1,117,806	32,416	9,390
		47,196	54,329		128,713	71,011
<b>Beverage, Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	357,856	65,470	75,150	162,500	24,363	31,363
		65,470	75,150		24,363	31,363
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	238,350	50,507	46,002	301,140	66,814	57,096
		50,507	46,002		66,814	57,096
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	122,200	16,129	48,831	272,200	35,927	72,895
Tokyo Cement Company (Lanka) PLC (voting)	640,777	7,817	41,586	640,777	7,817	18,262
Tokyo Cement Company (Lanka) PLC (non-voting)	2,658,150	68,109	124,667	3,033,250	84,147	70,978
Lanka Floortiles PLC	455,200	61,211	50,072	455,200	61,211	35,915
Piramal Glass PLC	1,874,100	16,585	9,183	1,874,100	16,585	8,433
Textured Jersey Lanka PLC	1,553,000	25,384	31,992			
		195,235	306,331		205,687	206,483

As at 31 December	Company / Group 2014			Company 2013		
	No of shares	Cost	Carrying value	No of shares	Cost	Carrying value
<b>Rs. '000</b>						
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	14,031	22,062	33,340	10,612
		33,340	14,031		33,340	10,612
<b>Telecommunication</b>						
Dialog Axiata PLC	-	-	-	2,000,000	14,241	18,000
Sri Lanka Telecom PLC	-	-	-	288,200	13,844	10,663
		-	-	-	28,085	28,663
<b>Hotels and Travel</b>						
Aitken Spence Hotel Holdings PLC	364,900	25,931	28,645	-	-	-
		25,931	28,645	-	-	-
		1,058,706	1,386,071	-	608,992	566,020

#### 24.4 (b) Equity securities / Unit Linked fund - (FVTPL)

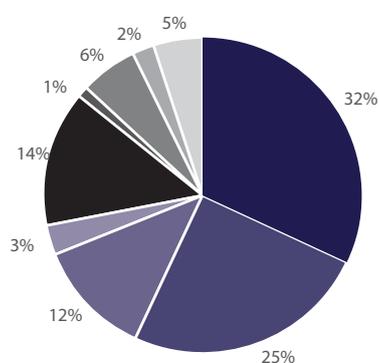
As at 31 December	Company / Group 2014			Company 2013		
	No. of shares	Cost	Carrying value	No. of shares	Cost	Carrying value
<b>Rs. '000</b>						
<b>Banks, Finance and Insurance</b>						
Commercial Bank of Ceylon PLC*	1,889,485	205,480	323,102	1,670,248	180,889	201,098
DFCC Bank PLC*	491,912	62,341	107,729	469,180	58,492	60,524
Hatton National Bank PLC*	800,818	122,597	156,079	517,263	77,575	76,038
National Development Bank PLC*	463,957	74,560	115,989	383,416	58,639	61,538
Sampath Bank PLC*	432,622	85,653	102,229	437,622	86,643	75,227
Lanka Orix Finance PLC*	264,379	19,912	23,265	1,000	72	73
Peoples Leasing And Finance PLC*	33,670	828	825	-	-	-
Commercial Bank of Ceylon PLC	45,646	4,995	7,805	44,940	4,995	5,411
Commercial Bank of Ceylon PLC -(non voting)	80,817	7,231	10,110	54,286	4,222	5,049
Central Finance Company PLC	78,160	14,923	19,540	-	-	-
DFCC Bank PLC	70,715	12,976	15,487	-	-	-
Hatton National Bank PLC	226,288	34,009	40,274	-	-	-
National Development Bank PLC	170,227	33,397	42,557	-	-	-
Peoples Leasing and Finance PLC	694,444	11,798	17,014	-	-	-
Sampath Bank PLC	126,796	25,864	29,962	-	-	-
	-	716,564	1,011,967	-	471,527	484,958
<b>Beverage, Food and Tobacco</b>						
Cargills (Ceylon) PLC*	174,876	26,214	26,756	113,030	17,344	16,615
Nestle Lanka PLC*	18,786	33,347	39,545	13,122	21,790	27,565
Distilleries Company of Sri Lanka*	389,903	74,254	81,880	240,769	43,635	46,468
Ceylon Tobacco Company PLC*	65,547	65,757	69,486	96,833	93,453	114,689
The Lion Brewery Ceylon PLC*	90,220	39,623	59,058	-	-	-
Distilleries Company of Sri Lanka	61,000	12,359	12,810	-	-	-
		251,554	289,535	-	176,222	205,337
<b>Construction and Engineering</b>						
Access Engineering PLC*	58,690	2,134	1,884	-	-	-
Colombo Dockyard PLC	43,365	9,993	8,369	43,365	9,993	8,222
		12,127	10,253	-	9,993	8,222

# Notes to the Financial Statements

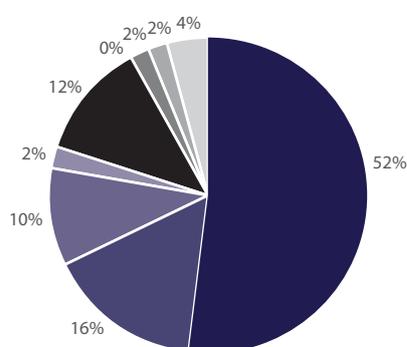
As at 31 December	Company / Group 2014			Company 2013		
	No. of shares	Cost	Carrying value	No. of shares	Cost	Carrying value
<b>Rs. '000</b>						
<b>Diversified Holdings</b>						
John Keells Holdings PLC*	1,085,195	219,604	271,299	1,094,597	218,548	248,802
Aitken Spence PLC*	650,690	76,931	67,346	506,948	62,294	51,861
CT Holdings PLC*	221,301	31,448	31,646	181,512	25,897	25,430
Hayleys PLC*	92,091	27,435	31,302	90,066	27,054	26,389
Carsons Cumberbatch PLC*	228,709	100,117	98,436	168,297	75,904	58,904
Expolanka Holdings PLC	-	-	-	1,241,000	9,855	9,308
Hemas Holdings PLC	140,000	5,491	10,402	-	-	-
		461,026	510,431	-	419,552	420,694
<b>Hotels and Travel</b>						
Asian Hotels and Properties PLC*	271,178	20,070	18,386	276,761	20,483	17,768
Aitken Spence Hotel Holdings PLC*	-	-	-	265,733	19,539	18,575
Aitken Spence Hotel Holdings PLC	125,493	9,003	9,851	-	-	-
		29,073	28,237	-	40,022	36,343
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC*	220,877	60,327	88,262	178,296	48,081	47,748
Chevron Lubricants Lanka PLC	24,600	4,322	9,830	39,600	6,957	10,605
Lanka Tiles PLC	128,000	9,938	14,080	128,000	9,938	10,099
Tokyo Cement Company Lanka PLC -(non voting)	451,660	10,217	21,183	451,660	10,217	10,569
Piramal Glass Ceylon PLC	806,000	4,917	3,949	806,000	4,917	3,627
Textured Jersey Lanka PLC	388,200	6,150	7,997	-	-	-
		95,871	145,301		80,110	82,648
<b>Telecommunication</b>						
Dialog Axiata PLC*	6,173,250	57,841	82,104	3,768,419	32,464	33,916
Sri Lanka Telecom PLC*	162,006	7,934	8,084	1,221,580	59,840	45,198
Dialog Axiata PLC	-	-	-	609,000	5,055	5,480
		65,775	90,188		97,359	84,594
<b>Oil Palms</b>						
The Bukit Darah PLC*	207,107	144,558	148,080	170,143	121,422	105,472
		144,558	148,080		121,422	105,472
		1,776,548	2,233,992		1,416,207	1,428,268

\* Investments made by Union Assurance PLC under the unit linked Equity Tracker Fund, which invests in the 20 companies that comprise the Standard & Poor's (S&P) Sri Lanka 20 Index.

Composition of FVTPL Equity investments 2013



Composition of FVTPL Equity investments 2014



## 24.5 Carrying values of financial investments

This provides the movement of financial investments and describes the methodologies and assumptions used to determine fair values for the financial instruments which were not already recorded at fair value in the financial statements (i.e. held to maturity and loans and receivables).

Rs.'000	Held to maturity	Loans and receivables	Available for sale	Fair value through profit or loss	Company	Group
<b>As at 1 January 2013</b>	14,355,333	2,285,832	2,372,574	1,788,570	20,802,309	-
Purchases	393,971	21,947,730	3,352,999	10,036,358	35,731,058	-
Maturities	(335,000)	(11,061,972)	(1,810,000)	(8,653,217)	(21,860,189)	-
Disposals	-	(9,342,444)	(421,214)	(855,425)	(10,619,083)	-
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	44,609	44,609	-
Fair value gains recorded in other comprehensive income	-	-	6,526	-	6,526	-
Net change in accrued Interest	(5,501)	163,356	29,995	4,418	192,268	-
<b>As at 31 December 2013</b>	14,408,803	3,992,502	3,530,880	2,365,313	24,297,498	24,297,498
Purchases	1,095,632	24,060,042	6,031,721	11,776,721	42,964,116	43,065,506
Maturities	(1,150,000)	(15,398,009)	(1,155,114)	(10,167,939)	(27,871,062)	(27,871,062)
Disposals	(787,967)	(9,136,015)	(441,074)	(785,424)	(11,150,480)	(11,150,480)
Fair value gains recorded in statement of income (excluding net realised gains) classified as held for trading	-	-	-	817,931	817,931	817,931
Fair value gains recorded in other comprehensive income	-	-	377,182	-	377,182	377,182
Net change in accrued Interest	(33,847)	(254,275)	231,540	(1,609)	(58,191)	(58,191)
<b>As at 31 December 2014</b>	13,532,621	3,264,245	8,575,135	4,004,993	29,376,994	29,478,384
Reclassification to assets held for sale	(2,783,126)	(1,013,626)	(1,541,264)	-	(5,338,016)	(5,439,406)
<b>As at 31 December 2014</b>	10,749,495	2,250,619	7,033,871	4,004,993	24,038,978	24,038,978

# Notes to the Financial Statements

## 25 Property, Plant and Equipment - Company / Group

Refer Note 5.31 for the Accounting Policy.

Rs. '000	Note	Company / Group						Company	
		Freehold Land	Freehold Buildings	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total 2014	Total 2013
<b>Cost / Revaluation</b>									
<b>Balance as at 1 January</b>		724,000	290,000	234,168	295,726	673,595	80	2,217,569	2,036,505
Additions during the year		-	-	14,250	11,478	45,751	-	71,479	152,739
Reclassification to assets held for sale	25.1	-	-	(94,956)	(131,336)	(307,348)	-	(533,640)	-
Surplus on revaluation		-	-	-	-	-	-	-	87,000
Disposals / scrapping during the year		-	-	(300)	(1,129)	(7,957)	-	(9,386)	(58,675)
<b>Balance as at 31 December</b>		724,000	290,000	153,162	174,739	404,041	80	1,746,022	2,217,569
<b>Accumulated depreciation and impairment losses</b>									
<b>Balance as at 1 January</b>		-	-	155,397	213,929	510,734	11	880,071	833,914
Depreciation for the year		-	8,535	26,085	31,858	53,659	16	120,153	120,247
Reclassification to assets held for sale	25.1	-	-	(77,397)	(113,807)	(257,801)	-	(449,005)	-
Transferred accumulated depreciation on assets revalued		-	-	-	-	-	-	-	(18,037)
Accumulated depreciation on Disposals / scrapping during the year		-	-	(300)	(1,129)	(7,702)	-	(9,131)	(56,053)
<b>Balance as at 31 December</b>		-	8,535	103,785	130,851	298,890	27	542,088	880,071
<b>Carrying value</b>									
<b>As at 31 December 2014</b>		724,000	281,465	49,377	43,888	105,151	53	1,203,934	
<b>As at 31 December 2013</b>		724,000	290,000	78,771	81,797	162,861	69		1,337,498

### 25.1 Reclassification to assets held for sale

Rs. '000		Freehold Land	Freehold Buildings	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total 2014
Cost		-	-	94,956	131,336	307,348	-	533,640
Accumulated depreciation and impairment losses		-	-	(77,397)	(113,807)	(257,801)	-	(449,005)
<b>Carrying value as at 31 December 2014</b>	<b>33.1</b>	-	-	17,559	17,529	49,547	-	84,635

### 25.2 Title restriction on property, plant and equipment

There are no restrictions that existed on the title of the property, plant and equipment of the Company as at the reporting date.

### 25.3 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. 71 million (2013- Rs. 153 million). Cash payments amounting to Rs. 71 million (2013 - Rs. 153 million) were made during the year for purchase of PPE.

### 25.4 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property, plant and equipment during the year (2013 - Nil).

## 25.5 The details of freehold land and buildings which are stated at valuation

Company property	Extent (Perches)	Square Feet (Building)	Method of valuation	Date of valuation	Valuer	Revalued amount Land Rs:'000	Revalued amount Building Rs:'000	Carrying value Rs:'000	Carrying value %
Land & building situated at No. 20, St. Michael's Road, Colombo 3 owned by Union Assurance PLC	93.4	57,916	Investment method	31 December 2013	Mr. P. B. Kalugalagedera and Associates Chartered valuation surveyor	654,000	196,000	850,000	84%
Land & building situated at No. 6, Rajapihilla Road, Kurunegala owned by Union Assurance PLC	32.3	27,904	Investment method	31 December 2013		70,000	94,000	164,000	16%
						724,000	290,000	1,014,000	100%

## 25.5 (a) Net gain on revaluation on land and building

Rs:'000	Land	Building	Total
Revaluation surplus	115,000	(28,000)	87,000
Transfer from accumulated depreciation	-	18,037	18,037
	115,000	(9,963)	105,037

The reduction in the revaluation surplus relating to the building has been taken to revaluation reserve (through OCI) to set off against previous revaluation surplus. Refer Note 35.1.(a).

## 25.6 If land and buildings were stated at historical cost, the amounts would have been as follows;

	2014 Rs. '000	2013 Rs. '000
Cost	251,124	251,124
Accumulated depreciation	(69,561)	(65,547)
Carrying value	181,563	185,577

## 25.7 The effect of revaluation of freehold buildings on the statement of income in the subsequent period is as follows;

	2014 Rs. '000	2013 Rs. '000
Depreciation charge per annum after revaluation	8,535	9,151
Depreciation charge per annum prior to revaluation	4,014	4,014
Decrease in profit in subsequent period	4,521	5,137

## 25.8 Impairment of property, plant and equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2014. 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.

# Notes to the Financial Statements

## 25.9 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	2014 Rs. '000	2013 Rs. '000
Computer equipment	495,308	395,930
Office equipment	119,306	73,468
Furniture and fittings	150,526	123,204
Motor vehicles	-	24,927
Total	765,140	617,529

## 25.10 Property, plant and equipment pledged as security

None of the property, plant and equipment have been pledged as securities as at the reporting date.

## 25.11 Temporarily idle property, plant and equipment

There are no temporarily idle property, plant and equipment as at the reporting date.

## 25.12 Compensation from third parties for items of property, plant and equipment

There were no compensation received / receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

## 26. Intangible Assets

Refer Note 5.32 for the Accounting Policy.

### 26.1 Reconciliation of carrying amounts - Software

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
<b>Cost</b>			
Balance as at 1 January		246,891	216,131
Acquisitions during the year		16,604	35,910
Reclassification to assets held for sale		(76,071)	-
Disposal during the year		-	(5,150)
Balance as at 31 December		187,424	246,891
<b>Accumulated amortisation and impairment losses</b>			
Balance as at 1 January		129,416	100,498
Amortisation		39,004	34,068
Reclassification to assets held for sale		(47,762)	-
Accumulated amortisation on disposal		-	(5,150)
Balance as at 31 December		120,658	129,416
Carrying amount as at 31 December		66,766	117,475
<b>Reclassification to assets held for sale (Note 33)</b>			
Cost			
			76,071
Accumulated amortisation and impairment losses			
			(47,762)
Carrying amount as at 31 December 2014	33.1		28,309

### 26.2 Assessment of impairment of intangible assets

The Board of Directors has assessed the potential impairment loss of intangible assets as at 31 December 2014. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of intangible assets.

### 26.3 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.

### 26.4 Acquisition of intangible assets during the year

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 17 million (2013- Rs. 36 million). Cash payment amounting to Rs. 17 million (2013- Rs. 36 million) were made during the year for purchase of Intangible Assets (computer software).

## 26.5 Capitalisation of borrowing costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (2013 - Nil).

## 26.6 Fully amortised intangible assets in use

Intangible assets include fully depreciated computer software which are in the use of normal business activities having gross carrying amounts of Rs. 57 million (2013- Rs. 63 million).

## 27 Loans to Life Policyholders

Refer Note 5.29 for the Accounting Policy

As at 31 December	Company / Group	Company
	2014	2013
	Rs. '000	Rs. '000
Balance as at 1 January	396,781	284,744
Loans granted during the year	251,818	228,511
Repayments during the year	(144,514)	(116,474)
	504,085	396,781
Interest receivables on loans to life policyholders	156,659	118,954
<b>Balance as at 31 December</b>	<b>660,744</b>	<b>515,735</b>

### 27.1 Collateral details

As at 31 December 2014 surrender value of policyholder loans amounted to Rs. 1,093 million (2013 - Rs. 874 million). For further details refer Note 45.2 (a).

### 27.2 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.

### 27.3 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.

### 27.4 Impairment of loans to life policyholders

As of 31 December 2014, there were no impaired loss recorded for policyholder loans (2013 - Nil).

### 27.5 Number of policy loans

Number of policy loans due as at 31 December 2014 was 14,668 (2013 - 12,734).

## 28 Reinsurance Receivables

Refer Note 5.38 for the Accounting Policy.

This analyses the amounts due from reinsurers between receivables on account of outstanding claims (i.e. claims which have been reserved, but not paid to policyholders) and receivables on account of claims which have already been paid. The risk management initiatives of reinsurance receivables are detailed in Note 45.1. (d).

As at 31 December	Note	Company / Group	Company
		2014	2013
		Rs. '000	Rs. '000
Reinsurance receivable on outstanding claims		529,291	390,888
Reinsurance receivable on settled claims		135,313	114,664
		664,604	505,552
Impairment of reinsurance receivables	28.2	(5,471)	(2,981)
<b>Total reinsurance receivables</b>		<b>659,133</b>	<b>502,571</b>
Reclassification to assets held for sale	33.1	(591,597)	-
<b>Total reinsurance receivables excluding assets held for sale</b>		<b>67,536</b>	<b>502,571</b>

### 28.1 Fair value of reinsurance receivables

The carrying values disclosed above approximate the fair value at the reporting date.

# Notes to the Financial Statements

## 28.2 Impairment of reinsurance receivables

As at 31 December 2014, there were no impaired loss recorded for reinsurance receivables, except as disclosed below;

The ageing of reinsurance receivables on settled claims is as follows;

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Less than 60 days		50,606	42,824
More than 60 days	28.2 (a)	84,707	71,840
		135,313	114,664
Movements in the provision for impairment of reinsurance receivables are as follows;			
<b>Balance as at 1 January</b>		2,981	4,394
Provisions / (Reversal) during the year		2,490	(1,413)
<b>Balance as at 31 December</b>		5,471	2,981

## 28.2 (a) Reinsurance receivable past due but not impaired (on paid claims)

As at 31 December 2014, reinsurance receivable of Rs. 85 million (2013 - Rs. 72 million) were past due but not impaired. These relate to parties where there were no recent history of default.

## 28.3 Collateral details

The Company does not hold any collateral as security against potential default by reinsurance counter parties.

## 28.4 Reinsurance receivable on outstanding claims

This includes reinsurance reserves on claims that has not been paid and the reinsurance receivable not been received.

## 28.5 Risk management

For risk management initiatives relating to reinsurance please refer Note 44 to the financial statements.

## 29 Premium Receivables

Refer Note 5.29 for the Accounting Policy.

This details the insurance premium receivables from customers and intermediaries.

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
<b>Premium receivable from;</b>			
<b>Life insurance</b>			
Policyholders		74,824	40,684
Intermediaries		84,293	74,294
		159,117	114,978
<b>Non life insurance</b>			
Policyholders		909,382	861,088
Agents, Brokers and Intermediaries		650,231	876,371
		1,559,613	1,737,459
less: Impairment of premium receivable	29.1	(8,754)	(7,606)
<b>Total premium receivables</b>		1,709,976	1,844,831
Reclassification to assets held for sale	33.1	(1,550,859)	-
<b>Total premium receivables excluding assets held for sale</b>		159,117	1,844,831

## 29.1 Impairment of premium receivable

	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January	7,606	7,606
Provision made during the year	1,148	-
Balance as at 31 December	8,754	7,606

## 29.2 Fair value of premium receivable

The carrying amount disclosed above approximates the fair value at the reporting date.

## 29.3 Impairment of premium receivable

Impairment allowance of Rs. 1.1 million has been recognised during the year.

### 29.3 (a) Premium receivable past due but not impaired

As at 31 December 2014, premium receivable of Rs.179 million (2013 - Rs. 390 million) were past due but not impaired. These balances relate to persons whom there were no recent history of default and have been fully settled subsequent to the reporting date.

## 29.4 Collateral details

The Company does not hold any collateral as security against potential default by policyholders or intermediaries.

## 29.5 Risk management initiatives relating to premium receivables

There is lower concentration of credit risk with respect to premium receivable, as the Company has a large number of dispersed debtors. Refer Note 45 to financial statements for more information.

## 30 Receivables and Other Assets

Refer Note 5.29 for the Accounting Policy.

This details the insurance premium receivables from customers and intermediaries.

As at 31 December	Note	Company 2014 Rs. '000	Company 2013	Group 2013 Rs. '000
<b>Financial assets</b>				
Staff loans*	30.1	396,810	422,840	396,810
Agent / advisory loans	30.2	77,682	91,551	77,682
Refundable deposits		14,249	12,809	14,249
Other receivables		79,825	19,595	79,325
		568,566	546,795	568,066
<b>Non financial assets</b>				
Taxes recoverable	30.3	234,692	239,969	234,692
Prepayments		182,588	215,103	182,588
Inventories		7,840	9,293	7,840
Other receivables		7,254	32,799	7,254
Advance payments		143,871	43,626	143,871
		576,245	540,790	576,245
		1,144,811	1,087,585	1,144,311
<b>Reclassification to assets held for sale</b>				
<b>Financial assets</b>				
Staff loans*	30.1	(188,046)	-	(188,046)
Agent / advisory loans	30.2	(13,126)	-	(13,126)
Refundable deposits		(7,042)	-	(7,042)
Other receivables		(13,218)	-	(12,718)
		(221,432)	-	(220,932)

# Notes to the Financial Statements

As at 31 December	Note	Company		Group
		2014 Rs. '000	2013	2013 Rs. '000
<b>Non financial assets</b>				
Taxes recoverable	30.3	(14,125)	-	(14,125)
Prepayments		(69,479)	-	(69,479)
Inventories		(1,734)	-	(1,734)
Other receivables		(6,970)	-	(6,970)
Advance payments		(14,353)	-	(14,353)
		(106,661)	-	(106,661)
Total receivables and other assets classified to assets held for sale	33.1	(328,093)	-	(327,593)
<b>Total receivables and other assets excluding assets held for sale</b>		<b>816,718</b>	<b>1,087,585</b>	<b>816,718</b>

\*No loans have been granted to Directors of the Company.

## 30.1 Staff loans

As at 31 December	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January	422,840	356,122
Loans provided during the year	161,658	170,163
Payments / settlements during the year	(208,206)	(63,577)
Fair value adjustment during the year	24,776	(39,868)
Provision for impairment	(4,258)	-
Balance as at 31 December	396,810	422,840
Reclassification to assets held for sale	(188,046)	-
<b>Staff loan excluding assets held for sale</b>	<b>208,764</b>	<b>422,840</b>

## 30.2 Agent / Advisory loans

Balance as at 1 January	91,551	89,484
Loans provided during the year	100,134	112,637
Payments / settlements during the year	(109,150)	(101,243)
Provision for impairment	(4,853)	(9,327)
Balance as at 31 December	77,682	91,551
Reclassification to assets held for sale	(13,126)	-
<b>Agent / Advisory loans excluding assets held for sale</b>	<b>64,556</b>	<b>91,551</b>

## 30.3 Taxes recoverable

ACT recoverable	92,296	92,296
WHT recoverable	130,704	142,874
ESC receivable	11,692	4,799
	234,692	239,969
Reclassification to assets held for sale	(14,125)	-
<b>Taxes recoverable excluding assets held for sale</b>	<b>220,567</b>	<b>239,969</b>

## 30.4 Fair value

The fair value of staff loans are based on cash flow discounting rate. Discount rate is equal to AWPLR plus appropriate risk margin. The fair values of Agent / Advisory loans are equal to the carrying amount as they are granted at competitive market rates.

## 30.5 Refer Note 44 to the financial statements for risk management policies / initiatives relating to other financial assets.

### 31. Deferred Acquisition Cost (Dac)

Refer Note 5.9 for the Accounting Policy.

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January		149,145	146,097
Acquisition cost during the year		504,758	484,523
Amortisation for the year		(486,886)	(481,475)
<b>Balance as at 31 December</b>		<b>167,017</b>	<b>149,145</b>
Reclassification to assets held for sale	33	(167,017)	-
<b>Deferred acquisition cost excluding assets held for sale</b>		<b>-</b>	<b>149,145</b>

### 32 Cash and Cash Equivalents

Refer Note 5.29 for the Accounting Policy.

#### 32.1 Cash and cash equivalents

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Cash at Bank		356,116	450,506
Cash at Bank with related parties		14,157	15,068
Cash in hand		850	828
<b>Total cash and cash equivalents</b>		<b>371,123</b>	<b>466,402</b>
Reclassification to assets held for sale	33.1	(174,694)	-
<b>Total cash and cash equivalent excluding assets held for sale</b>		<b>196,429</b>	<b>466,402</b>

#### 32.2 Bank overdrafts

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Bank overdraft		136,859	155,824
Reclassification to liabilities held for sale	33.1	(70,842)	-
<b>Total bank overdrafts excluding liabilities held for sale</b>		<b>66,017</b>	<b>155,824</b>

#### 32.3 Cash and cash equivalent in the statement of cash flows

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Cash and cash equivalents , excluding assets held for sale	32.1	196,429	466,402
Bank overdraft used for cash management purposes, excluding liabilities held for sale	32.2	(66,017)	155,824
<b>Cash and cash equivalent in the statement of cash flows of Continuing operations</b>		<b>130,412</b>	<b>310,578</b>
Cash and cash equivalents/ bank overdraft included in the disposal groups			
Cash and cash equivalent	32.1	174,694	-
Bank overdrafts	32.2	(70,842)	-
<b>Cash and cash equivalent in the statement of cash flows of Discontinued operation</b>		<b>103,852</b>	<b>-</b>
<b>Total cash and cash equivalent in the Statement of Cash Flow</b>		<b>234,264</b>	<b>310,578</b>

Cash and cash equivalents in the statement of cash flows includes bank overdrafts that are repayable on demand and cash and cash equivalents / bank overdraft included under disposal groups.

#### 32.4 Fair value of cash and cash equivalent

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

#### 32.5 Risk management initiatives relating to cash and cash equivalent

Please refer Note 45 to the financial statements for more information.

# Notes to the Financial Statements

## 33 Disposal Groups Held for Sale

Refer Note 5.3 for the Accounting Policy.

The Board committed to a plan to transfer the Non Life business segment to a fully owned subsidiary Union Assurance General Limited to comply with the regulatory requirements. The assets and liabilities relating to the Non Life business segment have been transferred to the subsidiary on 1 January 2015.

Subsequent to the transfer of the Non Life business segment to the subsidiary, the Company disposed 78% of its shareholding in its subsidiary to Fairfax Asia Limited.

Accordingly the Non Life segment has been identified as discontinued operations as per SLFRS 5 "Non Current Assets Held for Sale and Discontinued Operations".

Consequent to the above, the assets and liabilities relating to the Non Life segment have been classified as assets / liabilities held for sale including investment in the Subsidiary.

As at 31 December 2014, the disposal group was stated at fair value less cost to sell and comprised the following assets and liabilities.

### 33.1 Assets / Liabilities held for sale

As at 31 December Assets	Note	Company 2014 Rs. '000	Group 2014 Rs. '000
Financial investments	24	5,338,016	5,439,406
Property, plant and equipment	25	84,635	84,635
Intangible assets	26	28,309	28,309
Investment in subsidiary	23	100,000	-
Reinsurance receivables	28	591,597	591,597
Premiums receivables	29	1,550,859	1,550,859
Receivables and other assets	30	328,093	327,593
Deferred tax assets	43	29,204	29,204
Deferred acquisition cost	31	167,017	167,017
Cash and cash equivalent	32	174,694	174,694
<b>Total assets held for sale</b>		<b>8,392,424</b>	<b>8,393,314</b>

As at 31 December Liabilities	Note	Company 2014 Rs. '000	Group 2014 Rs. '000
Insurance contract liabilities	37	3,653,048	3,653,048
Reinsurance payable	38	478,633	478,633
Deferred revenue	39	130,328	130,328
Employee benefits	40	106,561	106,561
Other liabilities	41	680,187	680,187
Current tax liabilities	42	141,518	141,767
Bank overdraft	32.2	70,842	70,842
<b>Total Liabilities held for sale</b>		<b>5,261,117</b>	<b>5,261,366</b>

### 33.2 Impairment losses relating to the disposal group

There has not been any impairment loss on the disposal group, comparing the lower of its carrying amount and its fair value less costs to sell.

### 33.3 Cumulative income and expenses included in Other Comprehensive Income

The cumulative income/ (expenses) included in OCI relating to the disposal group as at 31 December 2014 amounted to Rs. 36.7 million.

## 34 Stated Capital

Refer Note 5.36 for the Accounting Policy.

As at 31 December	Note	2014		2013	
		No. of shares	Rs. '000	No. of shares	Rs. '000
Balance as at 1 January		85,714,286	1,138,433	85,714,286	1,133,305
Transfer of share issue expenses	34.2	-	-	-	5,128
Balance as at 31 December		85,714,286	1,138,433	85,714,286	1,138,433

### 34.1 Ordinary shares

All issued shares are fully paid. There is one class of ordinary shares. All shares issued carry equal voting rights. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

### 34.2 Share issue expenses

The Company had incurred various expenses relating to the share issue during the year 2012. Such expenses had been deducted from the Stated Capital during the year 2012. This has been transferred during the year 2013 and the said expenses have been recognised in the retained earnings as shown in the Statement of Changes in Equity during the year ended 31 December 2013.

## 35 Reserves

Refer Note 5.36 for the Accounting Policy.

As at 31 December	Note	Company / Group	Company
		2014	2013
		Rs. '000	Rs. '000
Capital reserves	35.1	832,528	811,678
Other reserves	35.2	396,194	17,416
Total reserves		1,228,722	829,094

### 35.1 Capital reserves

As at 31 December	Note	Company / Group	Company
		2014	2013
		Rs. '000	Rs. '000
Revaluation reserve			
Unrealised gain reserve	35.1(a)	475,860	475,860
Life policy holders' revaluation reserve	35.1(b)	339,916	319,066
		815,776	794,926
Reserve on merger with Cornhill (Private) Limited	35.1(c)	16,752	16,752
		832,528	811,678

#### 35.1 (a) Unrealised gain reserve

Reserve comprises of the gain from transferring the investment of Cornhill (Private) Limited to life policy holders in 2007, and the gain on transferring the land and building in Kurunegala in 2011. These gains will be realised to shareholders when the properties are disposed.

#### 35.1 (b) Life policy holders' revaluation reserve

As at 31 December	Company / Group	Company
		2014
	Rs. '000	Rs. '000
Balance as at 1 January	319,066	216,376
Revaluation surplus during the year	-	105,037
Adjustment for deferred tax	25,371	2,790
Net gain on revaluation of land and buildings	344,437	324,203
Depreciation transfer during the year	(4,521)	(5,137)
Balance as at 31 December	339,916	319,066

The revaluation relates to land and building as indicated in Note 25.5

# Notes to the Financial Statements

The revaluation was performed on freehold land and buildings as at 31 December 2013 by Mr. P. B. Kalugalagedera chartered valuation surveyor using the investment method.

The revaluation reserve is transferred annually to the revenue reserve based on the remaining useful life of the asset which is estimated to be 40 years.

## 35.1 (c) Reserve on merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of the company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the life policy holders statement of financial position.

## 35.2 Other reserves

This reserve represents the unrealised gain in available for sale financial assets and other capital reserves:

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Reserve for available for sale financial instruments	35.2 (a)	382,266	18,368
<b>Other capital reserves</b>			
Reserves on retirement benefit obligation	35.2 (b)	3,292	(4,585)
Other capital reserves	35.2 (c)	10,636	3,633
		13,928	(952)
		396,194	17,416

Movements in the other reserves were as follows;

## 35.2 (a) Reserve for available for sale financial instruments

As at 31 December	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January	18,368	11,842
Unrealised gain on AFS assets - Gross	455,831	8,110
Transferred to the statement of income	(78,649)	(1,584)
Related tax	(13,284)	-
Balance as at 31 December	382,266	18,368

## 35.2 (b) Reserves on retirement benefit obligation

As at 31 December	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January	(4,585)	-
Reserves on retirement benefit obligation - Life	5,290	(2,402)
Reserves on retirement benefit obligation - Non Life	2,587	(2,183)
Balance as at 31 December	3,292	(4,585)

Reserve arising due to movement in actuarial valuation of the retirement benefit obligation (Actuarial gains / losses).

## 35.2 (c) Other capital reserves

### Share based payment plan

#### Description of the employee share option scheme

Under the John Keells Group's Employee Share Option Scheme (ESOP), share options of the Parent are granted to senior executives of the Company and is dependent on a performance criteria and a service criteria. SLFRS 02 - Share based payment has been applied to equity instruments in share based transactions that were granted after 1 January 2012, which was the effective date of the standard. Hence options granted subsequent to this date have been accounted for as per the standard.

The terms and conditions of the grants are as follows; All options are to be settled by shares and there are no cash settlement alternatives.

Grant date/ employees entitled	Number of instruments	Vesting conditions	Contractual life of the Awards	Exercise price
The grant date for each Award is on the 1 of July of that respective financial year.  Senior executives of the Company with more than 12 months of service as at the respective reporting date.	Please refer table below	Vests over a period of four years. A minimum performance achievement of meeting the Key Result Areas (KRA's) and being in employment at the time the share options vests.	5 years for each Award	For each "Award" it is equal to the 30 day volume weighted average market price of the underlying shares on the date of grant.

#### Reconciliation of outstanding share options

The following table illustrates the number of options (No.) and weighted average exercise prices (WAEP) and movements of share options during the year:

As at 31 December	2014 No.	2014 WAEP	2013 No.	2013 WAEP (Rs)
Outstanding at 1 January	154,842	253.16	-	-
Granted during the year	168,758	229.93	154,842	253.16
Adjustment for 2:13 rights issue	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at 31 December	323,600	241.05	154,842	253.16
Exercisable at 31 December	38,711	253.16	-	-

There were no options exercised during the year ended 31 December 2014.

#### Employee expenses for share based payment transactions

The expense recognised for employee services received during the year is as follows;

For the year ended 31 December	2014 Rs. '000	2013 Rs. '000
Expense arising from equity-settled share-based payment transactions	7,003	3,633
	7,003	3,633

The expense recognised for employee services is based on the Parents' best estimate of the number of options that will ultimately vest. No expense is recognised for Awards that do not ultimately vest.

#### Fair value of the share options and assumptions

The fair value of the share options is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the share options were granted.

The valuation takes into account factors such as stock price, expected time to maturity, exercise price, expected volatility of the share price, expected dividend yield and risk free interest rate.

# Notes to the Financial Statements

## 36 Insurance Contract Liabilities - Life

Refer Note 5.37.1 for the Accounting Policy.

As at 31 December	Note	Company / Group 2014			Company 2013		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Rs. '000							
Insurance contract liabilities	36.1	20,964,889	(886,114)	20,078,775	17,882,286	(646,453)	17,235,833
Unclaimed benefits		357,101	-	357,101	282,183	-	282,183
Total insurance contract liabilities	36.2	21,321,990	(886,114)	20,435,876	18,164,469	(646,453)	17,518,016

### 36.1 Insurance contract liabilities

As at 31 December	Rs. '000	Group / Company 2014			Company 2013		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Balance as at 1 January		17,882,286	(646,453)	17,235,833	15,466,127	(448,480)	15,017,647
Premiums received		5,945,499	(328,064)	5,617,435	5,515,063	(280,542)	5,234,521
Liabilities paid for death, maturities, surrenders, benefits and claims		(1,326,361)	88,403	(1,237,958)	(1,224,263)	82,569	(1,141,694)
Benefits and claims experience variation		(1,381,555)	-	(1,381,555)	(1,182,812)	-	(1,182,812)
Investment return		2,687,709	-	2,687,709	1,973,071	-	1,973,071
Expenses		(2,842,689)	-	(2,842,689)	(2,664,900)	-	(2,664,900)
Balance as at 31 December		20,964,889	(886,114)	20,078,775	17,882,286	(646,453)	17,235,833

Changes in some of the previously mentioned assumptions will largely be offset by corresponding changes in the assets backing the liabilities.

Long duration contract liabilities included in the life insurance fund, result primarily from traditional participating and non participating life insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based on the following;

- ▶ Interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka (IBSL).
- ▶ Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the IBSL.
- ▶ Surrender rates based on actual experience.

The amount of policyholder dividend to be paid is determined annually by the Company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract or by insurance regulations.

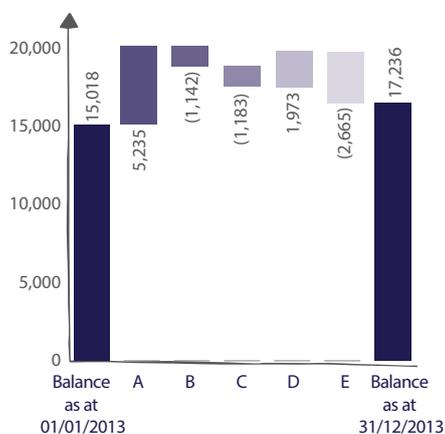
The valuation of conventional life insurance fund as at 31 December 2014 was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 710 million to be transferred from the conventional life insurance fund to the shareholders fund for the year 2014. Subsequent to the transfer the conventional life fund stands as Rs.19,956 million, including the liability in respect of bonuses and dividends declared up to and including the year 2014.

Similarly the non unit fund of linked long term business valuation was made by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Ltd, who recommended a sum of Rs. 40 million to be transferred from the non unit fund of the linked long term fund to shareholders fund for the year 2014. Subsequent to the transfer the fund stands at Rs.122 million as at 31 December 2014.

In establishing the valuation, a reserve of Rs. 648 million for conventional life insurance fund and Rs. 115 million for non unit fund of linked long term business have been created by the actuary to counter any further fluctuations in interest rates and distributions.

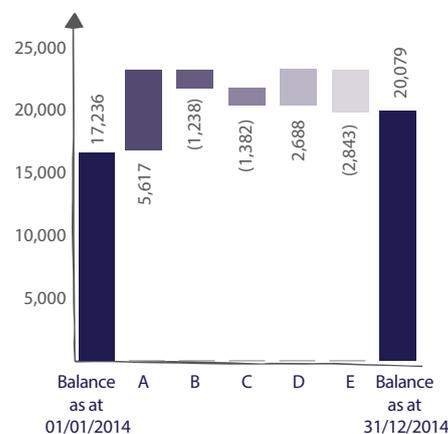
In the opinion of the consultant actuary, the admissible assets of the conventional life insurance fund and the non unit fund of linked long term business as at 31 December 2014 is adequate to cover the liabilities of the funds and the solvency margin requirement prescribed under Section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

Development of Life Fund - 2013



A Premiums received  
 B Liabilities paid for death, maturities, surrenders, benefits and claims  
 C Benefits and claims experience variation  
 D Investment return  
 E Expenses

Development of Life Fund - 2014



A Premiums received  
 B Liabilities paid for death, maturities, surrenders, benefits and claims  
 C Benefits and claims experience variation  
 D Investment return  
 E Expenses

### 36.2 Movement in insurance contract liabilities

As at 31 December	Company / Group	Company
	2014	2013
	Rs. '000	Rs. '000
<b>Conventional life insurance</b>		
Balance as at 1 January	17,408,645	15,250,319
Increase in life insurance fund before surplus transfer to share holders	3,534,879	2,739,389
Transfer to shareholders	(710,000)	(522,000)
Net change in unclaimed benefits	75,441	(59,063)
Balance as at 31 December - conventional Life insurance	20,308,965	17,408,645
<b>Non unit fund of linked Life insurance contracts</b>		
Balance as at 1 January	109,371	106,021
Increase in non unit fund of linked Life insurance before surplus transfer to shareholders	58,063	90,797
Transfer to shareholders	(40,000)	(90,000)
Net change in unclaimed benefits	(523)	2,553
Balance as at 31 December - Non unit fund of linked Life insurance	126,911	109,371
	20,435,876	17,518,016

### 36.3 Liability adequacy test (LAT) - Life insurance contract liabilities

As at the reporting date, liability adequacy test performed by the internal actuary concluded that, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was made for premium deficiency.

# Notes to the Financial Statements

## 37 Insurance Contract Liabilities - Non Life

Refer Note 5.37.2 for the Accounting Policy.

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Outstanding claims provision (Gross)	37.1	1,286,693	1,122,721
Provision for unearned premiums (Net)	37.2	2,366,355	2,317,528
		3,653,048	3,440,249
Reclassification to liabilities held for sale	33.1	(3,653,048)	-
<b>Insurance contract liabilities - Excluding liabilities held for sale</b>		-	3,440,249

### Movement in insurance contract liabilities - Non Life

The Company enters into reinsurance agreements in order to mitigate insurance risks as outlined in Note 45.1 in the risk management report. Although positions are managed on a net basis by management, insurance disclosures have been made on both gross and net basis in order to provide a comprehensive set of disclosures.

As at 31 December	Note	Company / Group 2014			Company 2013		
Rs. '000		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Provision for reported claims		885,898	(510,494)	375,404	665,249	(341,265)	323,984
Incurred But Not Reported (IBNR)		400,795	(47,433)	353,362	457,472	(108,508)	348,964
Outstanding claims provision	37.1	1,286,693	(557,927)	728,766	1,122,721	(449,773)	672,948
Provision for unearned premiums	37.2	3,133,306	(766,951)	2,366,355	3,039,990	(722,462)	2,317,528
<b>Total non life insurance contract liabilities</b>		4,419,999	(1,324,878)	3,095,121	4,162,711	(1,172,235)	2,990,476

### 37.1 Outstanding claims provision

The movement in the outstanding claims provision is as follows;

Provision for reported claims	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January		665,249	615,877
Gross claims incurred during the year		3,049,951	3,089,788
Gross claims paid during the year		(2,829,302)	(3,040,416)
Balance as at 31 December		885,898	665,249
<b>Incurred but not reported (IBNR)</b>			
Balance as at 1 January		457,472	410,686
Increase/ (decrease) in IBNR		(56,677)	46,786
Balance as at 31 December	37.1 (a)	400,795	457,472
		1,286,693	1,122,721

### 37.1 (a) Development claim tables (Gross)

In addition to scenario testing, the development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Company's estimate of total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position. The company has elected to present its claims development on an accident year basis as this is consistent with how the business is managed.

#### Current estimate of cumulative claims incurred

AY/DY	1	2	3	4	5	6	7	8	9	10	11	Total
1999	226,937	255,945	268,343	271,727	270,006	282,047	333,121	335,269	306,790	315,067	758,120	
2000	297,105	364,263	382,239	383,860	379,867	387,530	420,587	429,081	411,565	418,078	413,510	
2001	339,749	419,723	425,717	422,883	417,499	427,029	464,053	465,319	449,357	453,968	430,598	
2002	425,846	412,418	415,010	411,741	407,632	419,672	471,000	470,565	452,675	453,317	452,184	
2003	387,353	383,439	381,183	380,543	380,715	392,607	428,639	429,536	412,116	412,460	411,138	
2004	342,846	294,274	290,458	290,166	293,810	300,951	330,170	308,782	307,026	309,579	309,545	
2005	584,800	582,792	601,607	640,522	645,285	665,410	780,390	778,718	776,273	775,393		
2006	1,020,498	1,042,819	1,078,292	1,087,151	1,090,217	1,146,907	1,139,970	1,142,678	1,140,953			
2007	1,292,844	1,310,989	1,357,993	1,364,511	1,363,825	1,366,693	1,370,735	1,375,244				
2008	1,585,087	1,654,763	1,699,416	1,702,542	1,701,916	1,694,998	1,686,541					
2009	1,784,714	1,703,494	1,854,397	1,759,458	1,748,628	1,752,361						
2010	2,002,954	1,928,684	1,898,570	1,886,960	1,882,554							
2011	2,494,065	2,423,052	2,357,320	2,372,327								
2012	2,690,287	2,570,818	2,536,194									
2013	3,234,961	3,067,236										
2014	3,282,092											
Cumulative claims incurred	3,282,092	3,067,236	2,536,194	2,372,327	1,882,554	1,752,361	1,686,541	1,375,244	1,140,953	775,395	2,775,095	22,645,990

#### Cumulative payments to date

AY/DY	1	2	3	4	5	6	7	8	9	10	11	Total
1999	286,378	403,226	415,085	418,714	419,438	420,134	422,958	440,977	442,072	444,037	752,475	
2000	248,122	380,175	387,340	388,557	385,586	387,284	390,934	403,181	405,326	406,266	412,437	
2001	284,046	396,998	412,332	414,358	417,012	417,706	419,186	422,248	423,830	424,030	427,092	
2002	288,487	406,206	414,920	419,263	421,043	424,091	446,726	448,452	451,543	451,560	451,893	
2003	263,745	374,551	389,757	398,195	402,733	408,754	409,295	409,305	410,784	410,784	410,786	
2004	205,253	290,291	297,651	300,365	304,679	304,937	305,760	305,821	305,920	309,071	309,409	
2005	428,779	629,582	663,062	755,010	763,955	766,888	768,857	771,716	772,554	774,952		
2006	785,151	1,095,370	1,115,635	1,120,030	1,127,022	1,133,815	1,135,791	1,136,483	1,136,485			
2007	1,007,244	1,296,823	1,311,930	1,323,674	1,344,641	1,357,178	1,361,341	1,365,182				
2008	1,279,124	1,642,404	1,657,956	1,670,415	1,680,325	1,684,359	1,688,538					
2009	1,380,281	1,649,466	1,665,754	1,715,347	1,725,707	1,736,812						
2010	1,507,553	1,802,016	1,829,794	1,845,004	1,856,724							
2011	1,888,234	2,279,386	2,301,561	2,318,246								
2012	1,976,430	2,432,220	2,471,515									
2013	2,454,963	2,870,834										
2014	2,375,919											
Cumulative payments to date	2,375,919	2,870,834	2,471,515	2,318,246	1,856,724	1,736,812	1,688,538	1,365,182	1,136,485	774,952	2,764,092	21,359,299
Total gross claims provision	906,173	196,402	64,679	54,081	25,830	15,549	(1,997)	10,062	4,468	443	11,003	1,286,693

# Notes to the Financial Statements

## 37.1 (b) Valuation of IBNR

The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting (Pte) Limited. There were no estimation changes from the last valuation.

## 37.2 Provision for unearned premiums

The reserve for net unearned premium indicates the amount of premium which is attributable to policies written as at 31 December 2014, but covering periods after 31 December 2014.

As at 31 December	Note	Company / Group 2014			Company 2013		
		Insurance contract liabilities	Reinsurance	Net	Insurance contract liabilities	Reinsurance	Net
Rs. '000							
Balance as at 1 January		3,039,990	(722,462)	2,317,528	2,206,819	(32,488)	2,174,331
Premiums written in the year	9 & 10	5,222,645	(1,070,182)	4,152,463	5,391,712	(1,256,181)	4,135,531
Premiums earned during the year		(5,129,329)	1,025,693	(4,103,636)	(4,558,541)	566,207	(3,992,334)
Balance as at 31 December		3,133,306	(766,951)	2,366,355	3,039,990	(722,462)	2,317,528

## 37.3 Liability adequacy test (LAT) - Non Life insurance contract liabilities

A Liability Adequacy Test ("LAT") for Non - Life insurance contract liability was carried out by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting (Pte) Limited as at 31st December 2014 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on an annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31 December 2014. No additional provision was required against the LAT as at 31 December 2014.

## 37.4 Non Life insurance technical reserves

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Non Life insurance contract liabilities	37	3,653,048	3,440,249
Deferred acquisition cost (net)		(36,690)	(39,743)
Reinsurance receivable on outstanding claims		(557,927)	(449,773)
Technical reserve		3,058,431	2,950,733

## 38 Reinsurance Payables

Refer Note 5.38 for the Accounting Policy.

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January		764,977	415,394
Arising during the year		1,397,056	1,359,967
Utilised during the year		(1,532,616)	(1,010,384)
		629,417	764,977
Reclassification to liabilities held for sale	33.1	(478,633)	-
Reinsurance payables - Excluding liabilities held for sale		150,784	764,977

### 39 Deferred Revenue

Refer Note 5.30.2 for the Accounting Policy.

This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires.

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January		109,402	96,904
Commission income		227,692	248,232
Recognised during the year		(206,766)	(235,734)
		130,328	109,402
Reclassification to liabilities held for sale	33.1	(130,328)	-
<b>Total deferred revenue excluding liabilities held for sale</b>		<b>-</b>	<b>109,402</b>

### 40 Employee Benefits

Refer Note 5.39 for the Accounting Policy.

The Company had 1,134 and 1,157 employees (full-time equivalents) as of 31 December 2014 and 2013 respectively. Personnel and other related costs incurred for the year ended 31 December 2014 and 2013 were Rs. 1,255 million and Rs. 1,117 million, which include staff remuneration of Rs.1,015 million and Rs. 878 million as of 31 December 2014 and 2013 respectively.

#### 40.1 Defined contribution plans

Following contributions have been made for employee provident fund and employee trust fund during the year.

For the year ended 31 December	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
<b>Employees' Provident Fund (EPF)</b>		
Employer's contribution (12%)	90,748	83,721
Employee's contribution (8%)	60,499	55,814
<b>Employees' Trust Fund (ETF)</b>		
Employer's contribution (3%)	22,687	20,930

#### 40.2 Defined benefit plans

This note indicates the assumptions used and the movement in the employee benefit plan. The plan is not externally funded. As at 31 December 2014 the gratuity liability was actuarially valued under the projected unit credit (PUC) method by Mr. M. Poopalanathan of Actuarial & Management Consultants (Pvt) Limited. The valuation is performed annually.

##### 40.2 (a) Movement in present value of gratuity

As at 31 December	Note	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
Balance as at 1 January		186,078	163,572
<b>Included in profit or loss:</b>			
Current service cost		21,131	21,067
Interest cost (income)		20,469	17,993
		41,600	39,060
<b>Included in OCI:</b>			
Net actuarial (gain)/ loss on obligation		(8,883)	4,585
<b>Other</b>			
Payments during the year		(21,797)	(21,139)
<b>Balance as at 31 December</b>		<b>196,998</b>	<b>186,078</b>
Reclassification to liabilities held for sale	33	(106,561)	-
<b>Total defined benefit plans excluding liabilities held for sale</b>		<b>90,437</b>	<b>186,078</b>

# Notes to the Financial Statements

## 40.2 (b) Principal actuarial assumptions used

Assumption	2014	2013
Discount rate	10%	11%
Incidence of withdrawal	Life - 5% Non Life - 6%	Company - 3%
Salary increase	8%	10%
Retirement Age	55 years	55 years

Assumptions regarding future mortality are based on published statistics and mortality tables.

## 40.2 (c) 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:

As at 31 December Rs. '000	2014		2013	
	Increase	Decrease	Increase	Decrease
Discount rate 1%	(13,687)	9,878	(13,000)	15,000
Future salary growth 1%	10,627	(14,545)	14,000	(14,000)

## 41 Other Liabilities

Refer Note 5.29 for the Accounting Policy.

As at 31 December	Company / Group 2014 Rs. '000	Company 2013 Rs. '000
<b>Other financial liabilities</b>		
Agency commission payable	235,307	197,582
Premiums in suspense	415,710	389,142
Other liabilities and accruals	386,979	257,942
	1,037,996	844,666
<b>Other non financial liabilities</b>		
Government levies	93,324	109,093
Other staff related provisions	178,562	112,417
Other liabilities	140,495	69,018
	412,381	290,528
<b>Total other liabilities</b>	1,450,377	1,135,194
<b>Reclassification to liabilities held for sale</b>		
<b>Other financial liabilities</b>		
Agency commission payable	(127,825)	-
Premiums in suspense	(211,295)	-
Other liabilities and accruals	(155,849)	-
	(494,969)	-
<b>Other non financial liabilities</b>		
Government levies	(85,214)	-
Other staff related provisions	( 86,786)	-
Other liabilities	(13,218)	-
	(185,218)	-
<b>Total other liabilities reclassified to liabilities held for sale</b>	33.1	(680,187)
<b>Total other liabilities excluding liabilities held for sale</b>	770,190	1,135,194

Maturity schedule of other financial liabilities as of 31 December 2014 and 2013 are shown in Note 45.3 to the financial statements.

## 42 Current Tax Liabilities

Refer Note 5.26.1 for the Accounting Policy.

As at 31 December	Note	Company		Group
		2014 Rs. '000	2013 Rs. '000	2014 Rs. '000
Balance as at 1 January		59,199	87,907	59,199
Provision made for the year		82,319	59,199	82,568
Set off against tax credits during the year		-	(87,907)	-
Balance as at 31 December		141,518	59,199	141,767
Reclassification to liabilities held for sale	33.1	(141,518)	-	(141,767)
<b>Total current tax liabilities excluding liabilities held for sale</b>		-	59,199	-

## 43 Deferred Tax

Refer Note 5.26.2 for the Accounting Policy.

As at 31 December	Note	Company / Group	
		2014 Rs. '000	Company 2013 Rs. '000
Deferred tax assets		(55,250)	(23,591)
Deferred tax liabilities		26,046	48,962
Net tax liabilities / (assets)		(29,204)	25,371
Reclassification to assets held for sale	33.1	29,204	-
<b>Total deferred tax liabilities / (assets) excluding assets held for sale</b>		-	25,371

### 43.1 Movement in deferred tax balances

Rs.'000	Balance as at 31 December 2014					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	22,089	(11,835)	-	10,254	-	10,254
Available-for-sale financial assets	1,502	-	13,284	14,786	-	14,786
Actuarial gains on employee benefits	-	-	1,006	1,006	-	1,006
Revaluation surplus on PPE	25,371	-	(25,371)	-	-	-
Staff bonus provisions	-	(24,300)	-	(24,300)	(24,300)	-
Retirement benefit obligation	(19,514)	(10,323)	-	(29,837)	(29,837)	-
Carry forward tax losses	(4,076)	2,964	-	(1,113)	(1,113)	-
<b>Net tax liabilities/ (assets)</b>	<b>25,371</b>	<b>(43,494)</b>	<b>(11,081)</b>	<b>(29,204)</b>	<b>(55,250)</b>	<b>26,046</b>

Rs.'000	Balance as at 31 December 2013					
	Net balance as at 1 January	Recognised in profit or loss	Recognised in OCI	Net balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	16,840	5,249	-	22,089	-	22,089
Available-for-sale financial assets	-	1,502	-	1,502	-	1,502
Revaluation surplus on PPE	28,161	-	(2,790)	25,371	-	25,371
Retirement benefit obligation	(15,890)	(3,624)	-	(19,514)	(19,514)	-
Carry forward tax losses	(950)	(3,127)	-	(4,077)	(4,077)	-
<b>Net tax liabilities/ (assets)</b>	<b>28,161</b>	<b>-</b>	<b>(2,790)</b>	<b>25,371</b>	<b>(23,591)</b>	<b>48,962</b>

# Notes to the Financial Statements

## 43.1. (a) Analysis of recognised deferred tax assets / liabilities - Non Life business As at 31 December

	2014		2013	
	Temporary Difference	Tax effect	Difference Temporary	Tax effect
<b>Deferred tax liability</b>				
Property, plant and equipment	36,621	10,254	78,890	22,089
Net change in valuation of retirement benefit obligation	3,593	1,006	5,363	1,502
Available-for-sale financial assets	52,807	14,786	-	-
Revaluation surplus on PPE	-	-	90,611	25,371
	93,021	26,046	174,864	48,962
<b>Deferred tax assets</b>				
Employee benefits	(106,561)	(29,837)	(69,694)	(19,514)
Staff bonus provisions	(86,786)	(24,300)	-	-
Carry forward tax losses	(3,975)	(1,113)	(14,557)	(4,077)
	(197,322)	(55,250)	(84,252)	(23,591)
Net recognised deferred tax (assets) / liabilities	(104,301)	(29,204)	90,612	25,371

## 43.2 Unrecognised deferred tax liabilities / assets - Life business

Temporary differences and tax losses relating to life business resulted in net deferred tax assets as shown below:

Due to uncertainty relating to future taxable profits available in life business, against which the net deferred tax asset could be utilised, deferred tax assets / liabilities have not been recognised.

### As at 31 December

	2014		2013	
	Temporary Difference	Tax effect	Difference Temporary	Tax effect
<b>Deferred tax liability</b>				
Property, plant and equipment	1,148,198	321,496	291,797	81,703
Retirement Benefit Obligation	2,888	809	-	-
Available-for-sale financial assets	342,743	95,968	-	-
	1,493,829	418,272	291,797	81,703
<b>Deferred tax assets</b>				
Employee benefits	(90,437)	(25,322)	(186,078)	(52,102)
Staff bonus provisions	(91,776)	(25,697)	(112,417)	(31,477)
Available for sale financial assets	(6,526)	(1,827)	-	-
Carry forward tax losses	(3,361,165)	(941,126)	(2,883,033)	(807,249)
	(3,543,379)	(992,146)	(3,188,054)	(892,655)
Net unrecognised deferred tax assets	(2,049,550)	(573,874)	(2,896,257)	(810,952)

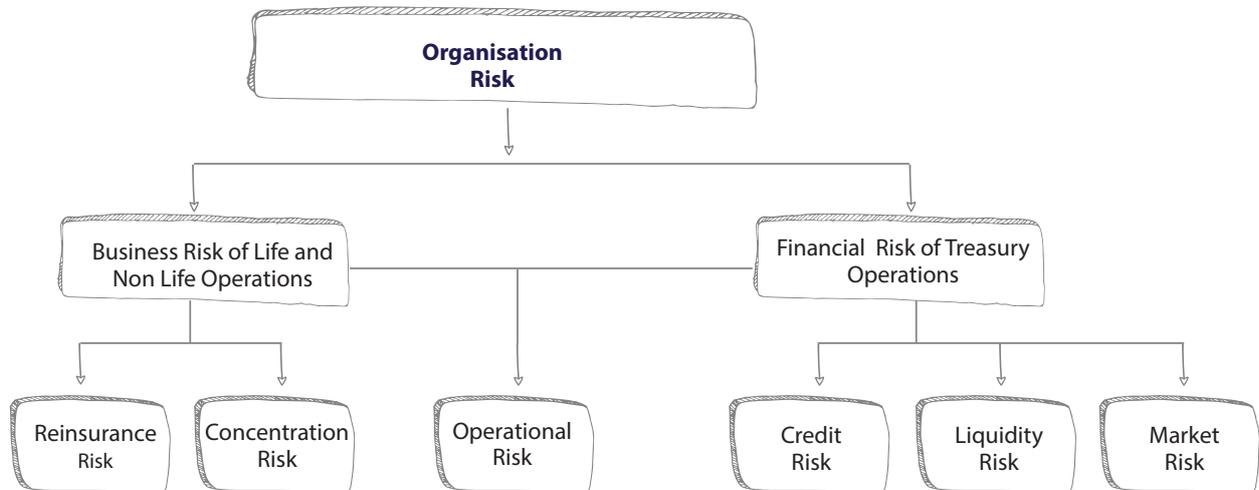
## 44 Financial Risk Management

It is of paramount importance that the management identify the uncertainties that hinder achievement of financial objectives of the company and implement effective mitigating strategies to safeguard the financial expectations of the stakeholders.

The Group has exposure to the following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk and
- Operational Risk

The following chart shows the relationship of the above risks;



This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the manner in which the Group manages its capital.

### Risk Management Framework

Primary objective of the Group's risk and financial management framework is to protect the Company's shareholders from the events that could hinder the sustainable returns of financial objectives. Risk management process comprises the identification and evaluation of existing and potential risk associated with the Group's operations and strategy, followed by appropriate management responses such as tolerance, mitigation, transfer, avoidance or termination or a combination of such responses.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse

the risk faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to the limits.

The Board has delegated the responsibility to design, implement and monitor the risk management plan to the Risk Committee comprising the senior management. The Management will ensure effective management of risk through continuous and regular measurement and report the Company's risk management performance to the Board, Audit and Compliance Committee (BACC) which in turn update the Board on the risk management performance.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, 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 hedge using financial instruments to manage costly exposures to risk.

### Regulatory Framework

The Insurance Board of Sri Lanka (IBSL) safeguards policyholders through supervisory control of insurance companies in line with the regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments. All insurance companies need to comply with rules with respect to the solvency position and the determination requirements to ensure the Group maintains appropriate level of admissible and approved investments in excess of liabilities to meet risk arising from unforeseen events.

### 44.1 Business Risk

The Group being in the insurance industry, business risk is the insurance risk that the Company is exposed to as a result of the insurance contracts undertaken. The risk under any

# Notes to the Financial Statements

insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim.

Therefore, the objective of the Group 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 areas. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

Risk management procedures adopted by the Group to manage insurance risk is given on page 156 to 163.

## Traditional Life Insurance

Traditional Life insurance products include protection and annuity covers. Protection products carry mortality, longevity and morbidity risks as well as market and credit risks. The most significant factors that could increase the frequency of mortality claims are epidemics, such as strains of influenza, or lifestyle changes such as eating, drinking and exercise habits, resulting in earlier or more claims than expected. Morbidity claims experience would not only be affected by the factors mentioned above, but because disability is defined in terms of the ability to perform an occupation, it could also be affected by economic conditions. In order to reduce cross-subsidies in the pricing basis, premiums are differentiated, where permitted, for example by product, age, gender and smoker status.

The policy terms and conditions and the disclosure requirements contained in insurance applications are designed to mitigate the risk arising from non-standard and unpredictable risks that may result in severe financial loss. In the Life annuity business, the most significant insurance risk is continued medical advances and improvement in social conditions that lead to increases in longevity. Annuitant mortality assumptions include allowance for future mortality improvements.

In addition to the specific risks listed

above, the Company is exposed to policyholder behaviour and expense risks. Policyholder behaviour risk is mitigated by product designs that match revenue and expenses associated with the contract as closely as possible. Expense risk is mitigated by careful control of expenses mitigated by careful control of expenses and by regular expense analyses and allocation exercises. Certain Life insurance contracts contain guarantees for which liabilities have been recorded for additional benefits and minimum guarantees.

## Management of Traditional Life Insurance

### Unit linked products

Unit linked products have been designed in order to reduce much of the market and credit risks associated with traditional products. Under unit linked contracts those risks are largely passed on to the policyholder, although a portion of the Company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

The Company is exposed to two main types of concentration risks in its Life business:

- ▶ Market risk: Interest rate guarantees expose Company to financial losses that may arise as a result of adverse movements in financial markets.
- ▶ Insurance risk: Main factors include mortality risk, morbidity risk, longevity risk, policyholder behaviour risk (lapse, anti-selection) and expense risk. Accordingly having a well-diversified portfolio of traditional as well as unit linked products reduces risk associated with the Life business.

The Company's exposure to Life insurance risks varies significantly by the product lines and may change over time.

The insurance risk described above is also affected by the contract holder's right to pay reduced premiums or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour.

### Assumptions in Determining Life Insurance Contract Liabilities

Life insurance contract estimates are made in two stages. At inception of the contract, the Company determines assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. Subsequently, new estimates are developed at each reporting date to determine whether liabilities are adequate in the light of the latest estimates. Improvements in estimates have no impact on the value of the liabilities and related assets, while significant enough deterioration in estimates have an impact.

The assumptions used for the insurance contracts disclosed in this note are as follows:

Mortality risk	Risk of loss arising due to policyholders' death experience being different from expected.
Morbidity risk	Risk of loss arising due to policyholders' health experience being different from expected.
Investment return risk	Risk of loss arising from actual returns being different from expected
Expense risk	Risk of loss arising from the expense experience being different from expected.
Policyholder decision risk	Risk of loss arising due to policyholders' experiences (lapses and surrenders) being different from expected

## Non Life Insurance Contracts

Non Life insurance risks includes the reasonable possibility of significant loss due to uncertainty in the frequency of the occurrence of the insured events as well as in the severity of the resulting claims. The following provides an overview of the Group's main lines of Non Life business:

Line of business	Description
Motor	Includes automobile physical damage, loss of the insured vehicle and automobile third party liability insurance.
Fire and engineering (property)	Includes fire risks (for example fire, explosion and business interruption), natural perils (for example earthquake and flood), engineering lines (for example boiler explosion, machinery breakdown and construction)
Marine / Cargo	Coverage for special risk insurance and trip cargo insurance. Contrasts with open policy cargo insurance that covers all of a shipper's goods in transit.
Accident and liability	Includes general / public and product liability, excess and professional liability including medical malpractice, errors and omissions liability.

The Group's underwriting strategy is to take advantage of the diversification of Non Life insurance risks across industries. The Group seeks to optimise shareholder value by achieving its equity goals. Doing so necessitates a prudent, stable underwriting philosophy that aims to take advantage of its competitive strengths while avoiding risks with disruptive volatility. At the core of the Group's underwriting is a robust governance process.

For Non Life insurance contracts, the most significant risks arise from climate changes, and natural disasters. For longer tail claims that take some years to settle, there is also inflation risk. For health care contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts in to different classes as mentioned earlier. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

This is largely achieved through diversification of its product portfolio. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces

a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

The table below sets out the concentration of non life Insurance contract liabilities by type of contracts. This includes Unearned Premium, Insurance Contracts - Deferred Acquisition, Claims outstanding and IBNR/ IBNER Reserves. Refer Note 37 to the financial statement, which shows the gross claim liability and the reinsurance component.

### Key Assumptions for Valuation of Liabilities in Non Life Insurance

UA is liable for all insured events that occurred during the term of the contracts, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time, and a larger element of the claims provision relates to incurred but not reported (IBNR) claims. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopt.

### Estimation for IBNR Reserve

The IBNR claims reserve has been actuarially computed by NMG Consulting (NMG). The valuation is determined using internationally accepted actuarial reserving techniques.

The risks associated with these insurance contracts are complex and subject to a number of variables that complicate the quantitative sensitivity analysis. NMG uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate costs of claims. The two methods more commonly used are the Chain-Ladder and the Bornhuetter-Ferguson methods.

The Chain-Ladder method may be applied to premiums, paid claims or reported claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of development factors based on this historical pattern. The selected development factors are then applied to the cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter – Ferguson (BF) method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure such as premiums, the latter is based on the paid or reported claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique is used in situations in which developed claims experience is not available, for the projection of recent accident years or new classes of business.

Generally, NMG has given higher credibility to the chain ladder method on a cumulative claims reported basis for each class of business. In general, the reported basis would display more stability relative to the paid basis, especially for more recent accident years. To increase consistency, the BF method uses results from the 31 December 2011 analysis as the seed loss ratio for each accident year and a projected loss ratio for the latest accident year.

# Notes to the Financial Statements

## Loss Development Factors

NMG has used loss development factors based on weighted averages except where;

- ▶ The weighted average is contrary to a trend in the recent ratios. For some classes, the trend in loss development factors applies only to certain development years.
- ▶ Payments in particular years are clearly out of line relative to those in other years, in which case such outliers are disregarded in selecting the loss development factors.

Note 37 shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to date.

### 44.1.1 Reinsurance risk

Notwithstanding the advantages reinsurance provides insurers, it can expose them, at varying degrees, to various risks inherent in its use. A new or continuing reinsurance contract could give rise to one or more of the following risks:

- ▶ **Residual insurance** risk may arise from discrepancies between reinsurance needs and the actual coverage provided for in the contract, resulting in the insurer retaining greater risk than anticipated. Similarly, an insurer may face a basis risk related to alternative risk transfer mechanisms where the amounts obtained by the insurer through the mechanisms do not match the losses incurred by the insurer;
- ▶ **Legal risk** may arise when the terms of the contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced;
- ▶ **Counterparty risk** may result from the inability or potential refusal of the reinsurer, or a stakeholder in the case of an alternative risk transfer mechanism, to honour its obligations towards the ceding insurer;
- ▶ **Liquidity risk** may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable;

Considering above factors our overall risk management strategy cedes insurance risk through proportional,

non-proportional and specific risk reinsurance treaties. While these mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the Group to a risk.

Reinsurance is placed in line with policy guidelines approved by the Board of Directors on an annual basis in line with the guidelines issued by the Insurance Board of Sri Lanka and concentration of risk is managed by reference to counterparties' limits that are set each year and are subject to regular reviews. On a regular basis management assesses the creditworthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets.

### 44.1.2 Concentration Risk

For Non Life insurance contracts, the most significant risks arise from climate changes, and natural disasters. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts in to different classes as mentioned earlier. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

This is largely achieved through diversification of its product portfolio. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Group. The Group further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

### 44.2 Financial Risk

The Group is exposed to a range of financial risks through;

- ▶ Financial assets
- ▶ Financial liabilities
- ▶ Reinsurance receivables and Insurance liabilities

### 44.2.1 Credit Risk

'Credit risk' is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Group is exposed to credit risk on securities issued by third parties. The debt security investments are broadly categorised into investments in government securities and investments in corporate debt securities.

#### Management of Credit Risk

Board has delegated the responsibility for the oversight of credit risk to its Investment Committee. The Committee is responsible for managing the credit risk relating to investments including the following.

- ▶ The Group limits its exposure by analysing the creditworthiness of each debt security investment.
- ▶ The creditworthiness of a potential debt security investment is assessed mainly through ratings assigned to the issuing institution or the ratings assigned to an issue.
- ▶ Implementation of a list of counter parties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal credit risk.
- ▶ Obtaining higher level approval of the Investment Committee for any investments in an entity not included in the list.
- ▶ Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels.
- ▶ Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment prior to forwarding the recommendation.

- Adhering to established guidelines regarding the acceptability of collateral and valuation parameters (Collateral is mainly obtained for securities lending. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.)

#### **Credit Risk Relating to Reinsurance Receivable**

As part of its overall risk management strategy, the Group cedes insurance risk through proportional, non-proportional and specific risk reinsurance treaties. While these mitigate insurance risk, the recoverable from reinsurers and receivables arising from ceded reinsurance exposes the Group to credit risk.

Reinsurance is placed in line with policy guidelines approved by the Board of Directors on an annual basis in line with the guidelines issued by the Insurance Board of Sri Lanka and concentration of risk is managed by reference to counterparties' limits that are set each year and are subject to regular reviews. On a regular basis management assesses the creditworthiness of reinsurers to update the reinsurance strategy and ascertain the suitable allowance for impairment of reinsurance assets

#### **Credit Risk Relating to Premiums Receivable**

In Life insurance, credit risk is minimal, since premium is collected before the policy is issued.

In Non Life insurance, the premium warranty clause which states that a claim is not payable if the premium is not settled within 60 days has reduced the credit risk to a greater extent.

The following steps have also been taken to further reduced credit risk

- Customers are informed on a regular basis regarding the premium warranty clause.
- Outstanding credit is followed up on a daily basis.
- Policies which were not settled within a reasonable period were routinely cancelled.
- Outstanding debts are checked and

confirmed before settling claims a temporary certificate for 60 days was introduced for motor policies with cover for the full period being granted only upon receipt of the payment.

A provisioning policy is still in practice for long outstanding premium receivable.

The Group continuously monitors the movement of the premium receivables as it impacts the credit risk significantly.

#### **Credit Risk Relating to Cash and Cash Equivalents**

In order to mitigate concentration, settlement and operational risks related to cash and cash equivalents, the Group limits the maximum cash amount that can be deposited with a single counterparty. In addition, the Group maintains an authorised list of acceptable cash counterparties based on current ratings and economic outlook, taking into account analysis of fundamentals and market indicators.

#### **42.2.2 Liquidity Risk**

Liquidity risk is the risk that the Group 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.

#### **Management of Liquidity Risk**

The following policies and procedures are in place to mitigate the exposure to liquidity risk:

- The Investment Committee manages this risk by diversifying investment durations and reviewing cash flow projections regularly.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure availability of sufficient funding to meet insurance and investment contract obligations.
- Reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.
- Availability of stand by overdraft facility to be used only in the event of an emergency.

- Reviewing the maturity mix of the investment portfolio by the management and the investment committee on a regular basis.

- Maintaining sufficient cash balances, overnight investments and other short tenure investment to accommodate expected obligations and commitment of the Group.

#### **44.2.3 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 Group has assessed the market risk under main three categories namely;

- Equity price risk
- Currency risk
- Interest rate risk

##### **i. Equity price risk**

Listed equity securities are susceptible to market price risk arising from uncertainties of future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity portfolio investments. The Group's equity risk management policies are;

- Equity investment decisions are based on fundamentals rather than on speculation.
- Decisions are based on in depth macro economic and industry analysis as well as research reports on Group 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

##### **ii. Currency Risk**

Currency risk is the risk that the fair value /present value of the future cash flows of a financial instruments will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in Sri Lankan Rupees and its exposure to foreign exchange risk primarily arises for transacting with reinsurers who are outside the country.

# Notes to the Financial Statements

The Group's financial statements are primarily denominated in the same currencies as its insurance liabilities. This mitigates the foreign currency exchange risk for the operations.

### 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.

Group has adopted the following policies to manage interest rate risk;

- ▶ The Investment Committee members keep a regular track of macroeconomic scenarios and their likely impact on interest rates.
- ▶ Initial recognition of investments is closely monitored.
- ▶ Floating rate instruments expose the Group to cash flow fluctuations, whereas fixed interest rate instruments expose the Group to changes in fair values.

## 44.3 Operational Risk (Business and Treasury Operations)

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, Group policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors has delegated responsibility for operational risk to its Operational Risk Committee, which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of

operational risk in the following areas:

- ▶ Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- ▶ Requirements for the reconciliation and monitoring of transactions;
- ▶ Compliance with regulatory and other legal requirements;
- ▶ Documentation of controls and procedures;
- ▶ Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- ▶ Requirements for the reporting of operational losses and proposed remedial action;
- ▶ Development of contingency plans;
- ▶ Training and professional development;
- ▶ Ethical and business standards; and
- ▶ Risk mitigation, including insurance where this is cost effective.
- ▶ Compliance with Group standards is supported by a program of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the Group Operational Risk Committee, with summaries submitted to the Board.

## 45 Financial Risk Review

This note presents information about the Group's exposure to financial risks and the Group's management of capital. For information on the Group's financial risk management framework, see Note 44.

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#### 45.1 Business Risk

Please refer Note 44 for the definition of the business risk and information on how the business risk is managed by the Group.

#### 45.1 (a) Management of traditional Life insurance and Unit Linked contracts

Concentration risk within the life business is as follows:

Type of contract	2014 Rs. '000	2013 Rs. '000
Participating	7,160,897	7,008,307
Non-participating	13,148,068	10,400,341
Total traditional Life insurance	20,308,965	17,408,645
Non unit fund of linked insurance	126,911	109,371
<b>Value of insurance liabilities</b>	<b>20,435,876</b>	<b>17,518,016</b>

#### Sensitivity analysis

The table below presents the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. For liabilities under life insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of the liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No adjustments were required in 2014 or 2013, based on the results of the liability adequacy test.

Assumption	Change in assumptions	Impact on liabilities
Mortality	+10%	+0.42%
	-10%	-0.40%
Valuation Interest Rate	+ 50 basis points	-1.36%
	- 50 basis points	+1.44%

#### 45.1 (b) Non Life insurance contracts

Following table summarises the outstanding claims position as at 31 December,

Insurance Claim Reserves Rs.'000	2014			2013		
	Gross Claim	Reinsurance	Net	Gross Claim	Reinsurance	Net
Provision for reported claims	885,898	(510,494)	375,404	665,249	(341,265)	323,984
Incurred But Not Reported (IBNR)	400,795	(47,433)	353,362	457,472	(108,508)	348,964
Total	1,286,693	(557,927)	728,766	1,122,721	(449,773)	672,948

#### Claims development table

The table below shows the estimated incremental net claims liability for the last ten years (net of reinsurance) for each successive accident year at each reporting date.

Accident Year	Development Year									
	1	2	3	4	5	6	7	8	9	10
2005	584,800	(2,008)	18,815	38,915	4,763	20,125	114,980	(1,672)	(2,445)	(880)
2006	1,020,498	22,321	35,473	8,859	3,066	56,690	(6,937)	2,708	(1,725)	
2007	1,292,844	18,145	47,004	6,518	(686)	2,868	4,042	4,509		
2008	1,585,087	69,676	44,653	3,126	(626)	(6,918)	(8,456)			
2009	1,784,714	(81,220)	150,903	(94,939)	(10,830)	3,733				
2010	2,002,954	(74,270)	(30,114)	(11,610)	(4,405)					
2011	2,494,065	(71,013)	(65,732)	15,007						
2012	2,690,287	(119,469)	(34,624)							
2013	3,234,961	(167,725)								
2014	3,282,092									

# Notes to the Financial Statements

## 45.1 (c) Estimation for IBNR reserve

### Sensitivity analysis

The table below shows the sensitivity of net profit before tax (PBT) and the sensitivity of net assets (NA) as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity.

The sensitivities do not indicate the probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net profit before tax and net assets.

<b>+1% in claims ratio</b>	<b>2014 Rs. '000</b>	<b>2013 Rs. '000</b>
Net impact to profit before tax	(27,364)	(27,993)
Impact to net assets	(29,399)	(31,313)

## 45.1 (d) Re insurance risk

As at 31 December 2014 reinsurance receivables amounts to Rs. 659 million (2013 - Rs. 503 million) mainly consisting of receivable on paid claims amounting to Rs. 135 million (2013 - Rs. 115 million) and reinsurance share of claims (reserve receivables on outstanding claims) amounting to Rs. 529 million (2013 - Rs. 391 million).

As at 31 December 2014, 90% (2013 - 93%) of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund (NITF). There were no collateral against reinsurance receivables as at reporting date.

The ratings of reinsurers and their related rating agencies are as follows;

<b>Reinsurers</b>	<b>2014</b>	<b>2013</b>	<b>Rating Agency</b>
Swiss Reinsurance Company Ltd	AA-	AA-	Standard & Poor's
Lloyds	A+	A+	Standard & Poor's
SCOR Reinsurance Asia Pacific Pte Ltd	A+	A+	Standard & Poor's
Toa Reinsurance Company Ltd	A+	A+	Standard & Poor's
Asia Capital Reinsurance Group Pte Ltd	A-	A-	Standard & Poor's
Korean Re	A-	A -	Standard & Poor's
Sirius Reinsurance	A-	A-	Standard & Poor's
Munich Reinsurance Company	AA-	AA-	Standard & Poor's
Hannover Re	AA-	AA-	Standard & Poor's
Partner Re	A-	A+	Standard & Poor's
General Insurance Corporation of India	A-	A-	A.M. Best
Malaysian Re	A-	A-	A.M. Best
TRUST Re	A-	A-	A.M. Best
Mapfre	A-	A-	A.M. Best
ARIG	B++	B++	A.M. Best
NITF	Government security	Government security	Not Applicable

#### 45.1 (e) Concentration Risk

Concentration risk within the Non Life insurance business based on the Gross Written Premium is as follows;

Class Rs. '000	2014				2013			
	Gross Written Premium	Reinsurance	Net Written Premium	%	Gross Written Premium	Reinsurance	Net Written Premium	%
Motor	2,557,526	(47,978)	2,509,548	60	2,711,341	(111,743)	2,599,598	63
Fire	696,313	(622,275)	74,038	2	821,707	(759,106)	62,601	1
Marine	322,860	(205,517)	117,343	3	325,268	(203,047)	122,221	3
Accident and liability	1,645,946	(194,412)	1,451,534	35	1,533,397	(182,285)	1,351,112	33
<b>Total</b>	<b>5,222,645</b>	<b>(1,070,182)</b>	<b>4,152,463</b>		<b>5,391,713</b>	<b>(1,256,181)</b>	<b>4,135,532</b>	

#### Motor and Non Motor Composition

Motor	2,557,526	(47,978)	2,509,548	60	2,711,341	(111,743)	2,599,598	63
Non Motor	2,665,119	(1,022,204)	1,642,915	40	2,680,372	(1,144,438)	1,535,934	37
<b>Total</b>	<b>5,222,645</b>	<b>(1,070,182)</b>	<b>4,152,463</b>		<b>5,391,713</b>	<b>(1,256,181)</b>	<b>4,135,532</b>	

#### 45.2 Credit risk

Please refer Note 44 for the definition of credit risk and information on how credit risk is managed by the Group.

#### 45.2 (a) Credit quality analysis

The tables below set out information about the credit quality of financial investments (government securities and corporate debt securities) and the allowance for impairment loss held by the Group against the assets.

As at 31 December 2014 Rs. '000	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Cash and Cash Equivalents	Total	%
<b>Maximum exposure to credit risk</b>							
Carrying amount	13,532,621	3,365,635	8,575,135	1,386,071	371,123	27,230,584	100
AAA	-	-	-	-	16,764	16,764	0.06
AA+ to AA -	1,661,982	1,283,886	2,785,020	-	316,294	6,047,182	22
A+ to A-	287,997	-	1,618,458	-	27,815	1,934,270	7
BBB+ to BBB-	-	-	44,496	-	6,605	51,101	0.19
Government guaranteed	11,403,719	2,081,749	4,127,161	-	-	17,612,629	65
Not rated	178,923	-	-	1,386,071	3,645	1,568,638	6
<b>Total</b>	<b>13,532,621</b>	<b>3,365,635</b>	<b>8,575,135</b>	<b>1,386,071</b>	<b>371,123</b>	<b>27,230,584</b>	<b>100</b>
<b>Neither past due nor impaired</b>							
AAA	-	-	-	-	16,764	16,764	0.06
AA+ to AA -	1,661,982	1,283,886	2,785,020	-	316,294	6,047,182	22
A+ to A-	287,997	-	1,618,458	-	27,815	1,934,270	7
BBB+ to BBB-	-	-	44,496	-	6,605	51,101	0.19
Government guaranteed	11,403,719	2,081,749	4,127,161	-	-	17,612,629	65
Not rated	178,923	-	-	1,386,071	3,645	1,568,638	6
<b>Total</b>	<b>13,532,621</b>	<b>3,365,635</b>	<b>8,575,135</b>	<b>1,386,071</b>	<b>371,123</b>	<b>27,230,584</b>	<b>100</b>
<b>Past due but not impaired</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	
<b>Impaired</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	

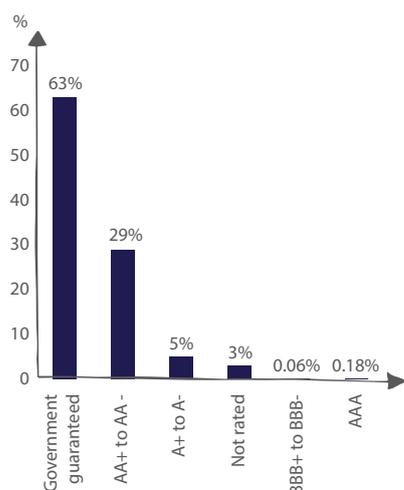
# Notes to the Financial Statements

As at 31 December 2013	Held to maturity financial assets	Loans and receivables	Available for sale financial assets	Financial assets at fair value through profit or loss	Cash and Cash Equivalents	Total	%
<b>Rs. '000</b>							
<b>Maximum exposure to credit risk</b>							
Carrying amount	14,408,803	3,992,502	3,530,880	566,020	466,402	22,964,607	100
AAA	-	-	-	-	13,683	13,683	0.06
AA+ to AA -	1,639,868	2,932,000	1,583,023	-	414,688	6,569,579	29
A+ to A-	287,997	-	820,496	-	31,422	1,139,915	5
BBB+ to BBB-	-	-	38,201	-	2,982	41,183	0.18
Government guaranteed	12,302,015	1,060,502	1,089,160	-	-	14,451,677	63
Not rated	178,923	-	-	566,020	3,627	748,570	3
<b>Total</b>	<b>14,408,803</b>	<b>3,992,502</b>	<b>3,530,880</b>	<b>566,020</b>	<b>466,402</b>	<b>22,964,607</b>	<b>100</b>
<b>Neither past due nor impaired</b>							
AAA	-	-	-	-	13,683	13,683	0.06
AA+ to AA -	1,639,868	2,932,000	1,583,023	-	414,688	6,569,579	29
A+ to A-	287,997	-	820,496	-	31,422	1,139,915	5
BBB+ to BBB-	-	-	38,201	-	2,982	41,183	0.18
Government guaranteed	12,302,015	1,060,502	1,089,160	-	-	14,451,677	63
Not rated	178,923	-	-	566,020	3,627	748,570	3
<b>Total</b>	<b>14,408,803</b>	<b>3,992,502</b>	<b>3,530,880</b>	<b>566,020</b>	<b>466,402</b>	<b>22,964,607</b>	<b>100</b>
<b>Past due but not impaired</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Impaired</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

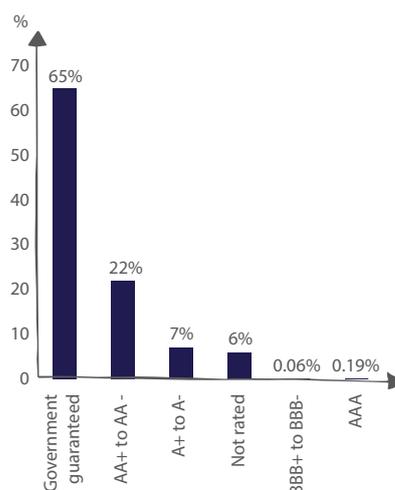
\*\*Ratings represent the local ratings given by Fitch Ratings Lanka Limited and RAM Ratings Lanka Limited.

\*\*Not rated under Cash and cash equivalents represents cash in hand and listed equity.

Exposure to Credit Risk Rating Class Wise - 2013



Exposure to Credit Risk Rating Class Wise - 2014



The following table provides information relating to credit risk exposure of other financial assets.

As at 31 December Rs.'000	Loans to Life Policy Holders		Reinsurance Receivable		Premium Receivable	
	2014	2013	2014	2013	2014	2013
<b>Maximum exposure to credit risk</b>	<b>660,744</b>	<b>515,735</b>	<b>617,170</b>	<b>397,044</b>	<b>1,718,730</b>	<b>1,852,437</b>
Neither past due nor impaired	44,711	41,569	219,735	72,249	1,531,488	1,455,046
Past due but not impaired						
61-90 days	17,279	22,728	41,546	63,426	95,404	246,330
91-180 days	56,854	56,047	60,498	131,812	52,757	111,234
181 days +	541,900	395,391	295,391	129,557	39,081	39,827
<b>Total</b>	<b>616,033</b>	<b>474,166</b>	<b>397,435</b>	<b>324,795</b>	<b>187,242</b>	<b>397,391</b>
Impaired	-	-	(5,471)	(2,981)	(8,754)	(7,606)
<b>Total</b>	<b>660,744</b>	<b>515,735</b>	<b>611,699</b>	<b>394,063</b>	<b>1,709,976</b>	<b>1,844,831</b>

Reinsurance receivable is excluding IBNR reserves.

#### Credit risk relating to reinsurance receivable

There were no collateral against reinsurance receivables as at the reporting date. Credit risk of reinsurance receivables by rating class have been illustrated below in order to ensure that the Company / Group has significant control over managing them.

Rating Rs. Mn	2014				2013			
	On paid claims	On reserve	Total	%	On paid claims	On reserve	Total	%
AA	-	2.4	2.4	-	-	-	-	-
AA -	3.1	28.3	31.4	5	3.1	-	3.1	1
A +	64.3	117.2	181.5	30	98.8	110.8	209.6	53
A	5.7	70.5	76.2	12	-	-	-	-
A -	25.9	95.9	121.8	20	14.6	49.0	63.6	16
BBB +	1.4	7.8	9.2	2	-	-	-	-
B+	1.5	8.7	10.2	2	0.9	2.0	2.9	1
NITF	23.8	92.4	116.2	19	22.6	63.8	86.4	22
Unrated *	9.5	53.1	62.7	10	3.6	24.9	28.5	7
<b>Total</b>	<b>135.3</b>	<b>476.4</b>	<b>611.7</b>		<b>143.6</b>	<b>250.5</b>	<b>394.1</b>	
IBNR reserve			47.4				108.5	
<b>Total RI Receivable</b>			<b>659.1</b>				<b>502.6</b>	

\*Unrated mainly represent arrangements entered with reinsurance brokers who do not have ratings obtained.

# Notes to the Financial Statements

## Credit risk relating to premium receivable

Rs. Mn	Up to 30 Days	31-60 Days	Above 60 Days	Total Receivables
As at 31 December 2014	1,270	262	178	1,710
As at 31 December 2013	921	327	597	1,845

The following table illustrates how the loans have been segregated amongst different categories.

As at 31 December Loan category	2014 Rs.'000	2013 Rs.'000
Life policyholders	660,774	515,735
Staff loans	396,810	422,840
Loans to agent / advisor	77,682	91,551
<b>Total</b>	<b>1,135,266</b>	<b>1,030,126</b>

## Loans to Life Policy Holders

A loan issued by an insurance Company considers the surrender value of the Life policy as collateral. As at the reporting date, the value of policy loans granted amounted to Rs. 661 million (2013 - 516 million) and its related surrender value is Rs. 1,093 million (2013 - 874 million).

## Credit risk relating to cash and cash equivalents

The Group held cash and cash equivalents of Rs. 371 million as at 31 December 2014 (2013 - Rs. 466 million). The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better except for cash in hand of Rs 3.6 million as at 31 December 2014 (2013 - Rs. 3.6 million).

### 45.2 (b) Collateral of debt securities

Reverse repo investments which fall under government securities is backed by Treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 10% is maintained at all times. As at the balance sheet date, the Company held Treasury bonds worth Rs. 2.42 billion as collateral for reverse repo investments amounting to Rs. 2.12 billion.

### 45.2 (c) Concentrations of credit risk

The Group actively manages its investment mix to ensure that there is no significant concentration of credit risk. The Group monitors concentration of credit risk by sector and instrument. An analysis of concentration of credit risk from financial investments is shown below.

As at 31 December	2014		2013	
	Rs. 000	%	Rs. 000	%
Government securities and related institutions	18,072,406	70	13,901,053	66
Corporate debt securities	7,785,914	30	7,012,386	34
<b>Total</b>	<b>25,858,320</b>		<b>20,913,439</b>	

### 45.3 Liquidity risk

Refer Note 44 for definition of liquidity risk and information on how liquidity risk is managed.

### 45.3 (a) Maturity analysis for financial assets and financial liabilities

The table below summarises the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premium reserve, deferred acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Unit linked liabilities are repayable or transferable on demand and are included as 'current' repayments which are subject to notice and are treated as if notice were to be given immediately.

<b>As at December 2014</b>	<b>Carrying</b>	<b>Up to one year</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>No Maturity</b>	<b>Total</b>
<b>Rs. '000</b>	<b>amount</b>				<b>Date</b>	
<b>Financial assets</b>						
Held to maturity	13,532,621	2,118,875	8,915,643	2,498,103	-	13,532,621
Loans and receivables	3,365,635	2,420,635	945,000	-	-	3,365,635
Available for sale	8,575,136	1,850,811	5,754,433	969,266	625	8,575,135
Fair value through profit or loss	1,386,071	-	-	-	1,386,071	1,386,071
Life policyholder loans	660,774	229,684	311,267	119,793	-	660,774
Reinsurance receivable	611,699	425,570	177,353	8,776	-	611,699
Premiums receivable	1,709,976	1,708,828	1,148	-	-	1,709,976
Other financial assets	568,566	115,118	82,070	371,378	-	568,566
Cash and cash equivalents	371,123	371,123	-	-	-	371,123
<b>Total undiscounted assets</b>	<b>30,781,600</b>	<b>9,240,644</b>	<b>16,186,914</b>	<b>3,967,316</b>	<b>1,386,695</b>	<b>30,781,600</b>
<b>Financial liabilities</b>						
Reinsurance payable	(629,417)	(234,912)	(394,505)	-	-	(629,417)
Other financial liabilities	(1,037,996)	(1,037,996)	-	-	-	(1,037,996)
Bank overdraft	(136,859)	(136,859)	-	-	-	(136,859)
<b>Total undiscounted liabilities</b>	<b>(1,804,272)</b>	<b>(1,409,797)</b>	<b>(394,505)</b>	<b>-</b>	<b>-</b>	<b>(1,804,272)</b>
<b>Total excess liquidity</b>	<b>28,977,328</b>	<b>7,830,847</b>	<b>15,792,409</b>	<b>3,967,316</b>	<b>1,386,695</b>	<b>28,977,328</b>

<b>As at 31 December 2013</b>	<b>Carrying</b>	<b>Up to one year</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>No Maturity</b>	<b>Total</b>
<b>Rs. '000</b>	<b>amount</b>				<b>Date</b>	
<b>Financial assets</b>						
Held to maturity	14,408,803	1,637,146	10,304,710	2,466,947	-	14,408,803
Loans and receivables	3,992,502	3,397,502	595,000	-	-	3,992,502
Available for sale	3,530,880	460,406	2,403,486	566,363	100,625	3,530,880
Fair value through profit or loss	566,020	-	-	-	566,020	566,020
Life policyholder loans	515,735	211,606	204,977	99,150	-	515,735
Reinsurance receivable	394,063	330,535	63,528	-	-	394,063
Premiums receivable	1,844,831	1,844,831	-	-	-	1,844,831
Other financial assets	546,795	49,333	97,166	400,296	-	546,795
Cash and cash equivalents	466,402	466,402	-	-	-	466,402
<b>Total undiscounted assets</b>	<b>26,266,031</b>	<b>8,397,762</b>	<b>13,668,866</b>	<b>3,532,756</b>	<b>666,645</b>	<b>26,266,031</b>
<b>Financial liabilities</b>						
Reinsurance payable	(764,977)	(704,755)	(60,222)	-	-	(764,977)
Other financial liabilities	(844,666)	(844,666)	-	-	-	(844,666)
Bank overdraft	(155,824)	(155,824)	-	-	-	(155,824)
<b>Total undiscounted liabilities</b>	<b>(1,765,467)</b>	<b>(1,705,245)</b>	<b>(60,222)</b>	<b>-</b>	<b>-</b>	<b>(1,765,467)</b>
<b>Total excess liquidity</b>	<b>24,500,564</b>	<b>6,692,517</b>	<b>13,608,644</b>	<b>3,532,756</b>	<b>666,645</b>	<b>24,500,564</b>

# Notes to the Financial Statements

## 45.3 (b) Financial Assets Available to Support Future Funding

The table below sets out the availability of the Group's financial assets to support future funding.

Unencumbered As at 31 December Rs.'000	2014			2013		
	Other	Available as collateral	Total	Other	Available as collateral	Total
Held to maturity	2,783,128	10,749,493	13,532,621	2,951,452	11,457,351	14,408,803
Loans and receivables	1,526,143	1,839,496	3,365,635	1,960,826	2,031,676	3,992,502
Available for sale	2,604,558	5,970,677	8,575,135	750,285	2,780,595	3,530,880
Fair value through profit or loss	-	4,004,993	4,004,993	20,682	2,344,631	2,365,313
Life policyholders loans	-	660,744	660,744	-	515,735	515,735
Reinsurance receivable	591,597	67,536	659,133	415,090	87,481	502,571
Premiums receivable	1,550,859	159,117	1,709,976	1,729,853	114,978	1,844,831
Other financial assets	221,432	347,134	568,566	452,125	94,670	546,795
Cash and cash equivalents	181,877	189,246	371,123	228,077	238,325	466,402
<b>Total</b>	<b>9,459,592</b>	<b>23,988,438</b>	<b>33,447,926</b>	<b>8,508,391</b>	<b>19,665,442</b>	<b>28,173,832</b>

Other encumbered represents assets that are not restricted for use as collateral. However, but the Group would not consider them as readily available to secure funding in the normal course of business.

Available as collateral represents the assets that are owned by policy holders. These will not be considered as collateral for future borrowings.

### Financial assets pledged as collateral

There were no financial assets pledged as collateral during the year ended 31 December 2014.

## 45.4 Market risk

Please refer Note 44 for definition of market risk and information on how market risk is managed.

### 45.4 (a) Exposure to interest rate risk

The following is a summary of the Group's interest rate gap position.

As at December 2014 Rs. '000	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Held to maturity	13,532,621	149,549	455,665	1,513,658	8,915,643	2,498,103
Loans and receivables	3,365,635	1,884,035	435,208	-	945,000	-
Available for sale	8,575,135	202,981	383,151	1,265,305	5,754,433	969,266
Cash and cash equivalents	371,123	371,123	-	-	-	-
Bank overdraft	(136,859)	(136,859)	-	-	-	-

As at December 2013 Rs. '000	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Held to maturity	14,408,803	-	1,337,346	299,800	8,270,278	4,501,379
Loans and receivables	3,992,502	2,107,127	940,375	350,000	595,000	-
Available for sale	3,530,880	184,855	280,939	95,237	2,403,486	566,363
Cash and cash equivalents	466,402	466,402	-	-	-	-
Bank overdraft	(155,824)	(155,824)	-	-	-	-

### Sensitivity analysis

The table below shows the estimated impact on profitability and equity due to fluctuation of interest rates on the fixed rate available for sale financial assets.

Sensitivity of change in interest rates 2014	Impact on profit before tax	Impact on equity			Total
		Up to one year	1 - 5 years	Over 5 years	
Rs:'000					
Non life					
(+) 100 basis points	(7,663)	(1,906)	(5,757)	-	(7,663)
(-)100 basis points	10,108	2,446	7,662	-	10,108
Life *					
(+) 100 basis points	(58,094)	(6,674)	(40,717)	(10,703)	(58,094)
(-)100 basis points	79,272	8,495	55,462	15,315	79,272

\* Subject to actuarial valuation.

Sensitivity of change in interest rates 2013	Impact on profit before tax	Impact on equity			Total
		Up to one year	1 - 5 years	Over 5 years	
Rs:'000					
Non life					
(+) 100 basis points	(2,241)	(532)	(1,709)	-	(2,241)
(-) 100 basis points	4,175	784	3,391	-	4,175
Life*					
(+) 100 basis points	(18,702)	(1,819)	(16,883)	-	(18,702)
(-)100 basis points	9,098	809	8,290	-	9,098

\* Subject to actuarial valuation.

The Group's investment portfolio is analysed based on the types of interest rates as follows;

Instruments	2014			2013		
	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing	Fixed Interest Rate	Variable Interest Rate	Non-Interest bearing
Rs:'000						
Government Securities	18,072,406	-	-	13,901,053	-	-
Corporate Debts	7,785,914	-	-	7,012,386	-	-
Equity Instruments	-	-	1,386,695	-	-	666,645
<b>Total</b>	<b>25,858,320</b>	<b>-</b>	<b>1,386,695</b>	<b>20,913,439</b>	<b>-</b>	<b>666,645</b>

# Notes to the Financial Statements

## 45.4 (b) Exposure to currency risks

Foreign currency exposures other than in respect of foreign operations are as follows;

Foreign Currency Deposits Rs.'000	2014		2013	
	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount
USD Deposit	236	30,943	471	60,940
EUR Deposits	41	6,492	57	10,066

### Sensitivity analysis

The table below shows the estimated impact to the profitability when the foreign currency rates have a movement against the domestic currency.

Impact to profit before tax	2014 Rs. '000	2013 Rs. '000
(+) / (-)10 % change in the Exchange rate	(+) / (-) 67	(+) / (-) 3,550

## 45.4. (c) Exposure to equity price risks

The risk exposure to listed equity securities are as follows;

Segment	2014 Rs. '000	2013 Rs. '000
Life	1,386,071	545,338
Non life	-	20,682
<b>Total</b>	<b>1,386,071</b>	<b>566,020</b>

### Sensitivity analysis

The table below shows the estimated impact from a 10 percent decline in the stock markets on the portfolio with indicative comparatives.

Sensitivity of Profit before tax to decline in equity prices	2014 Rs. '000	2013 Rs. '000
<b>Non life</b>		
Investments	-	(2,068)
Net impact on Net Assets	-	(376)
<b>Life</b>		
Investments	(138,607)	(54,534)
Net impact on Net Assets	(138,607)	(54,534)

#### 45.4 (c) Equity concentration risk

The Company has no significant concentration of equity price risk as it has a diversified portfolio. The table below shows the sector diversity of quoted equity investment of the Company:

Sector	2014		2013	
	Value	% of allocation	Value	% of allocation
<b>Rs:'000</b>				
Banks, Finance and Insurance	861,583	62	160,792	28
Beverage, Food and Tobacco	75,150	5	31,363	6
Diversified Holdings	54,329	4	71,011	13
Manufacturing	306,331	22	206,483	36
Construction and Engineering	46,002	3	57,096	10
Telecommunications	-	0	28,663	5
Motors	14,031	1	10,612	2
Hotels and Travels	28,645	2	-	0
<b>Total</b>	<b>1,386,071</b>	<b>100</b>	<b>566,020</b>	<b>100</b>

#### 46 Determination of Fair Values

Refer Note 5.29.6 for the Accounting Policy.

This note explains the methodology for valuing our financial assets and liabilities and provides an analysis of these according to the 'fair value hierarchy', determined by the market observability of valuation inputs.

##### 46.1 Valuation models

The Group measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price, requires the use of valuation techniques as described in Note 5.29.6 For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

##### 46.2 Valuation framework

The Group has an established control framework with respect to the measurement of fair values. The investment committee has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include :

- Verification of observable pricing;
- Re-performance of model valuations;
- Quarterly calibration and back-testing of models against observed market transactions;
- Analysis and investigation of significant daily valuation movements; and
- Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 as explained below.

When third party information, such as broker quotes or pricing services, is used to measure fair value, documents of evidence obtained from third parties to support the conclusion that such valuations meet the requirements of SLFRSs.

# Notes to the Financial Statements

## 46.3 Fair value hierarchy

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Group measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 46.4 Financial assets and liabilities - Accounting classification and fair value

The table below sets out the carrying value and fair value of the Group's assets and liabilities.

As at 31 December Rs'000	Note	2014		2013	
		Fair value	Carrying Value	Fair value	Carrying Value
Financial investment carried at fair value	46.5	12,580,128	12,580,128	5,896,193	5,896,193
Financial investment carried at amortised cost	46.6	18,369,447	16,796,867	19,223,259	18,401,305
Other financial assets	46.7	3,969,542	3,969,542	3,876,334	3,876,334
Non financial assets			2,256,110		2,144,908
<b>Total assets</b>		<b>34,919,117</b>	<b>35,602,646</b>	<b>28,995,786</b>	<b>30,318,740</b>
Financial liabilities	46.8	1,804,272	1,804,272	1,765,467	1,765,467
Other non financial liabilities			27,588,156		23,435,980
<b>Total liabilities</b>		<b>1,804,272</b>	<b>29,392,428</b>	<b>1,765,467</b>	<b>25,201,447</b>
<b>Total net assets as at 31 December</b>			<b>6,210,218</b>		<b>5,117,293</b>

## 46.5 Financial investment carried at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

As at 31 December Rs'000	Note	Fair value hierarchy					2013			Total
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3		
<b>Financial assets at fair value through profit or loss:</b>										
<b>Financial assets held for trading:</b>										
Equity securities	24.4 (a)	1,386,071	-	-	1,386,071	566,020	-	-	-	566,020
<b>Designated at fair value through profit or loss:</b>										
Investments for the benefit of Life insurance policyholders who bear the investment risk										
Equity securities	24.4 (b)	2,233,992	-	-	2,233,992	1,428,268	-	-	-	1,428,268
Debt securities		-	384,930	-	384,930	-	371,025	-	-	371,025
	24.4	3,620,063	384,930	-	4,004,993	1,994,288	371,025	-	-	2,365,313
<b>Available for sale financial assets:</b>										
Debt securities	24.3	4,447,975	4,126,535	-	8,574,510	2,441,720	988,535	-	-	3,430,255
Equity securities	24.3 (a)	-	-	625	625	-	-	100,625	-	100,625
		4,447,975	4,126,535	625	8,574,510	2,441,720	988,535	100,625	-	3,430,255
<b>Total of fair values of financial assets carried at fair value</b>		<b>8,068,037</b>	<b>4,511,465</b>	<b>625</b>	<b>12,580,128</b>	<b>4,436,008</b>	<b>1,359,560</b>	<b>100,625</b>	<b>-</b>	<b>5,896,193</b>

#### 46.6 Financial investment carried at amortised cost

Set out below is a comparison of the carrying amounts and fair values of the financial assets carried at amortised cost of the Group which are not measured at fair value in the financial statements.

As at 31 December Rs'000	Explanatory reference	Note	2014		2013	
			Fair value	Carrying Value	Fair value	Carrying Value
<b>Held to maturity financial assets :</b>						
Debentures	46.6 (a)		2,177,512	2,128,902	2,106,823	2,106,789
Treasury bonds	46.6 (b)		12,962,922	11,403,719	13,089,999	12,302,014
		24.1	15,140,434	13,532,621	15,196,822	14,408,803
<b>Loans and receivables :</b>						
Debentures	46.6 (a)		572,549	607,780	650,562	616,627
Fixed term deposit	46.6 (c)		574,716	574,716	2,315,373	2,315,373
Reverse repos	46.6 (d)		2,081,749	2,081,749	1,060,502	1,060,502
		24.2	3,229,013	3,264,245	4,026,437	3,992,502
			18,369,447	16,796,867	19,223,259	18,401,305

#### 46.6 (a) Debentures

The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows. Unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar maturity plus a risk premium determined based on the credit rating of the instrument.

#### 46.6 (b) Treasury bonds

The fair values of treasury bonds are estimated based on broker / dealer price quotation and based on current market yields.

#### 46.6 (c) Fixed term deposit

The fair values of fixed term deposits with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate term deposits with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of term deposits of similar credit risks and maturity.

#### 46.6 (d) Reverse REPO

The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.

#### 46.7 Other financial assets

Financial assets not recorded at fair value in the statement of financial position are listed below.

Rs'000	Note	2014		2013	
		Fair value	Carrying Value	Fair value	Carrying Value
Loans to life policyholders	27	660,744	660,744	515,735	515,735
Staff loans	30.1	396,810	396,810	422,840	422,840
Agent / advisor	30.2	77,682	77,682	91,551	91,551
Reinsurance receivables	28	659,133	659,133	502,571	502,571
Premium receivables	29	1,709,976	1,709,976	1,844,831	1,844,831
Refundable deposits	30	14,249	14,249	12,809	12,809
Other receivables	30	79,825	79,825	19,595	19,595
Cash and cash equivalent	32	371,123	371,123	466,402	466,402
		3,969,542	3,969,542	3,876,334	3,876,334

The carrying amount of cash and bank balances are approximate fair values due to the relatively short maturity of the financial instruments.

The fair value of the staff loans, agent / advisor and loans to life policyholders are computed based on the market lending interest rates prevailed at reporting date.

For other receivables the carrying value has been considered as the fair value due to uncertainty of the timing of the cash flows.

# Notes to the Financial Statements

## 46.8 Financial liabilities

Carrying values of financial liabilities have been considered as the fair value, due to uncertainty of the timing of the cash flow.

Rs'000	Note	2014		2013	
		Fair value	Carrying Value	Fair value	Carrying Value
Agency commission payables	41	235,307	235,307	197,582	197,582
Premium in suspense	41	415,710	415,710	389,142	389,142
Other financial liabilities	41	386,979	386,979	257,942	257,942
Reinsurance payables	38	629,417	629,417	764,977	764,977
Bank overdraft	32.2	136,859	136,859	155,824	155,824
		1,804,272	1,804,272	1,765,467	1,765,467

## 47 Related Party Disclosures

The Company / Group carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures. Details of related party transactions are given below.

### 47.1 Parent and ultimate controlling party

The Group's immediate and ultimate controlling party is John Keells Holdings PLC.

### 47.2 Transactions with key management personnel (KMPs)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company (including Executive and Non-Executive Directors) and selected key employees who meet the criteria for KMP.

As John Keells Holdings PLC (JKH) is the ultimate parent of the Company and the Board of Directors of JKH has the authority and responsibility of planning, directing and controlling the activities of the Group. The Directors of JKH have also been identified as KMP of the Group.

### 47.2 (a) Compensation of KMPs

#### As at 31 December

	2014 Rs. '000	2013 Rs. '000
Short term employment benefits	38,510	38,120
Post employment benefits	1,637	1,044
	40,147	39,164

The short term employment benefits include only the Non Executive Directors fees and emoluments paid to the Executive Director. Where applicable such Director 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. Further, the Company / Group does not provide any non-cash benefit to the KMPs.

#### 47.2 (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.

As at 31 December

	2014 Rs. '000	2013 Rs. '000
Insurance premium - Non Life	502	2,804
Insurance premium - Life	-	39

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company / Group as at 31 December 2014.

#### 47.3 Transactions with related entities

The Directors of the Company are also Director / CEO of the following companies as set out below and transaction in Note 47.3 (a) and 47.3 (b) have been carried out with such companies.

Company	Name of director	Position	Relationship	Details of financial dealings
John Keells Holdings PLC	Ajit D Gunewardene	Deputy Chairman	John Keells Holdings PLC and its subsidiaries own 95.65% of the Company's issued share capital	Union Assurance has transactions in the normal course of business with John Keells Holdings PLC, and its subsidiaries and associate companies
Keells Consultants (Pvt) Ltd	Ajit D Gunewardene D C Alagaratnam	Director Director	Keells Consultants (Private) Ltd is the Secretary of Union Assurance PLC	Union Assurance has transactions in the normal course of business with Keells Consultants (Private) Ltd
Kalutara Bodhi Trust	A S De Zoysa	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Kalutara Bodhi Trust
Union Assurance General Ltd	Ajit D Gunewardene D C Alagaratnam G F C De Saram S Rajendra A S De Zoysa H A J De Silva Wijeyeratne A D Pereira	Director Director Director Director Director Director Director Director	Fully owned subsidiary of Union Assurance PLC	Union Assurance PLC own 100% of the company's issued share capital
Akzo Nobel Paints Lanka (Pvt) Ltd	G F C De Saram	Chief Executive Officer	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Akzo Nobel Paints Lanka (Pvt) Ltd
Associated Electrical Corporation Ltd	A S De Zoysa	Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with Associated Electrical Corporation Ltd
SLINTEC (Pvt) Ltd	H A J De Silva Wijeyeratne  Ajit D Gunewardene	Chief Executive Officer Director	No relationship with Union Assurance PLC	Union Assurance has transactions in the normal course of business with SLINTEC (Pvt) Ltd

# Notes to the Financial Statements

## 47.3 (a) Transactions with the parent and ultimate controlling party

As at 31 December	2014 Rs. '000	2013 Rs. '000
<b>Statement of financial position</b>		
<b>Assets</b>		
Premium receivables	-	141
	-	141
<b>Liabilities</b>		
Other liabilities	11,441	308
	11,441	308
<b>Income Statement</b>		
	<b>2014</b> Rs. '000	<b>2013</b> Rs. '000
Gross written premium	27,328	13,971
Net benefits and claims	14,713	10,061
Other operating and administrative expenses	37,834	36,135

## 47.3 (b) Transactions with / between subsidiary companies and associates of the Parent company and other related entities

			As at 31 December	
			2014	2013
			Rs. '000	Rs. '000
<b>Statement of financial position</b>				
<b>Assets</b>				
<b>Property plant, and equipment</b>				
Other subsidiaries and associates		Acquisition of property plant, and equipment	51,281	43,280
			51,281	43,280
<b>Financial investments</b>				
Central Hospital (Pvt) Ltd	Associate	Equity	-	100,000
Nations Trust Bank PLC	Associate	Corporate debt	664,992	583,130
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - term	53,043	265,742
Nations Trust Bank PLC	Associate	Reverse repurchase agreement - overnight	3,365	1,571
			721,400	950,443
<b>Investment in subsidiary</b>				
Union Assurance General Ltd.	Subsidiary	Equity	100,000	-
			100,000	-
<b>Receivables and other assets</b>				
John Keells Residential Properties (Pvt) Ltd	Subsidiary	Advance paid for investment property	77,751	24,420
			77,751	24,420
<b>Premium receivables</b>				
Other subsidiaries and associates		Policy Premium	-	1,992
			-	1,992
<b>Other liabilities</b>				
Other subsidiaries and associates		Payment for shared services	292	233
			292	233

Income Statement	Transaction amount during the year	
	2014 Rs. '000	2013 Rs. '000
<b>Gross written premium</b>		
Other subsidiaries and associates	121,493	63,055
Kalutara Bodhi Trust	154	147
Nations Trust Bank PLC	968	1,292
Akzo Nobel Paints Lanka (Pvt) Ltd	221	-
Associated Electrical Corporation Ltd	10	-
Sliintec (Pvt) Ltd	18	-
	122,864	64,494
<b>Net benefits and claims</b>		
Other subsidiaries and associates	64,761	42,272
Kalutara Bodhi Trust	34	5
Nations Trust Bank PLC	453	595
	65,248	42,872
<b>Investment income</b>		
Nations Trust Bank PLC - Debentures	72,660	54,783
REPO	5,976	517
	78,636	55,300
<b>Other operating and administrative expenses</b>		
Other subsidiaries and associates	62,234	66,746
	62,234	66,746

#### 48. Commitments

Refer Notes 5.33 and 5.41 for the Accounting Policies.

##### 48.1 Capital Commitments

There were no significant capital commitments as at the reporting date other than the following:

	2014 Rs.'000	2013 Rs.'000
Capital commitments contracted	19,438	219,783

The Company has contracted for four units of residential property being constructed by John Keells Residential Properties (Pvt) Ltd. and above payment is due in the first quarter 2015.

##### 48.2 Operating lease

The Company / Group leases a number of office facilities under operating leases. These leases run for one to five years, with an option to renew after that date.

##### 48.2. (a) Future minimum lease payments.

The Company does not have any non cancellable operating leases as at the reporting date.

48.2. (b) Amount recognised in profit or loss	2014 Rs.'000	2013 Rs.'000
Lease expenses	97,761	89,845
Contingent rent expenses	-	-
Sub-lease income	(7,387)	(5,543)

# Notes to the Financial Statements

## 49. Events After the Reporting Date

Except for the below mentioned events, there have been no material events occurring after the reporting date that required adjustment to or disclosure in the financial statements.

### 49.1 Segregation of Non Life business and subsequent disposal

In compliance with the requirements of the Regulations of Insurance Industry Act No 3. of 2011, Union Assurance PLC has completed the segregation of the Life and Non Life insurance businesses on 1 January 2015. The Company, Union Assurance PLC will continue to carry on the Life insurance business and its Non Life insurance business (inclusive of all assets, undertakings, property, rights and liabilities in respect of the Non Life business) will be undertaken by Union Assurance General Limited, a fully owned subsidiary of the Company.

Consequent to the unanimous shareholder approval obtained at the Extraordinary General Meeting held on 28 November 2014 and the demerger sanctioned by way of a Scheme of Arrangement in terms of Section 256 of the Companies Act No. 07 of 2007 by the Commercial High Court of Colombo, in Case No. H.C. (Civil) 48/2014 (CO) by Order dated 8 December 2014, the Non Life business has been transferred to Union Assurance General Limited, subsequent to the reporting date on 1 January 2015.

Subsequent to the transfer and completion of customary closing conditions, the Company divested a 78% stake in its subsidiary, Union Assurance General Limited to Fairfax Asia Limited for a total consideration of Rs.3.66 billion which resulted in a capital gain of Rs. 1.22 billion to the Company. Union Assurance PLC will retain a 22% stake in the Union Assurance General Ltd.

### 49.2 Dividend

The Board of Directors of the Company has declared a first and final dividend of Rs. 6.50 per share for the financial year ended 31 December 2014.

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, prior to declaring the final dividend. A statement of solvency duly completed and signed by the Directors on 25 February 2015 has been audited by Messrs. KPMG.

In accordance with the LKAS 10, Events after the reporting period, the final dividend has not been recognised as a liability in the financial statements as at 31 December 2014.

## 50. Contingencies

The contingent liability of the Company / Group as at 31 December 2014, relates to the following;

### 50.1 Income tax assessment relating to years of assessment 2010/11 and 2011/12

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2010/ 11, assessing the Life insurance business to pay an income tax liability of Rs. 132 millions along with a 50% penalty totalling to Rs. 198 million and the Company has lodged a valid appeal against the said assessment.

The Department of Inland Revenue has raised an assessment on Union Assurance PLC for the year of assessment 2011/ 12, assessing the Life insurance business to pay an income tax liability of Rs. 475 million and the Company has lodged a valid appeal against the said assessment.

Directors are of the view that it has followed due process and acted in accordance with the prevailing laws in its tax submissions for years of assessment 2010 / 11 and 2011/ 12 and therefore, the above assessments have no rationale or basis in law.

### 50.2 The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business.

While it is not practicable to forecast or determine the final results of all pending or potential legal proceedings, Directors do not believe that such proceedings (including litigation) will have a material effect on the Company's results and financial position. All pending litigation for claims have been evaluated and adequate provisions have been made in the financial statements.

### 50.3 The Company is also subject to insurance solvency regulations and has complied with all solvency regulations.

There are no contingencies associated with the Company's compliance or lack of compliance with such regulations.

## 51. Comparative Information

The presentation and classification of following items in these financial statements are amended to ensure comparability with the current year information.

As at 31 December 2013  
Rs. '000

	Note	Current presentation	As reported previously
<b>Statement of financial position</b>			
Property, plant and equipment	25	1,337,498	1,454,973
Intangible assets	26	117,475	-

The computer software which was initially classified as property, plant and equipment, has been reclassified under intangible assets in the Statement of Financial Position.

Further, the presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

## 52. Directors' Responsibility

The Board of Directors of the Company is responsible for the preparation and presentation of these financial statements.

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# Insurance Revenue Account

For the year ended 31 December

	2014 Rs. '000	2013 Rs. '000
<b>Life Insurance</b>		
Gross written premium	5,945,499	5,515,063
Premium ceded to reinsurers	(328,064)	(280,542)
<b>Net written premium</b>	<b>5,617,435</b>	<b>5,234,521</b>
Investment and other income	3,159,957	2,017,544
Net benefits and claims	(5,201,025)	(3,976,248)
Underwriting and net acquisition costs (including reinsurance)	(1,115,834)	(968,181)
Other operating, selling and administrative expenses	(1,710,533)	(1,695,636)
<b>Surplus from life insurance fund</b>	<b>750,000</b>	<b>612,000</b>
Investment and other income not attributable to policyholders	167,623	207,074
Expenses not attributable to policyholders	(36,883)	(28,110)
<b>Profit for the year - Life insurance</b>	<b>880,740</b>	<b>790,964</b>
<b>Non Life Insurance</b>		
Gross written premium	5,222,645	5,391,712
Premium ceded to reinsurers	(1,070,182)	(1,256,181)
<b>Net written premium</b>	<b>4,152,463</b>	<b>4,135,531</b>
Change in reserve for unearned premium / unearned reinsurance premium	(48,827)	(143,197)
<b>Net earned premium</b>	<b>4,103,636</b>	<b>3,992,334</b>
Policy fee income	65,426	51,605
<b>Total net income</b>	<b>4,169,062</b>	<b>4,043,939</b>
Net claims incurred	(2,736,436)	(2,799,257)
Underwriting and net acquisition costs (including reinsurance)	(280,120)	(245,740)
Other operating, selling and administrative expenses	(1,385,937)	(1,213,583)
<b>Total benefits and expenses</b>	<b>(4,402,493)</b>	<b>(4,258,580)</b>
<b>Underwriting loss</b>	<b>(233,431)</b>	<b>(214,641)</b>
Investment and other income	594,577	606,281
Income tax expense	(38,824)	(59,199)
<b>Profit for the year - Non life insurance</b>	<b>322,322</b>	<b>332,441</b>
<b>Key Ratios: Non life Insurance</b>		
Net loss ratio	66.7%	70.1%
Net expense ratio*	39.0%	35.3%
<b>Net combined ratio</b>	<b>105.7%</b>	<b>105.4%</b>

\* Net of policy fee income

# Statement of Financial Position - Life Insurance Fund

As at 31 December	Note	2014 Rs. '000	2013 Rs. '000
<b>Assets</b>			
Financial investments	1	22,564,661	18,614,252
Property, plant and equipment	2	1,203,934	1,109,206
Intangible assets	3	66,766	66,696
Loans to life policyholders		660,744	515,735
Reinsurance receivables	4	67,536	87,481
Premium receivables		159,117	114,978
Receivables and other assets	5	474,993	342,388
Cash and cash equivalent	6	189,227	238,324
<b>Total assets</b>		<b>25,386,978</b>	<b>21,089,060</b>
<b>Reserves and liabilities</b>			
<b>Equity</b>			
Other reserves	7	675,723	346,421
<b>Total reserves</b>		<b>675,723</b>	<b>346,421</b>
<b>Liabilities</b>			
Insurance contract liabilities - Life	8	20,435,876	17,518,016
Insurance contract liabilities - Unit Linked		2,618,007	1,807,137
Reinsurance payables		150,784	112,184
Employee benefits	9	90,437	116,383
Other liabilities	10	1,350,134	1,137,909
Deferred tax liabilities		-	12,286
Bank overdraft		66,017	38,724
<b>Total liabilities</b>		<b>24,711,255</b>	<b>20,742,639</b>
<b>Total equity and liabilities</b>		<b>25,386,978</b>	<b>21,089,060</b>

# Notes to the Statement of Financial Position - Life Insurance Fund

## 1 Financial Investments

Refer Note 5.29 for the Accounting Policy

As at 31 December	Note	2014		2013	
		Carrying value	Fair value	Carrying value	Fair value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
Held to maturity financial assets (HTM)	1.1	10,749,494	12,040,037	11,457,350	12,042,708
Loans and receivables (L&R)	1.2	1,839,496	1,809,500	2,031,676	2,061,154
Available for sale financial assets (AFS)	1.3	5,970,676	5,970,676	2,780,595	2,780,595
Financial assets at fair value through profit or loss (FVTPL)	1.4	4,004,995	4,004,995	2,344,631	2,344,631
<b>Total financial investments</b>		<b>22,564,661</b>	<b>23,825,208</b>	<b>18,614,252</b>	<b>19,229,088</b>

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

As at 31 December	Note	2014 Rs.'000	2013 Rs.'000
Quoted debentures	1.1 (a)	1,735,745	1,728,804
Treasury bonds		9,013,749	9,728,546
		10,749,494	11,457,350

### 1.1 (a) Quoted debentures (HTM)

Issuer	Maturity date	No. of debentures	2014		
			Carrying value	Market value	Interest
			Rs. '000	Rs. '000	rate (%)
DFCC Bank PLC	26/09/2016	200,000	228,000	228,000	14.00
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
Nations Trust Bank PLC	03/08/2016	200,000	209,452	211,972	11.50
DFCC Vardhana Bank PLC	30/08/2016	1,481,481	148,195	148,195	11.50
Merchant Bank of Sri Lanka PLC	15/11/2015	1,050,000	111,246	111,246	11.80
Sampath Bank PLC	10/11/2017	476,900	55,808	62,388	16.50
Bank of Ceylon	29/11/2017	5,000,000	507,013	527,014	16.00
Peoples' Leasing Company PLC	19/03/2018	686,300	80,220	93,843	16.75
			1,735,745	1,766,163	

Issuer	Maturity date	No. of debentures	2013		
			Carrying value	Market value	Interest
			Rs. '000	Rs. '000	rate (%)
Bank of Ceylon	29/11/2017	5,000,000	507,014	507,014	16.00
DFCC Bank PLC	26/09/2016	200,000	228,000	228,000	14.00
DFCC Vardhana Bank PLC	30/08/2016	1,481,481	148,195	148,195	11.50
Hatton National Bank PLC	31/07/2022	2,000,000	216,888	216,888	16.75
Merchant Bank of Sri Lanka	15/11/2015	1,050,000	111,246	111,246	11.80
Nations Trust Bank PLC	03/08/2016	200,000	209,452	209,452	11.50
People's Leasing Company PLC	19/03/2018	686,300	73,232	77,709	16.75
Sampath Bank PLC	10/11/2017	480,234	55,854	58,897	16.50
Urban Development Authority	05/10/2015	1,743,000	178,923	166,617	11.00
			1,728,804	1,724,018	

Fair values for held to maturity financial assets are based on market prices /quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

At the reporting date, there were no held to maturity assets that were overdue and impaired.

## 1.2 Loans and receivables (L&R)

### As at 31 December

	2014 Rs.'000	2013 Rs.'000
Bank deposits	459,962	681,993
Unquoted debentures	485,100	858,685
Reverse repurchase agreements	894,434	490,998
	1,839,496	2,031,676

## 1.3 Available for sale financial assets (AFS)

### As at 31 December

	Note	2014 Rs.'000	2013 Rs.'000
Equity securities - unlisted		-	100,000
Debt securities - listed	1.3 (a)	3,693,290	2,072,964
Debt securities - unlisted			
Treasury bonds		2,229,944	408,135
Treasury bills		47,442	199,496
		5,970,676	2,780,595

All debt securities, both listed and unlisted, pay a fixed interest rate.

At the reporting date there were no available for sale assets that were overdue but impaired.

Interest-bearing available for sale financial assets with a carrying amount of Rs. 5,971 million as at 31 December 2014 (2013- Rs. 2,781 million) have stated interest rate of 8% to 17.5% (2013 - 8% to 17.5%) and mature in 1 to 8 years.

### 1.3 (a) Debt securities - listed (AFS)

Issuer	Maturity date	No. of debentures	2014		Interest rate %
			Carrying value Rs. '000	Market value Rs. '000	
Bank of Ceylon	24/10/2021	242,499	31,044	31,044	13.25
Bank of Ceylon	25/10/2023	452,300	60,604	60,604	13.75
Central Finance Company PLC	17/06/2016	24,500	27,005	27,005	14.25
Central Finance Company PLC	17/06/2018	155,200	181,988	181,988	14.75
Central Finance Company PLC	12/12/2018	446,900	47,731	47,731	13.50
Central Finance Company PLC	12/12/2018	710,500	88,194	88,194	13.95
DFCC Bank PLC	18/08/2017	3,000,000	309,261	309,261	8.50
Hayleys PLC	09/07/2016	65,400	74,067	74,067	14.25
Hemas Holdings PLC	29/04/2019	1,452,900	152,471	152,471	11.00
Hatton National Bank PLC	13/06/2018	2,533,733	273,005	273,005	14.00
Hatton National Bank PLC	30/08/2023	1,204,706	87,760	87,760	8.00
Lion Brewery (Ceylon) PLC	17/06/2016	47,100	52,728	52,728	13.50
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	34,777	34,777	13.75
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	51,616	51,616	14.00
Lanka Orix Leasing Company PLC	24/11/2019	1,000,000	101,057	101,057	9.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	65,312	65,312	17.50
Merchant Bank of Sri Lanka PLC	12/11/2019	500,000	50,616	50,616	9.00
National Development Bank PLC	19/12/2023	4,500,000	590,760	590,760	13.90
Nations Trust Bank PLC	19/12/2018	2,881,300	341,444	341,444	13.00
People'S Leasing Company PLC	19/03/2018	595,000	76,335	76,335	16.75
People'S Leasing Company PLC	24/09/2018	194,800	20,803	20,803	9.625
Sampath Bank PLC	04/12/2018	1,114,800	139,789	139,789	13.00
Sampath Bank PLC	04/12/2018	1,114,800	144,199	144,199	13.40
Sampath Bank PLC	15/12/2019	3,000,000	302,353	302,353	8.25
Seylan Bank PLC	23/12/2019	2,000,000	200,424	200,424	8.60
Senkadagala Finance PLC	28/05/2017	185,014	22,486	22,486	17.25
Singer Sri Lanka PLC	29/05/2015	437,312	46,322	46,322	14.50
Singer Sri Lanka PLC	29/05/2016	655,968	72,376	72,376	14.50
Singer Sri Lanka PLC	23/12/2017	216,700	21,714	21,714	8.25
Siyapatha Finance Limited	24/12/2019	250,000	25,049	25,049	8.90
			3,693,290	3,693,290	

# Notes to the Statement of Financial Position - Life Insurance Fund

Issuer	Maturity date	No. of debentures	2013		Interest rate %
			Carrying value Rs. '000	Market value Rs. '000	
Bank of Ceylon	25/10/2023	402,300	41,261	41,261	13.75
Central Finance Company PLC	17/06/2016	24,500	25,380	25,380	14.25
Central Finance Company PLC	17/06/2018	140,100	145,309	145,309	14.75
Central Finance Company PLC	12/12/2018	710,500	71,593	71,593	13.95
Central Finance Company PLC	12/12/2018	446,900	45,021	45,021	13.50
Hatton National Bank PLC	13/06/2018	2,533,733	273,005	273,005	14.00
Hatton National Bank PLC	30/08/2023	1,124,225	79,188	79,188	8.00
Hayleys PLC	09/07/2016	65,400	67,775	67,775	14.25
Lion Brewery (Ceylon) PLC	17/06/2016	33,600	34,756	34,756	13.50
Lion Brewery (Ceylon) PLC	17/06/2017	33,600	34,777	34,777	13.75
Lion Brewery (Ceylon) PLC	17/06/2018	44,800	46,398	46,398	14.00
Merchant Bank of Sri Lanka PLC	28/03/2018	469,300	53,208	53,208	17.50
National Development Bank PLC	19/12/2023	4,500,000	451,601	451,601	13.90
Nations Trust Bank PLC	19/12/2018	2,831,300	284,441	284,441	13.00
People'S Leasing Company PLC	19/03/2018	250,000	28,307	28,307	16.75
People'S Leasing Company PLC	19/03/2018	280,000	31,704	31,704	16.75
Sampath Bank PLC	04/12/2018	1,114,800	112,592	112,592	13.00
Sampath Bank PLC	04/12/2018	1,114,800	113,975	113,975	13.40
Senkadagala Finance PLC	28/05/2017	185,014	19,306	19,306	17.25
Singer Sri Lanka PLC	29/05/2015	437,312	45,347	45,347	14.50
Singer Sri Lanka PLC	29/05/2016	655,968	68,020	68,020	14.50
			2,072,964	2,072,964	

## 1.4 Financial assets at fair value through profit or loss (FVTPL)

As at 31 December	Note	2014 Rs:'000	2013 Rs:'000
Equity securities	1.4.(a)	1,386,070	545,338
Investments in unit linked funds			
Quoted equities		2,233,995	1,428,268
Reverse repurchase agreements		244,005	259,395
Treasury bills		114,382	61,217
Bank deposits		-	28,502
Debentures		26,543	21,911
		4,004,995	2,344,631

## 1.4 (a) Equity securities - (FVTPL)

As at 31 December	2014			2013		
	No. of shares	Cost Rs. '000	Carrying value Rs. '000	No. of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Bank, Finance and Insurance</b>						
Commercial Bank PLC - Non voting	565,107	40,414	70,695	429,739	25,099	39,966
Commercial Bank PLC	346,996	36,106	59,336	341,626	36,106	41,132
Hatton National Bank PLC	1,458,678	173,175	240,290	521,346	37,140	62,040
Sampath Bank PLC	510,811	104,400	120,705	-	-	-
HNB Assurance PLC	336,266	23,645	28,078	336,266	23,645	17,654
Central Finance Company PLC	207,711	39,522	51,928	-	-	-
DFCC Bank PLC	191,520	35,615	41,943	-	-	-
National Development Bank PLC	619,907	120,842	154,977	-	-	-
Peoples Leasing And Finance PLC	3,821,672	67,308	93,630	-	-	-
		641,027	861,582		121,990	160,792

As at 31 December	2014			2013		
	No. of shares	Cost Rs. '000	Carrying value Rs. '000	No. of shares	Cost Rs. '000	Carrying value Rs. '000
<b>Diversified Holding</b>						
Hemas Holdings PLC	482,975	14,780	35,885	405,750	6,708	13,796
Expolanka Holdings PLC	-	-	-	6,376,700	89,589	47,825
Softlogic Holdings PLC	1,117,806	32,416	18,444	1,117,806	32,416	9,390
		47,196	54,329		128,713	71,011
<b>Beverage, Food and Tobacco</b>						
Distilleries Company of Sri Lanka PLC	357,856	65,470	75,150	162,500	24,363	31,363
		65,470	75,150		24,363	31,363
<b>Construction and Engineering</b>						
Colombo Dockyard PLC	238,350	50,507	46,002	238,350	50,507	45,191
		50,507	46,002		50,507	45,191
<b>Manufacturing</b>						
Chevron Lubricants Lanka PLC	122,200	16,129	48,831	272,200	35,927	72,895
Tokyo Cement Company (Lanka) PLC - Voting	640,777	7,817	41,586	640,777	7,817	18,262
Tokyo Cement Company (Lanka) PLC - Non voting	2,658,150	68,109	124,667	2,658,150	68,109	62,201
Lanka Floortiles PLC	455,200	61,210	50,072	455,200	61,211	35,915
Piramal Glass PLC	1,874,100	16,585	9,184	1,874,100	16,585	8,433
Textured Jersey Lanka PLC	1,553,000	25,384	31,992	-	-	-
		195,234	306,332		189,649	197,706
<b>Motors</b>						
Diesel and Motor Engineering PLC	22,062	33,340	14,030	22,062	33,340	10,612
		33,340	14,030		33,340	10,612
<b>Telecommunication</b>						
Dialog Axiata PLC	-	-	-	2,000,000	14,241	18,000
Sri Lanka Telecom PLC		-	-	288,200	13,844	10,663
		-	-		28,085	28,663
<b>Hotels and travel</b>						
Aitken Spence Hotel Holdings PLC	364,900	25,931	28,645	-	-	-
		25,931	28,645		-	-
		1,058,705	1,386,070		576,647	545,338

# Notes to the Statement of Financial Position - Life Insurance Fund

## 2 Property, Plant and Equipment

Refer Note 5.31 for the Accounting Policy.

As at 31 December Rs. '000	Land	Buildings	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total 2014	Total 2013
<b>Cost / Revaluation</b>								
Balance as at 1 January	724,000	290,000	59,765	90,995	77,747	-	1,242,507	1,127,372
Additions during the year	-	-	9,721	8,891	28,416	-	47,028	37,073
Asset transfers	-	-	83,676	74,853	302,409	80	461,018	-
Surplus on revaluation	-	-	-	-	-	-	-	87,000
Disposals during the year	-	-	-	-	(4,531)	-	(4,531)	(8,938)
<b>Balance as at 31 December</b>	<b>724,000</b>	<b>290,000</b>	<b>153,162</b>	<b>174,739</b>	<b>404,041</b>	<b>80</b>	<b>1,746,022</b>	<b>1,242,507</b>
<b>Accumulated depreciation and impairment losses</b>								
Balance as at 1 January	-	-	32,581	49,566	51,154	-	133,301	122,154
Depreciation charge for the year	-	8,535	13,385	19,323	22,971	8	64,222	37,485
Accumulated depreciation on revaluation	-	-	-	-	-	-	-	(18,037)
Accumulated depreciation on assets transfers	-	-	57,819	61,962	229,153	19	348,953	-
Accumulated depreciation on disposals	-	-	-	-	(4,388)	-	(4,388)	(8,301)
<b>Balance as at 31 December</b>	<b>-</b>	<b>8,535</b>	<b>103,785</b>	<b>130,851</b>	<b>298,890</b>	<b>27</b>	<b>542,088</b>	<b>133,301</b>
<b>Carrying amount</b>								
<b>Balance as at 31 December 2014</b>	<b>724,000</b>	<b>281,465</b>	<b>49,377</b>	<b>43,888</b>	<b>105,151</b>	<b>53</b>	<b>1,203,934</b>	
Balance as at 31 December 2013	724,000	290,000	27,184	41,429	26,593	-		1,109,206

## 3 Intangible Assets

Refer Note 5.32 for the Accounting Policy.

As at 31 December	2014 Rs. '000	2013 Rs. '000
<b>Cost</b>		
Balance as at 1 January	152,397	155,681
Acquisitions during the year	6,405	-
Asset transfers	28,622	-
Disposal during the year	-	(3,284)
<b>Balance as at 31 December</b>	<b>187,424</b>	<b>152,397</b>
<b>Accumulated amortisation and impairment losses</b>		
Balance as at 1 January	85,701	62,642
Amortisation	28,355	26,343
Accumulated amortisation on asset transfers	6,602	-
Accumulated amortisation on disposal	-	(3,284)
Balance as at 31 December	120,658	85,701
<b>Carrying amount as at 31 December</b>	<b>66,766</b>	<b>66,696</b>

#### 4 Reinsurance Receivables

Refer Note 5.38 for the Accounting Policy.

As at 31 December	2014 Rs.'000	2013 Rs.'000
Reinsurance receivables on outstanding claims	26,329	56,053
Reinsurance receivables on settled claims	41,207	31,428
<b>Total reinsurance receivables</b>	<b>67,536</b>	<b>87,481</b>

#### 5 Receivables and Other Assets

Refer Note 5.29 for the Accounting Policy.

As at 31 December	Note	2014 Rs.'000	2013 Rs.'000
<b>Financial assets</b>			
Agent / advisor loans		64,556	85,828
Refundable deposits		7,207	3,757
Other receivables		16,547	52,974
		88,310	142,559
<b>Non financial assets</b>			
Taxes recoverable	5.1	202,930	158,526
Prepayments		47,846	12,517
Inventories		6,106	4,408
Advance payments		129,519	24,378
Other receivables		282	-
		386,683	199,829
<b>Total receivable and other assets</b>		<b>474,993</b>	<b>342,388</b>

#### 5.1 Taxes recoverable

As at 31 December	2014 Rs.'000	2013 Rs.'000
ACT recoverable	92,296	-
WHT receivable	99,220	153,727
ESC receivable	11,414	4,799
	202,930	158,526

#### 6 Cash and Cash Equivalent

Refer Note 5.29 for the Accounting Policy.

As at 31 December	2014 Rs.'000	2013 Rs.'000
Cash at Bank - Life	188,383	237,703
Cash in hand - Life	550	200
Cash at Bank - Unit Linked	294	421
<b>Total cash and cash equivalents</b>	<b>189,227</b>	<b>238,324</b>

# Notes to the Statement of Financial Position - Life Insurance Fund

## 7 Other Reserves

Refer Note 5.36 for the Accounting Policy.

As at 31 December	Note	2014 Rs.'000	2013 Rs.'000
Capital reserves	7.1	356,668	335,818
Reserve for available for sale		316,168	13,005
Reserve on retirement benefit obligation		2,887	(2,402)
<b>Total other reserves</b>		<b>675,723</b>	<b>346,421</b>

### 7.1 Capital reserves

As at 31 December	Note	2014 Rs.'000	2013 Rs.'000
Revaluation reserve	7.1.(a)	339,916	319,066
Reserve on Cornhill merger	7.1.(b)	16,752	16,752
		356,668	335,818

#### 7.1 (a) Revaluation reserve

As at 31 December	2014 Rs.'000	2013 Rs.'000
Balance as at 1 January	319,066	216,376
Revaluation surplus during the year	-	105,037
Adjustment for deferred tax	-	2,790
Transfer to retained earnings	(4,521)	(5,137)
Reversal of deferred tax on revaluation reserve	25,371	-
<b>Balance as at 31 December</b>	<b>339,916</b>	<b>319,066</b>

#### 7.1 (b) Reserve on merger with Cornhill (Private) Limited

The unrealised gain reflects the net result of the merger of the Company and Cornhill (Private) Limited. The investment in Cornhill (Private) Limited was absorbed by merging all assets and liabilities into the Life policy holders.

## 8 Insurance Contract Liabilities - Life

Refer Note 5.37.1 for the Accounting Policy.

As at 31 December	2014 Rs.'000	2013 Rs.'000
Insurance contract liabilities	20,078,775	17,235,833
Unclaimed benefits	357,101	282,183
<b>Total insurance contract liabilities - Life</b>	<b>20,435,876</b>	<b>17,518,016</b>

## 9 Employee Benefits

Refer Note 5.39 for the Accounting Policy.

As at 31 December	2014 Rs.'000	2013 Rs.'000
Balance as at 31 January	116,383	106,820
Payments during the year	(40,369)	(13,206)
Provisions during the year	19,713	20,367
Net actuarial (gain) / loss on obligation	(5,290)	2,402
<b>Balance as at 31 December</b>	<b>90,437</b>	<b>116,383</b>

## 10 Other Liabilities

Refer Note 5.29 for the Accounting Policy.

As at 31 December	2014 Rs.'000	2013 Rs.'000
<b>Financial liabilities</b>		
Agency commission payable	107,482	75,307
Premiums in suspense	204,415	199,067
Other payables	814,153	733,759
	1,126,050	1,008,133
<b>Non financial liabilities</b>		
Government levies	5,028	4,223
Other staff related provisions	91,776	78,417
Other liabilities	127,280	47,136
	224,084	129,776
<b>Total other liabilities</b>	<b>1,350,134</b>	<b>1,137,909</b>

# Shareholder Information

## Stock exchange listing

Union Assurance PLC is a public quoted company, the ordinary shares of which are listed on the Colombo Stock Exchange (CSE). The audited income statement and statement of profit or loss and other comprehensive income for the year ended 31 December 2014 and the audited statement of financial position of the Company as at that date will be submitted to the Colombo Stock Exchange within three months of the balance sheet date.

The CSE ticker symbol for Union Assurance shares is 'UAL.N0000'

## Share market performance

In 2014, the All Share Price Index (ASPI) crossed the 7,500 mark and closed the year at 7,298.95. S&P SL20 crossed the 4,000 mark for the first time since its launch. The market capitalization reached Rs. 3 trillion closing the year on Rs. 3.1 trillion. Daily average turnover increased by 71% over the previous year from Rs. 828 million in 2013 to 1.4 billion in 2014.

Most notably, foreign purchases have been the highest in history, a record Rs. 106 billion as at 31 December 2014. This achievement was supported by the initiatives such as the investor forum held in Singapore, London and New York by the CSE in association with the Securities and Exchange Commission.

An increase was seen in the local retail investor participation as well during 2014. The low interest rate environment which prevailed during the year was a key factor which brought in the local investors.

## UA Share

Adequate corporate disclosures are provided to the financial community by Union Assurance in order to allow optimum pricing of Company securities. UA share price shows an increase from Rs. 104.00 in 2013 to Rs. 164.00 in 2014.

The Company Share was traded between a low of Rs. 100.20 and high of Rs. 180.00 during the year 2014.

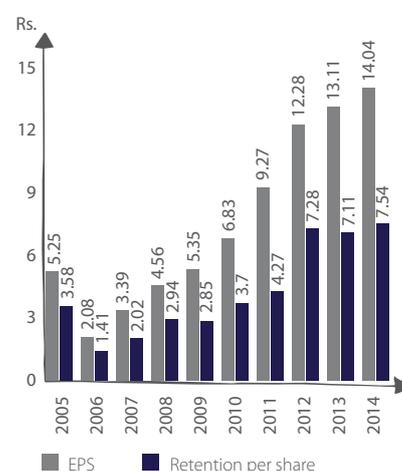
## Earnings Per Share (EPS)

EPS for the year ended 31 December 2014 was Rs.14.04, an increase from Rs. 13.11 recorded in 2013. This was due to Rs. 80 million (7%) increase in the profit in 2014, compared with 2013.

## EPS Vs Retention Ratio

Year	EPS (Rs.)*	Retention per share (Rs.)	Retention ratio
2005	5.25	3.58	68%
2006	2.08	1.41	68%
2007	3.39	2.02	59%
2008	4.56	2.94	64%
2009	5.35	2.85	53%
2010	6.83	3.70	54%
2011	9.27	4.27	46%
2012	12.28	7.28	59%
2013	13.11	7.11	54%
2014	14.04	7.54	54%

EPS vs Retention ratio



\* Diluted for subsequent bonus issues, subdivision of shares and rights issues.

## Price Earnings Ratio (PER)

PER as at 31 December 2014 increased to 11.68 times from 7.93 times as at 31 December 2013. The Company shares were trading at a 40.6% discount to the market PER which on 31 December 2014 was estimated at 19.66 times.

## Price to book ratio

The price to book ratio as at 31 December 2014 was 2.26 times, an increase of 30% from 1.74 times recorded in 2013.

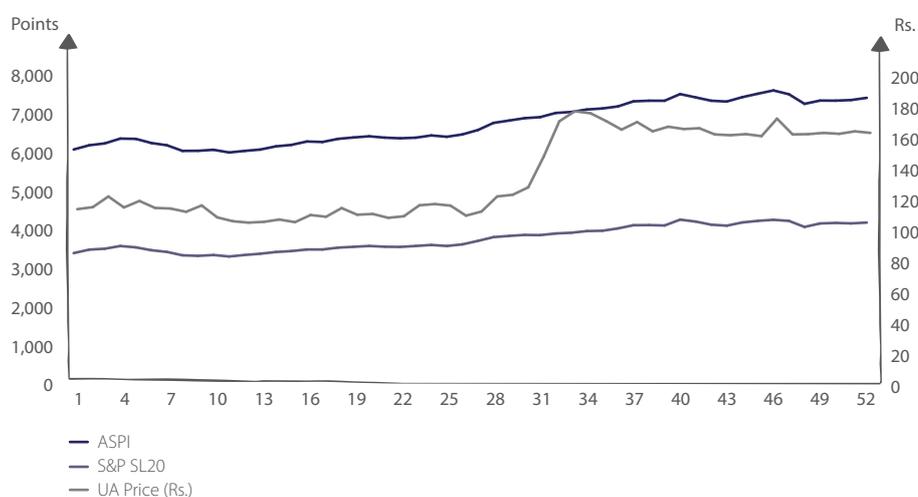
## Total Shareholder Returns (TSR)

TSR of UA share were 61.4% in 2014 compared with 32.5% recorded in the previous year. Dividend yield of 4% and capital gain of 57.7% contributed to this positive TSR in 2014.

## Valuation

31 December	2014	2013
Earnings per share (Rs.)	14.04	13.11
Net assets per share (Rs.)	72.5	59.7
Price earnings ratio (Times)	11.7	7.93
Price / book value (Times)	2.26	1.74
Dividend yield (%)	3.7	7.2
Total shareholder returns (%)	61.4	32.5

### Company Share Price Movement vs. Market Performance



### Company share price movement Vs. market performance

#### Market capitalization and market price

The market capitalization of Union Assurance (UA) Share as at 31 December 2014 was Rs 14.05 billion, valued at the year end price of Rs 164.00 per share. UA's main benchmark indices, the All Share Price Index (ASPI) and the S&P Sri Lanka 20 - increased by 23.44% and 25.29% respectively. In the same period, the UA share price ranged between a low of Rs 100.20 and a high of Rs 180.00, closing the year at Rs. 164.00.

### Market information on ordinary shares of the Company

Market value	2014	2013
Highest price (Rs.)	180.00 (12 Nov 2014)	114.90 (08 May 2013)
Lowest price (Rs.)	100.20 (11 Mar 2014)	83.00 (02 Jan 2013)
Year end price (Rs.)	164.00	104.00
Trading statistics	2014	2013
Number of transactions	1,425	981
Number of shares traded	572,423	3,301,288
Value of shares traded (Rs.)	84,082,580	306,617,076
Percentage of total shares in issue (%)	0.7	3.9
Market capitalization (Rs.)	14,057,142,904	8,914,285,744
Percentage of total market capitalization (%)	0.5	0.4

# Shareholder Information

## Dividends

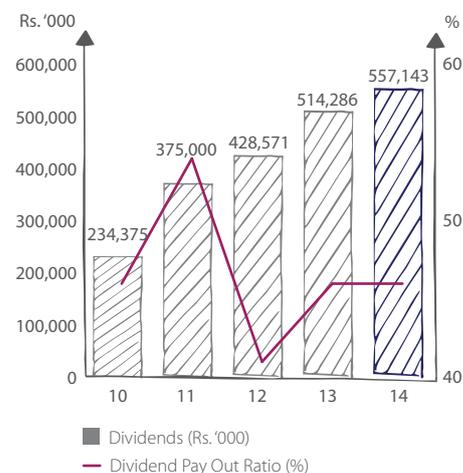
The dividend policy of UA seeks to ensure a dividend payout which correlates with the growth in profits, whilst ensuring that the Company retains adequate funds to meet the solvency requirements as stipulated by the Insurance Board of Sri Lanka (IBSL) in the short, medium and long term.

The Board of Directors declared a first and final dividend of Rs. 6.50 per share, based on the profits of 2014. Accordingly, the gross dividend payable out of the profits for the year ended 31 December 2014 will be Rs. 557 million, an increase of Rs. 43 million, compared to the dividend of Rs. 514 million in the previous year. UA pays its dividends annually.

### Gross dividend Vs. dividend payout

Year	DPS (Rs.)	Dividends (Rs. '000)	Dividend payout ratio
2005	1.67	125,000	32%
2006	0.67	50,000	32%
2007	1.38	103,125	41%
2008	1.63	121,875	36%
2009	2.50	187,500	47%
2010	3.13	234,375	46%
2011	5.00	375,000	54%
2012	5.00	428,571	41%
2013	6.00	514,286	46%
2014	6.50	557,143	46%

Dividend vs Dividend Payout



## Free float

The Colombo Stock Exchange (CSE) defines the free float of a Company as the percentage of shareholders, excluding Directors' shareholdings, who hold less than 3% stake in the company. According to this definition, the UA free float is 4 %.

## Shareholder base

UA has a diversified shareholder base, both geographically and in the ratio of private to institutional investors. The total number of shareholders decreased from 1,345 as at 31 December 2013 to 1,298 as at 31 December 2014. On 31 December 2014, UA had 1,212 registered individual shareholders, representing 93% of the shareholders, 69% of the shareholders hold less than 1,000 shares. The vast majority of UA's individual shareholders are residents of Sri Lanka. Institutional shareholders represent approximately 97% of UA's ordinary share capital.

The top twenty shareholders hold 97.72% of UA's shares. The Directors hold 0.01% of the total outstanding shares in their individual capacity.

## Distribution of Shareholders

Range of shareholders	No. of shareholders	31 December 2014			31 December 2013			
		No. of shareholders	%	No. of shares	%	No. of shares	%	
Less than 1,000	900	69.34	236,841	0.28	918	68.25	250,890	0.29
1,001 - 10,000	339	26.12	1,070,796	1.25	373	27.73	1,169,683	1.36
10,001 - 100,000	53	4.08	1,335,228	1.56	48	3.57	1,222,292	1.43
100,001 - 1,000,000	4	0.31	1,082,297	1.26	4	0.30	1,082,297	1.26
Over 1,000,001	2	0.15	81,989,124	95.65	2	0.15	81,989,124	95.65
<b>Total</b>	<b>1,298</b>	<b>100.00</b>	<b>85,714,286</b>	<b>100.00</b>	<b>1,345</b>	<b>100.00</b>	<b>85,714,286</b>	<b>100.00</b>

## Composition of shareholders

Range of shareholders	31 December 2014				31 December 2013			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
<b>Directors &amp; spouses:</b>	1	0.08	8,562	0.01	1	0.07	8,562	0.01
<b>Resident:</b>								
Individuals	1,203	92.68	2,211,164	2.58	1,245	92.57	2,363,291	2.76
Institutions	84	6.47	7,823,700	9.13	85	6.32	7,651,590	8.92
<b>Non Resident:</b>								
Individuals	8	0.62	25,585	0.03	11	0.82	31,785	0.04
Institutions	1	0.08	2,000	0.00	2	0.15	15,783	0.02
<b>Shareholders holding more than 10%:</b>	1	0.08	75,643,275	88.25	1	0.07	75,643,275	88.25
<b>Total</b>	<b>1,298</b>	<b>100.00</b>	<b>85,714,286</b>	<b>100.00</b>	<b>1,345</b>	<b>100.00</b>	<b>85,714,286</b>	<b>100.00</b>

## Public Shareholding

Range of shareholders	2014		2013	
	No. of shareholders	% of shares	No. of Shareholders	% of shares
Public Shareholding	3,716,600	4.34	3,716,600	4.34

## Twenty Largest Shareholders

Name of Shareholder	31 December 2014		31 December 2013	
	No. of shares	%	No. of shares	%
1 John Keells Holdings PLC	75,643,275	88.25	75,643,275	88.25
2 Whittall Boustead Limited	6,345,849	7.40	6,345,849	7.40
3 Waldock Mackenzie Ltd / Mr. S.N.P. Palihena and Mrs. A.S. Palihena	600,000	0.70	600,000	0.70
4 Waldock Mackenzie Ltd / Hi-Line Trading (Pvt) Ltd	212,886	0.25	212,886	0.25
5 Corporate Holdings (Private) Limited	149,373	0.17	149,373	0.17
6 Dr. (Mrs.) V. Bandaranayake	120,038	0.14	120,038	0.14
7 Dr. A.C. Visvalingam	84,872	0.10	89,375	0.10
8 People's Leasing & Finance PLC / Mr. L.P. Hapangama	72,105	0.08	38,610	0.05
9 Mr. H.A.D. Ratnapala	56,250	0.07	56,250	0.07
10 Mr. J.W. Nanayakkara	56,250	0.07	56,250	0.07
11 Mrs. R.Z. Wikramanayake	53,585	0.06	53,585	0.06
12 Dr. N.I. Wikramanayake	53,059	0.06	53,059	0.06
13 Piere Lanka Exports Private Limited	52,400	0.06	-	-
14 Waldock Mackenzie Limited / Dr. H.S.D. Soysa	46,141	0.05	41,065	0.05
15 Assetline Leasing Company Ltd/Mr. L.H.L.M.P. Haradasa	42,238	0.05	-	-
16 Mr. N.D. Kurukulasuriya	39,000	0.05	39,000	0.05
17 Mr. H.A. Rehmanjee	36,596	0.04	36,596	0.04
18 Mrs. L. Amaradasa	33,750	0.04	33,750	0.04
19 Mr. S. Nishyanthan	30,300	0.04	30,300	0.04
20 Mr. S. Vasudevan Subramaniam	28,800	0.03	28,800	0.03
	<b>83,756,767</b>	<b>97.72</b>	<b>83,628,061</b>	<b>97.57</b>
Other shareholders	1,957,519	2.28	2,086,225	2.43
<b>Total shareholders</b>	<b>85,714,286</b>	<b>100.00</b>	<b>85,714,286</b>	<b>100.00</b>

# Shareholder Information

## Directors' Shareholdings

31 December	2014	2013	2012
Mr. Ajit D. Gunawardene (Chairman)	8,562	8,562	8,562
Mr. A. S. D. Zoysa	Nil	Nil	Nil
Mr. G. F. C. De Saram	Nil	Nil	Nil
Mrs. D. C. Alagaratnam	Nil	Nil	Nil
Mr. S. Rajendra	Nil	Nil	Nil
Mr. H. A. J. De S. Wijeyeratne	Nil	Nil	Nil
Mr. A. D. Pereira (Appointed Date: 28 <sup>th</sup> May 2014)	Nil	Nil	Nil
<b>CEO's Shareholding</b>			
Mr. A. D. Pereira	Nil	Nil	Nil

## Record of Share Issue

Year	Issue	Basis	No. of shares	Share capital (Rs.)
1987	Prior to public issue	-	8,000,000	80,000,000
1988	Public issue	-	2,000,000	20,000,000
1995	Rights @ Rs. 50	3:1	3,333,333	33,333,333
1999	Bonus	2:1	6,666,667	66,666,667
2002	Bonus	4:1	5,000,000	50,000,000
2007	Bonus	2:1	12,500,000	125,000,000
2011	Share Split	1:2	37,500,000	-
2012	Rights @ Rs. 70	7:1	10,714,286	750,000,020
			85,714,286	1,125,000,020

## Compliance with contents of Annual report as per Section 7.6 of the Listing Rules of the Colombo Stock Exchange

Section 7.6 to the listing rules 2013 of the Colombo Stock Exchange includes the following information as compulsory for the listed entities to disclosure in the annual report.

Listing rule number	Compliance Requirement	Detail/Reference	Compliance status
7.6.i	Names of the persons who during the financial year were Directors of the entity	The names of the persons who held the position of Director during the financial year is provided on pages 116 to 117.	Complied
7.6.ii	Principal activities of the entity during the year and any changes therein	The principal activities of the Company during the year is the provision of Life and Non Life insurance services. No significant changes took place during the year, except as described in Note 49	Complied
7.6.iii	The names and the number of shares held by the 20 largest holders of voting and non voting shares and the percentage of such shares held	The 20 largest shareholders together with their shareholding as at 31 December 2014 is provided on page 289.	Complied
7.6.iv	The public holding percentage	The details of the public shareholding is available on page 289.	Complied
7.6.v	A statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at the beginning and end of each financial year	The statement of each Director's holding and Chief Executive Officer's holding in shares is available on page 290.	Complied
7.6.vi	Information pertaining to material foreseeable risk factors of the entity	Information pertaining to material foreseeable risk factors is provided in the risk management section from pages 156 to 163 and Note 44 and 45 to the financial statements.	Complied
7.6.vii	Details of material issues pertaining to employees and industrial relations of the entity	UA did not encounter any relating to employees and industrial relations during the year 2014.	Complied
7.6.viii	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Refer Property, Plant and Equipment Note 25 on page 230.	Complied
7.6.ix	Number of shares representing the entity's stated capital	The total number of shares is 85,714,286 which are ordinary shares with voting rights.	Complied

Listing rule number	Compliance Requirement	Detail/Reference	Compliance status
7.6.x	A distribution schedule of the number of holders in each class of equity securities, and the percentages of their total holdings in the given categories	The distribution schedule of the number of shareholders and the percentages of their total holdings in the given categories is provided on page 288.	Complied
7.6.xi	List of ratios and market price information	The list of applicable ratios and the market price information is provided in the shareholder information section on pages 286 to 288.	Complied
7.6.xii	Significant changes in the entity's fixed assets and the market value of land, if the value differs substantially from the book value of the land	There were no significant changes in the entity's fixed assets and market value of the land. Refer Note 5.31 for UA's policy on revaluation of Land and Buildings	Complied
7.6.xiii	If during the year the entity has raised fund either through a public issue, rights issue, and private placement	No funds raised during 2014.	Complied
7.6.xiv	Employee share Option Schemes and Employee Share Purchase Scheme	The details of Employee Share option scheme is given in Note 35.2 (c) in page 239.	Complied
7.6.xv	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 C. and 7.10.6 C of section 7 of the rule	The disclosures relating to Corporate Governance practices are available in the Corporate Governance Report from page 115 to 155.	Complied
7.6.xvi	Details of investments in related party transactions	There are no material transactions during the year with any related party on the Company other than disclose in Note 47.	Complied

# Quarterly Analysis

## Quarterly Analysis 2014

Rs '000	1st Quarter January-March	2nd quarter April-June	3rd quarter July- September	4th quarter October- December	Total
Gross written premium	2,742,999	2,644,554	2,639,315	3,141,276	11,168,144
Change in reserve for unearned premium	(135,931)	14,095	176,244	(147,724)	(93,316)
<b>Gross earned premium</b>	<b>2,607,068</b>	<b>2,658,649</b>	<b>2,815,559</b>	<b>2,993,552</b>	<b>11,074,828</b>
Premium ceded to reinsurers	(373,976)	(299,507)	(345,585)	(379,178)	(1,398,246)
Change in reserve for unearned reinsurance premium	79,435	(57,807)	(21,699)	44,560	44,489
<b>Net earned premium</b>	<b>2,312,527</b>	<b>2,301,335</b>	<b>2,448,275</b>	<b>2,658,934</b>	<b>9,721,071</b>
<b>Other revenue</b>					
Net Investment income	708,582	720,325	700,134	737,342	2,866,383
Net realised gains / (losses)	57,458	(10,171)	21,324	44,497	113,108
Net fair value gains	42,594	254,326	473,765	47,246	817,931
Other income	36,463	14,406	25,536	115,146	191,551
<b>Total other revenue</b>	<b>845,097</b>	<b>978,886</b>	<b>1,220,759</b>	<b>944,231</b>	<b>3,988,973</b>
<b>Total net revenue</b>	<b>3,157,624</b>	<b>3,280,221</b>	<b>3,669,034</b>	<b>3,603,165</b>	<b>13,710,044</b>
<b>Benefits, losses and expenses</b>					
Net benefits and claims	(1,990,355)	(2,120,745)	(2,475,970)	(1,350,391)	(7,937,461)
Underwriting and net acquisition costs (including reinsurance)	(346,151)	(331,051)	(347,268)	(371,484)	(1,395,954)
Other operating and administrative expenses	(646,009)	(688,379)	(710,718)	(929,090)	(2,974,196)
Depreciation on property, plant and equipment	(39,307)	(39,668)	(40,156)	(40,026)	(159,157)
<b>Total benefits, losses and expenses</b>	<b>(3,021,822)</b>	<b>(3,179,843)</b>	<b>(3,574,112)</b>	<b>(2,690,991)</b>	<b>(12,466,768)</b>
Profit before tax	135,802	100,378	94,922	912,174	1,243,276
Income tax expense	(12,179)	(9,595)	(3,980)	(13,319)	(39,073)
<b>Profit for the year attributable to equity holders of the company</b>	<b>123,623</b>	<b>90,783</b>	<b>90,942</b>	<b>898,855</b>	<b>1,204,203</b>

## Quarterly Analysis 2013

Rs '000	1st Quarter January-March	2nd quarter April-June	3rd quarter July- September	4th quarter October- December	Total
Gross written premium	2,662,517	2,535,061	2,524,469	3,184,728	10,906,775
Change in reserve for unearned premium	(160,595)	(13,599)	110,101	(769,078)	(833,171)
<b>Gross earned premium</b>	<b>2,501,922</b>	<b>2,521,462</b>	<b>2,634,570</b>	<b>2,415,650</b>	<b>10,073,604</b>
Premium ceded to reinsurers	(357,480)	(315,151)	(260,564)	(603,528)	(1,536,723)
Change in reserve for unearned reinsurance premium	21,406	(16,102)	(54,175)	738,845	689,974
<b>Net earned premium</b>	<b>2,165,848</b>	<b>2,190,209</b>	<b>2,319,831</b>	<b>2,550,967</b>	<b>9,226,855</b>
<b>Other revenue</b>					
Net Investment income	592,842	662,041	680,788	717,470	2,653,141
Net realised gains / (losses)	(3,908)	30,993	(93)	4,731	31,724
Net fair value gains and losses	55,759	51,747	(118,987)	56,091	44,609
Other income	25,725	25,755	40,492	61,058	153,030
<b>Total other revenue</b>	<b>670,418</b>	<b>770,536</b>	<b>602,200</b>	<b>839,350</b>	<b>2,882,504</b>
<b>Total net revenue</b>	<b>2,836,266</b>	<b>2,960,745</b>	<b>2,922,031</b>	<b>3,390,317</b>	<b>12,109,359</b>
<b>Benefits, claims and expenses</b>					
Net benefits and claims	(1,804,561)	(1,878,720)	(1,824,180)	(1,268,044)	(6,775,505)
Underwriting and net acquisition costs (including reinsurance)	(307,477)	(310,077)	(267,964)	(328,403)	(1,213,921)
Other operating and administrative expenses	(552,938)	(654,260)	(677,533)	(898,283)	(2,783,014)
Depreciation on property, plant and equipment	(36,650)	(37,489)	(39,491)	(40,685)	(154,315)
<b>Total benefits, claims and expenses</b>	<b>(2,701,626)</b>	<b>(2,880,546)</b>	<b>(2,809,168)</b>	<b>(2,535,415)</b>	<b>(10,926,755)</b>
Profit before tax	134,640	80,199	112,863	854,902	1,182,604
Income tax expense	(23,275)	(1,837)	(11,330)	(22,757)	(59,199)
<b>Profit for the year attributable to equity holders of the company</b>	<b>111,365</b>	<b>78,362</b>	<b>101,533</b>	<b>832,145</b>	<b>1,123,405</b>

# Ten years at a Glance

## Statement of Income

Rs' 000	Group					Company				
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Gross written premium	11,168,144	10,906,775	9,732,756	8,699,900	7,133,375	5,988,401	5,686,123	4,978,134	4,057,654	3,177,359
Net earned premium	9,721,071	9,226,855	8,385,140	7,351,254	5,690,507	4,881,880	4,338,794	3,675,264	2,835,228	2,223,567
Investment and other income	3,988,973	2,882,504	2,333,225	1,658,711	2,229,021	1,795,414	1,249,036	928,837	754,816	523,116
Net claims incurred	(7,937,461)	(6,775,505)	(5,892,875)	(4,956,196)	(4,516,596)	(3,822,631)	(3,172,484)	(2,652,287)	(2,099,885)	(1,495,517)
Underwriting and net acquisition costs (including reinsurance)	(1,395,954)	(1,213,921)	(1,169,233)	(1,087,919)	(848,296)	(615,535)	(546,405)	(426,885)	(320,819)	(219,871)
Other operating and administrative expenses	(2,974,196)	(2,783,014)	(2,504,658)	(2,075,216)	(1,853,829)	(1,690,024)	(1,440,918)	(1,216,593)	(946,372)	(729,474)
Depreciation and amortisation	(159,157)	(154,315)	(143,347)	(128,694)	(107,766)	(81,722)	(70,653)	(56,177)	(42,184)	(26,634)
Profit before income tax	1,243,276	1,182,604	1,008,252	761,940	593,041	467,382	357,370	252,159	180,784	275,187
Income tax expenses	(39,073)	(59,199)	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)
Profit for the year	1,204,203	1,123,405	921,268	695,185	511,971	400,871	342,084	251,932	158,918	260,492

## Insurance Revenue Accounts

### Non Life Insurance

Gross written premium	5,222,645	5,391,712	4,626,433	4,228,272	3,667,870	3,210,217	3,182,236	2,814,654	2,384,910	1,720,783
Net earned premium	4,103,636	3,992,334	3,528,412	3,082,534	2,323,328	2,203,397	1,966,419	1,608,756	1,231,145	807,005
Policy fee income	65,426	51,605	27,799	16,610	15,365	10,303	6,787	5,438	3,213	1,004
Net claims incurred	(2,736,436)	(2,799,257)	(2,320,107)	(2,164,561)	(1,677,537)	(1,643,287)	(1,425,748)	(1,147,955)	(820,783)	(441,141)
Underwriting and net acquisition costs (including reinsurance)	(280,120)	(245,740)	(278,697)	(268,843)	(172,623)	(112,386)	(88,974)	(47,238)	(57,505)	6,187
Other operating and administrative expenses	(1,385,937)	(1,213,583)	(1,061,831)	(786,060)	(664,392)	(648,904)	(593,450)	(526,672)	(411,912)	(333,956)
Underwriting profit / (loss)	(233,431)	(214,641)	(104,424)	(120,320)	(175,859)	(190,877)	(134,966)	(107,671)	(55,842)	39,099
Investment and other operating income	594,577	606,281	579,857	466,086	443,900	423,259	307,336	215,830	161,126	92,088
Income tax expense	(38,824)	(59,199)	(86,984)	(66,755)	(81,070)	(66,511)	(15,286)	(227)	(21,866)	(14,695)
Profit for the year	322,322	332,441	388,449	279,011	186,971	165,871	157,084	107,932	83,418	116,492

### Life Insurance

Gross written premium	5,945,499	5,515,063	5,106,323	4,471,628	3,465,505	2,778,184	2,503,887	2,163,480	1,672,744	1,456,576
Net written premium	5,617,435	5,234,521	4,856,728	4,268,720	3,367,179	2,678,482	2,372,375	2,066,508	1,604,083	1,416,562
Investment and other income	3,159,957	2,017,544	1,722,070	1,215,043	1,806,873	1,361,853	934,914	707,659	590,477	430,024
Net benefits and claims	(5,201,025)	(3,976,248)	(3,572,769)	(2,791,635)	(2,839,059)	(2,179,344)	(1,746,736)	(1,504,332)	(1,279,102)	(1,054,376)
Underwriting and net acquisition costs (including reinsurance)	(1,115,834)	(968,181)	(890,536)	(819,076)	(675,673)	(503,150)	(457,431)	(379,647)	(263,314)	(226,058)
Other operating and administrative expenses	(1,710,533)	(1,695,636)	(1,590,493)	(1,444,052)	(1,334,320)	(1,122,841)	(918,122)	(746,188)	(576,644)	(422,152)
Surplus from life insurance fund	750,000	612,000	525,000	429,000	325,000	235,000	185,000	144,000	75,500	144,000
Investment and other income not attributable to policyholders	167,623	207,074	23,161	-	-	-	-	-	-	-
Expenses not attributable to policyholders	(36,883)	(28,110)	(15,342)	(12,826)	-	-	-	-	-	-
Profit for the year	880,740	790,964	532,819	416,174	325,000	235,000	185,000	144,000	75,500	144,000

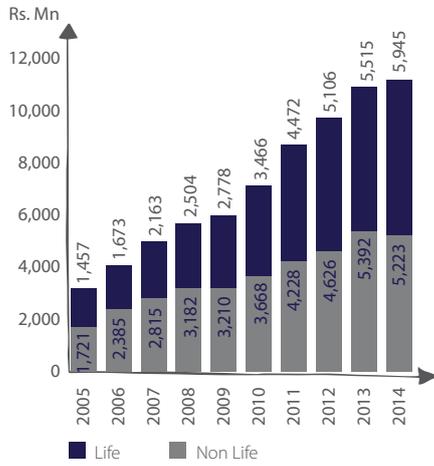
# Ten years at a Glance

## Statement of Financial Position

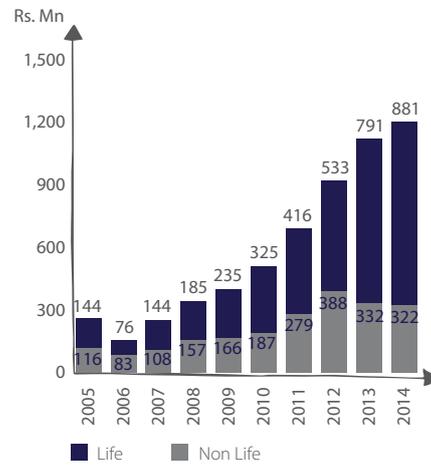
Rs' 000	Group					Company				
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Assets</b>										
Financial investments	24,038,978	24,297,498	20,802,309	16,579,094	14,337,860	11,911,086	9,389,319	7,952,135	6,513,709	5,369,372
Investment in subsidiary	-	-	-	-	-	-	183,200	183,200	183,200	183,200
Property, plant and equipment	1,203,934	1,337,498	1,318,225	1,298,380	1,108,723	1,070,060	353,725	328,622	250,078	180,976
Intangible assets	66,766	117,475	-	-	-	49,500	49,500	49,500	49,500	49,500
Life policyholders loans	660,744	515,735	385,688	246,674	232,618	224,325	189,274	159,757	140,732	127,256
Reinsurance receivable	67,536	502,571	400,627	545,774	619,228	900,800	836,708	920,244	1,110,604	1,513,507
Premiums receivable	159,117	1,844,831	1,459,440	1,236,299	1,237,594	845,756	724,748	628,600	549,013	400,047
Receivables and other assets	816,718	1,087,585	1,055,006	1,795,727	1,552,089	1,329,848	1,164,821	1,017,394	642,374	535,848
Deferred acquisition cost	-	149,145	146,097	147,495	139,176	130,445	115,019	108,854	104,823	113,220
Cash and cash equivalents	196,429	466,402	315,634	373,413	390,138	313,855	272,080	244,301	152,515	167,741
Assets held for sale	8,393,314	-	-	-	-	-	-	-	-	-
<b>Total Assets</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>	<b>9,696,548</b>	<b>8,640,667</b>
<b>Equity</b>										
Stated capital	1,138,433	1,138,433	1,133,305	388,433	388,433	388,433	388,433	388,433	266,667	266,667
Other reserves	1,228,722	829,094	720,830	955,194	1,340,970	584,359	47,958	48,633	45,048	45,708
Retained earnings	3,843,704	3,149,766	2,454,923	1,903,587	1,439,109	1,332,359	1,051,077	716,120	666,212	699,483
<b>Total Equity</b>	<b>6,210,859</b>	<b>5,117,293</b>	<b>4,309,058</b>	<b>3,247,214</b>	<b>3,168,512</b>	<b>2,305,151</b>	<b>1,487,468</b>	<b>1,153,186</b>	<b>977,927</b>	<b>1,011,858</b>
<b>Liabilities</b>										
Insurance contract liabilities - life	20,435,876	17,518,016	15,356,340	13,440,459	11,769,308	9,783,676	8,134,040	6,806,385	5,612,984	4,602,493
Insurance contract liabilities - unit linked	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	2,689,394	2,371,342	2,244,240	2,161,134	2,334,250
Provision for life fund solvency	-	-	-	-	-	-	-	95,323	67,849	-
Reinsurance payable	150,784	764,977	415,394	441,567	405,764	327,196	344,991	285,403	259,034	181,650
Deferred revenue	-	109,402	96,904	154,702	132,422	95,955	83,811	75,759	63,501	51,107
Employee benefits	90,437	186,078	163,572	89,467	83,032	77,823	68,620	64,942	62,537	67,547
Other liabilities	836,207	1,375,588	1,197,374	1,242,930	1,079,303	1,496,480	788,122	867,369	491,582	391,762
Liabilities held for sale	5,261,366	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>29,392,674</b>	<b>25,201,447</b>	<b>21,573,968</b>	<b>18,975,642</b>	<b>16,448,914</b>	<b>14,470,524</b>	<b>11,790,926</b>	<b>10,439,421</b>	<b>8,718,621</b>	<b>7,628,809</b>
<b>Total equity and liabilities</b>	<b>35,603,536</b>	<b>30,318,740</b>	<b>25,883,026</b>	<b>22,222,856</b>	<b>19,617,426</b>	<b>16,775,675</b>	<b>13,278,394</b>	<b>11,592,607</b>	<b>9,696,548</b>	<b>8,640,667</b>
<b>Investor Information</b>										
Return on Net Assets (%)	19.39	21.95	21.38	21.41	16.16	17.39	23.00	21.85	16.25	25.74
Earnings Per Share (Rs.)*	14.04	13.11	12.28	9.27	6.83	5.35	4.56	3.39	2.08	5.25
Dividend Per Share (Rs.)*	6.50	6.00	5.00	5.00	3.13	2.50	1.63	1.38	0.67	1.67
Net Assets Per Share (Rs.)	72.46	59.70	50.27	43.30	84.49	61.47	39.67	30.75	39.12	40.47
Market Price Per Share (Rs.)	164.00	104.00	83.00	108.10	122.10	90.75	49.75	46.25	102.50	96.00
Market Capitalization (Rs. Mn.)	14,057.10	8,914.26	7,114.29	8,107.50	4,578.75	3,403.13	1,865.63	1,734.38	2,562.50	2,400.00
Price Earnings Ratio (Times) *	11.68	7.94	6.76	11.66	8.94	8.49	5.45	6.88	16.12	9.21
<b>Other Information</b>										
Number of employees	1,134	1,157	1,088	1,009	989	949	902	897	792	597
No of Shares ('000)	85,714	85,714	85,714	75,000	37,500	37,500	37,500	37,500	25,000	25,000

\* Diluted for subsequent bonus issues, subdivision of shares and rights issues.

Gross Written Premium - Life and Non Life



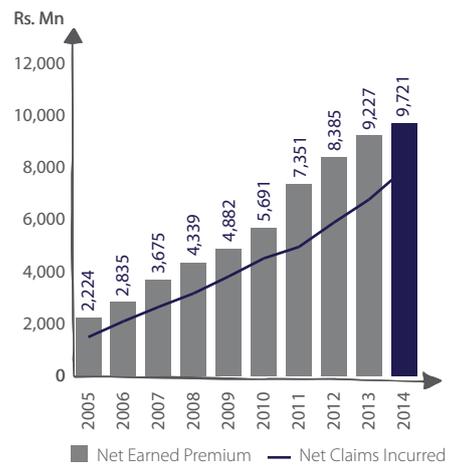
Profits - Life and Non Life



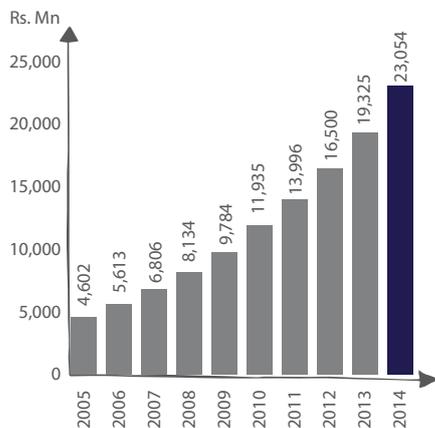
Investment vs Investment Income



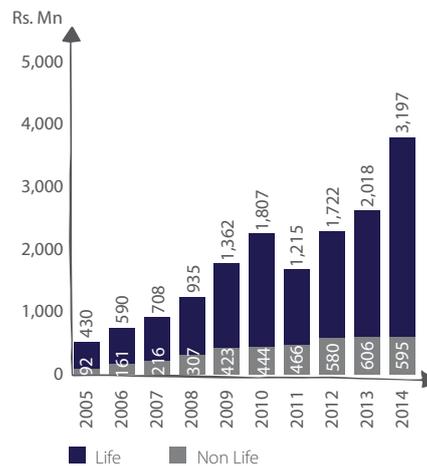
Net Earned Premium vs Net Claims



Life fund



Investment income - Life and Non Life



# Understanding Our Financials

An insurance company's statement of income includes the income and expenses derived from both non life and life insurance. Since non life and life insurance are two distinct lines of business, the accounting practices adopted differs. This brief note is to facilitate the reviewer in understanding our financials and is to be read with the additional information provided in the glossary. We have provided the following overview based on the life and non life insurance statements as presented in the segmental analysis.

## Statement of income

For the year ended 31 December 2014

	Comment	Life and Non Life Insurance Rs. '000
Gross written premium	1	11,168,144
Change in reserve for unearned premium	2	(93,316)
<b>Gross earned premium</b>	3	11,074,828
Premium ceded to reinsurers	4	(1,398,246)
Change in reserve for unearned reinsurance premium	5	44,489
<b>Net earned premium</b>	6	9,721,071
<b>Other revenue</b>		
Net investment income	7	2,864,993
Net realized gains / (losses)	8	113,108
Net fair value gains	9	817,931
Other income		191,551
		3,987,583
<b>Total net revenue</b>		13,708,654
<b>Benefits, claims and expenses</b>		
Net benefits and claims	10	(7,937,461)
Underwriting and net acquisition costs (including reinsurance)	11	(1,395,954)
Other operating and administrative expenses	12	(2,974,196)
Depreciation on property, plant and equipment		(159,157)
<b>Total benefits, claims and expenses</b>		(12,466,768)
<b>Profit before income tax</b>		1,241,886
Income tax expense		(38,824)
<b>Profit for the year attributable to equity holders of the company</b>		1,203,062

## Statement of financial Position

As at 31 December 2014

	Comment	Life and Non Life Insurance Rs. '000
<b>Assets</b>		
Financial investments	13	29,376,994
Loans to life policyholders	14	660,744
Reinsurance receivables	15	659,133
Premium receivables	16	1,709,976
Deferred expenses	17	29,204
<b>Liabilities</b>		
Insurance contract liabilities – Life	19	20,435,876
Insurance contract liabilities - Non life	20	2,618,007
Insurance contract liabilities - Unit linked	21	3,653,048
Reinsurance payables	22	629,417
Deferred revenue	23	130,328

## COMMENTS

### Statement of Income

1. The main source of income of an insurance company consists of the premiums paid by customers for the risk/s which they transfer to the company. GWP is comparable with the "turnover" of a trading or manufacturing organisation.
2. A Non Life insurance policy is generally issued for a period of one year or less. For example, a motor insurance policy is generally issued for a period of one year whereas a marine insurance policy is issued for a lesser period to cover the duration of the voyage. The unearned premium is derived by deducting the earned premium from its related GWP figure. This figure is then transferred to the balance sheet. For a descriptive explanation on earned premium refer comment 3.
3. The premium relevant to the reporting period which represents GWP collected from customers minus net transfer of unearned premium to / from balance sheet.
4. Reinsurance is the process whereby part of the risk/s undertaken by the insurance company is transferred to another entity called the reinsurance company, for which the insurance company pays a premium known as the Reinsurance Premium. In Non Life business, such reinsurance premium paid is recognised as an expense when the risk is transferred to the reinsurers.
5. Reinsurance portion relevant to net change in reserve for unearned premium.
6. The portion of premium which is applicable for the financial year and earned by the insurer.
7. Investment income refers to interest income and dividend income received from investments maintained by the Life and Non Life segments after deducting the costs of the related investments such as bank charges, custodian fees, brokerage fee etc.

8. Net realised gains / losses illustrate the profit or loss arrived on selling of financial investments.
9. Net fair value gains / losses incurred by company due to change in the market value of investments which are sensitive to market value change (e.g: Quoted equity)

10. Net benefit and claim consist of 3 main categories which are presented below.

#### *Claim paid*

Total amount of claims and claims related expenses incurred during the year.

#### *Reinsurance Recoveries*

Part of the claim paid, recovered from reinsurers and net off against the claim expense.

#### *Incurred but not reported claims*

A provision is also made in respect of claims incurred by policyholders but not informed to insurers.

In the case of Life business benefits paid to life policy holders, such as surrenders, policy maturities, annuities and interim payments are included.

11. Net acquisition expenses consists of the following;

#### *Commission / franchise fees*

Insurance business is predominantly transacted through intermediaries such as brokers and direct agents. When policies are sold by intermediaries, the insurance company pays them a commission at a specified percentage of the premium which is a key expense item.

#### *Reinsurance commission*

The agreed risk transfer to a reinsurer takes place at the same rate as the rate charged for the policy. In view of this, the reinsurer offers a discount to the insurer to cover expenses incurred in acquiring the business. In insurance accounting this is known as the Reinsurance Commission, which is an income to the insurance company.

- 11.3 Deferred acquisition expenses  
It describes the practice of deferring the cost of acquiring a new customer over the duration of the insurance contract. Insurance companies face large upfront costs incurred in acquiring new business, such as commissions to sales agents, underwriting, bonus interest and other acquisition expenses. Accounting process is similar to the explanation given in note 1 (UPR).

12. Other operating and administrative expenses e.g. staff, administration, sales and marketing costs related to the company.

### Statement of Financial Position

Industry specific items are selected and explained below.

13. Financial Investments explains how the company has invested its money received from policyholders to increase profitability of the company. In the case of Life insurance business, incomes earned from such investments are accumulated to Life fund. Financial investments of Non Life business classified under Assets held sale (Refer Note 18).
14. Life policyholders can obtain loans from the company only up to a certain percentage of the surrender value of the policy. Loan granted under these criteria are presented here.
15. This is the portion receivable to the company from the reinsurers for the claims made by the policyholders. Non Life portion of reinsurance receivable classified under Assets held for sale (Refer Note 18).
16. In Non Life business premium receivable consist of receivable amount on policies raised on credit basis (Company norm is 60 days) and it has been classified under Assets Held For Sale (Refer Note 18). Under Life, GWP accrual is considered as premium receivable.

# Understanding Our Financials

17. Deferred expenses comprises of balance sheet provisions of un-expensed commissions which is explained in Note 11.3 of the income statement. DAC has been recognised under Non Life business segment and which has been classified in to Assets Held For Sale (Refer Note 18).
18. After balance sheet date company disposed 78% stake of its Non Life business. According to the Sri Lanka Financial Reporting Standards 05 (Non current assets held for sale) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) company required to classify assets and liabilities of such discontinued operations on the balance sheet as Assets held for sale and Liabilities held sale (Refer Note 18).
19. In Life insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future 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 which happens annually. This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as Life Surplus and its transferred as shareholders' funds in the financial statements.
20. Insurance contract liabilities - Non Life  
This is a combination of the following;
- Provision for unearned premium**  
Same explanation as per Note 2.
- Claim Reserve**  
Provision maintained to settle outstanding claims.
- IBNR Reserves**  
This is the provision for an estimated amount made for claims that is incurred as at the balance sheet date, not informed to the insurer as at the reporting date. This estimate is based on an actuarial valuation.
21. Non Life insurance contract liabilities has been classified under Liabilities held for sale (Refer note 18).
21. Same meaning as per Note 19 but related to the unit linked operation.
22. Payable amount to reinsurers and also explained in Note 22. Non Life reinsurance payable has been classified under Liabilities held for sale (Refer Note 18).
23. This comprises of balance sheet provisions for unearned commission income which is explained in Note 12 of the income statement. DCI has been recognised under Non Life business segment and which classified under Liabilities held for sale (Refer Note 18).
24. In compliance with the requirement to segregate Life and Non Life insurance businesses, the Non Life business was transferred to Union Assurance General Limited on 1 January 2015 consequent to the relevant legal procedures. Subsequent to the Non Life business transfer, the Group divested a 78% stake in Union Assurance General Limited to Fairfax Asia Limited on 1 January 2015.
- In line with the relevant accounting standards, financial performance of Life and Non Life businesses have been classified as "Continuing Operations" and "Discontinuing Operations" in the statement of income. Assets and liabilities of Non Life business have been classified as "Assets held for sale" and "Liabilities held for sale", in the primary statement of financial position. For the readers ease of understanding values of assets and liabilities at overall level have been considered for this review.

# Glossary of Insurance Terms

## Aa

**Accumulation** - The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

**Acquisition expenses** - All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts e.g. commissions.

**Actuary** - Qualified expert who analyses problems from the area of insurance, home loans, investments and pensions using methods of probability theory and financial mathematics and develops solutions with due regard to legal and economic parameters.

**Administrative expenses** - Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

**Admissible assets** - Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000

**Annual basis of accounting** - A basis of accounting for non life insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

**Annuity** - A series of regular payments. Annuities include annuities certain, where payments are made at definite times, and life annuities, where payments depend on the survival of an annuitant.

A life annuity is a contract that provides a regular payment typically monthly during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

**Assets held for sale** - Assets, usually long-term, which one party wishes to liquidate through sales to other parties. An abandoned asset which has no prospective buyers may not be listed as an "asset held for sale".

## Bb

**Bancassurance** - An arrangement whereby banks sell insurance and investment products to their customers on behalf of other financial providers.

**Beneficiary** - A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

**Benefits and claims experience variation** - The difference between the expected and the actual benefit payout.

## Cc

**Cedent** - Client of a reinsurance company (also see primary insurers).

**Claims** - The amount payable under a contract of insurance arising from the occurrence of an insured event.

**Claims incurred** - A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

**Claims development table** - A table that compares actual claims paid and current estimates of claims with previously reported estimates of the same claims, demonstrating the sufficiency or otherwise of those previous estimates.

**Claims outstanding** - Non life insurance business - The amount provided to cover The estimated ultimate cost of settling claims arising out of events which have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

**Claims outstanding** - Life insurance business - The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the reporting date

being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

**Co insurance** - An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

**Commissions** - A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

## Dd

**Deferred acquisition costs** - Non life insurance business - Costs incurred for the acquisition or the renewal of insurance policies (e.g. commission, cost of processing applications) which are capitalised and amortised over the term of the contracts.

**Deferred expenses** - investment management services - Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF, under which investment management services are rendered, which are deferred to the extent that these costs can be identified separately, measured reliably and it is probable that these costs will be recoverable out of future revenue margins.

**Deferred revenue** - Initial and other front end fees received for rendering future investment management services relating to investment contracts without DPF, which are deferred and recognised as revenue when the related services are rendered.

**Discontinued operation** - Operations of an entire division, subsidiary, or segment of a company where a formal plan exists to eliminate it from the company.

**Discretionary participation features (DPF)** - A contractual right given to a policyholder to receive, as a supplement to guaranteed benefits, additional benefits;

➤ That are likely to be a significant portion of the total contractual benefits;

➤ Whose amount or timing is contractually at the discretion of the issuer;

# Glossary of Insurance Terms

- That are contractually based on;
- The performance of a specified pool of contracts or a specified type of contract;
- The realised and or unrealised investment returns on a specified pool of assets held by the issuer; and
- The profit or loss of the company, fund or other entity that issues the contract.

## Ee

**Earned Premium** - Written premium adjusted by the unearned premium reserve at the beginning and end of the accounting period

**Endowment** - Life insurance payable to the policyholder if living on the maturity date stated in the policy or to a beneficiary if the insured dies before that date.

## Ff

**Financial risk** - The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non financial variable that the variable is not specific to a party to the contract.

## Gg

**General Insurance business** - Insurance (including reinsurance) business falling within the classes of insurance specified as General Insurance Business, under the Regulation of Insurance Industry Act No. 43 of 2000.

**Global Reporting initiative (GRI)** - A leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development. Allied with the UN Global Compact.

## Hh

**Healthcare** - An insurance contract which provides medical coverage to a policyholder.

## Ii

**Incurred but not reported (IBNR)** - Claims to be made by a policyholder, but not yet reported to the insurance company.

**Incurred But Not Enough Reported (IBNER)** - A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the Balance Sheet date.

**Insurance contract** - A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

**Insurance risk** - Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

**Insurance provision – Non life** - Usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, which are deferred to subsequent accounting periods, as well as the related net acquisition costs and gross claims outstanding.

**Insurance provision – Life** - The fund or funds maintained by an insurer in respect of its life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000

**Investment contract** - A contract, which contains significant financial risk and may contain insignificant insurance risk, but does not meet the definition of insurance

### Investment management services

- The management of an investment contract on behalf of a policyholder, for which an investment management service fee is charged.

## Ll

**Lapsed Policy** - A policy terminated at the end of the grace period because of non payment of premiums.

**Liability adequacy test (LAT)** - An annual assessment of the sufficiency of insurance and/ or investment contract with DPF liabilities, to cover future insurance obligations.

**Life surplus** - The excess of the assets over the liabilities as determined by the actuary and after the distribution of dividends to policyholders

**Life insurance business** - Insurance (including reinsurance) business falling within the classes of insurance specified as Long Term Insurance Business under the Regulation of Insurance Industry Act No. 43 of 2000.

**Longevity** - The insurer's risk that an insured person lives longer than expected or that life expectancy within an insured portfolio rises as a whole.

**Loss ratio** - Percentage ratio of claims expenses to earned premiums.

## Mm

**Mortality** - The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

## Nn

**Net** - Refer Gross / net

**Net asset value** - The value of all tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

**Net combined ratio** - Indicates the profitability of a general insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income.

**Net earned premium** - In the case of general insurance business, net earned premium is the proportion of written premiums (including

where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

### Net expenses for claims and benefits

- These include the expenses for claims (claims payments and the change in the provision for outstanding claims), expenses for premium refunds and the change in the remaining technical provisions (provision for future policy benefits and other), in each case after deduction of the ceded share.

**Net expense ratio** - A formula used by general insurance companies to relate net earned premium to acquisition and administrative expenses (e.g. commissions, taxes, staff, selling and operating expenses).

**Net loss ratio** - A formula used by general insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurance).

**Non-participating business** - Life insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

**Non-proportional reinsurance** - Under this form of reinsurance, the reinsurer assumes payment of the primary insurer's loss above a defined amount. The calculation of the reinsurance premium is based on claims experience with the type of business concerned.

## Oo

**Outstanding claims provision** - Comprises claims incurred by the policyholder and reported to the insurance company, and IBNR claims.

## Pp

**Participating business** - Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant life fund.

**Policyholders' bonuses** - In life and health insurance, policyholders are entitled contractually and by law to an appropriate share of the surplus earned by their insurers. The amount of this bonus is fixed anew each year. As a rule, in life insurance these bonuses increase the benefit payable on maturity of the policy or on occurrence of the insured event; in health insurance, they are paid by way of premium refunds.

**Policy loans** - A loan from the insurer to a policyholder on the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

**Premiums** - The installments paid by the customers

**Primary insurers** - Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

**Proportional reinsurance** - Form of reinsurance in which the sum insured written by the primary insurer is divided proportionally between the primary insurer and the reinsurer, and the reinsurer is allocated a corresponding share of the premiums and claims.

**Provision for outstanding claims** - Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

**Provision for premium deficiency** - The provision for premium deficiency reflects management assessment of claims expected to be incurred after the reporting date in respect of current insurance contracts, that will, together with any deferred expenses, exceed the premiums to be earned on those contracts after the reporting date.

**Provision for unearned premiums** - A provision for premiums received or receivable for which the underlying risk has not yet expired. This provision is released over the term of the contract as the underlying risk expires.

## Rr

**Reinsurance** - An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

**Reinsurance commission** - Commission received or receivable in respect of premiums paid or payable to a reinsurer.

**Reinsurance insurance risk** - that is ceded to another insurer to compensate for losses, but the ultimate obligation to the policyholder remains with the entity who issued the original insurance contract.

**Reinsurance inwards** - The acceptance of risks under a contract of reinsurance.

**Reinsurance outwards** - The placing of risks under a contract of reinsurance.

**Reinsurance profit commission** - Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

**Retention** - That part of the risk assumed which the insurer / reinsurer does not reinsure / retrocede, i.e. retained net for own account.

**Retrocession** - The reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.

## Ss

**Scenario analysis** - Type of analysis used to investigate how certain key figures (market values or carrying amounts) change in the event that predefined market developments occur. Scenario analyses usually take the form of average if-then analyses.

**Solvency margin – Non life** - The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

**Solvency margin – life** - The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on life insurance business (Long Term Insurance) as defined in Solvency Margin (Long Term Insurance) Rules, 2002 made under section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

**Stress test** - A special form of scenario analysis. The aim is to make a quantitative statement on the loss potential of portfolios in the event of extreme market fluctuations, tail dependencies. The result of risk drivers interacting in exceptional situations.

# Glossary of Insurance Terms

**Surrender value** - The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in life insurance).

## Tt

**Technical provisions** - Uncertain liabilities directly connected with insurance business. These provisions are made to ensure that obligations under insurance contracts can always be met.

## Uu

**Ultimate loss** - As calculated at the end of the calendar year under consideration, the ultimate loss for an accident year indicates the estimated aggregate claims expenditure that will have to be paid to finally settle the claim(s). It comprises the claims payments already made for the accident year in question and the remaining claims reserve posted for payments in future years. Since claims reserves are based on estimates, the ultimate loss changes from one calendar year to the next. Reference may therefore also be made to the ultimate loss position or the ultimate loss estimate.

**Underwriter** - Member of an insurance company that acts on behalf of his or her employer to negotiate, accept or reject the terms of a insurance contract. They are responsible for ensuring the quality and reliability of risk-transfer solutions.

Their job is to develop products that best reflect the characteristics of the risks and clients' needs.

**Underwriting profit** - The underwriting result generated by transacting general insurance business, without taking into account the investment income.

**Unearned premium** - The portion of premium income in the financial year that is attributable to periods after the balance sheet date is accounted for within the technical provisions as unearned premiums.

**Unexpired risk reserve** - The excess of the estimated value of claims and expenses likely to arise after the end of the financial year from contracts concluded before the date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred).

**Unit-linked life Insurance** - A type of life insurance with a savings component, where the benefits payable depend on the performance of the assets invested in a fund. The investment risk is borne by the policyholder.

## Vv

**Value at risk** - Method of quantifying risk; measures the potential future losses that may not be exceeded within a specified period and with a specified probability.

**Variable annuities** - A special form of unit-linked life insurance where the investment risk is borne primarily by the policyholder but the insurer guarantees a minimum payment on occurrence of the insured event.

## Ww

**Written premium - Non life insurance business** - Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

**Written premium - Life insurance business** - Premiums to which the insurer is contractually entitled and received in the accounting period.

## Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred}}{\text{Net earned premium}} \times 100$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred}}{\text{Net earned premium}} \times 100$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses})}{\text{Net earned premium}} \times 100$$

# Distribution Network

## CORPORATE OFFICE

### Union Assurance Centre

20, St. Michael's Road, Colombo 3.  
Customer Service: 011-2428000  
General Line: 011-2428428  
Fax: 011-2343095

### Motor Centre

33, St. Michael's Road,  
Colombo 3.  
General Line: 011-2462462, 011-2462100  
Fax: 011-2462222

## Aa

### Akuressa

64, Matara Road, Akuressa.  
Tel: 041-2283393  
Fax: 041-2283493

### Aluthgama

410, Galle Road, Aluthgama.

### Ambalangoda

20, New Road, Ambalangoda.  
Tel: 091-2258747  
Fax: 091-2255882

### Ambalantota

Dulmini Traders, No. 46/1/1,  
Main Street, Ambalantota.  
Tel: 047-2223370  
Fax: 047-2225500

### Ampara

60 and 60/1, 'Indrawansa Building',  
D.S.Senanayaka Street, Ampara.  
Tel: 063-2224668 / 063-2223669

### Anamaduwa

88, Chilaw Road, Anamaduwa.  
Tel: 032-2263838

### Anuradhapura

280 A, 1st Floor, Main Street,  
Anuradhapura.  
Tel: 025-2224677-8  
Fax: 025-2235547

### Awissawella

15 1/2, Kudagama Road,  
Awissawella.  
Tel: 036-2231349  
Fax: 036-2233850

## Bb

### Baddegama

62, Galle Road, Baddegama .

### Badulla

226/4/1/09-14, Lower Street,  
Badulla.  
Tel: 055-2229536  
Fax: 055-2224373

### Bakamuna

37, Near Bank of Ceylon,  
Hospital Road, Bakamuna.  
Tel: 066-2256100

### Balangoda

164, Thumbagoda Junction, Balangoda.  
Tel: 045-3603111

### Bandaragama

55, Horana Road, Bandaragama.  
Tel: 038-2289282

### Bandarawela

340/1, Badulla Road, Bandarawela.  
Tel: 057-2223239, 057-2223396  
Fax: 057-2223397

### Batticaloa

217, Trincomalee Road, Batticaloa.  
Tel: 065-2224574

### Bibile

'Isuru Traders', Monaragala Junction, Bibila.  
Tel: 055-3051532

### Bulathsinhala

46, Bulathsinhala South, Mathugama Road,  
Horana.  
Tel: 034-2282985

## Cc

### City Office

305, R. A. De Mel Mawatha, Colombo 3.  
Tel: 011-2589192-3  
Fax: 011-2589191

### Chavakachcheri

Kandy Road, Chavakachcheri.  
Tel: 021-2270073

### Chenkalady

191, Main Street, Chenkaladi.  
Tel: 065-2054354

### Chilaw

87, Puttalam Road, Chilaw.  
Tel: 032-2222104

### Chunnakam

160, Sir Pon Ramanathan Road,  
Chunnakam.  
Tel: 021-2241844

## Dd

### Dambulla

755, Anuradhapura Road, Dambulla.  
Tel/ Fax: 066-2284628

### Dehiwala

218/A/2/1, Galle Road, Rathmalana.  
Tel: 011 2710105

### Deniyaya

62, Viharahena Mawatha, Main Street,  
Deniyaya.  
Tel: 041-3003457

### Diwulapitiya

101, Meerigama Road, Divulapitiya.  
Tel: 031-2243557

### Digana

36B, Victoria Golf Road, Digana, Rajawella.  
Tel: 081-2376580

## Ee

### Elpitiya

44A1/1, Ambalangoda Road, Elpitiya.  
Tel: 091-2291957

### Embilipitiya

62, Sampath Bank Building,  
Main Road, Embilipitiya.  
Tel: 047-2230463  
Fax: 047-2261946

## Gg

### Galewela

324B, Dambulla Road, Galewela.  
Tel: 066-2288264

### Galle

16 & 16A, China Garden cross road, Galle.  
Tel: 091-2243948, 091-2226700  
Fax: 091-2223759

### Gampaha

9, Holy Cross Street, Gampaha.  
Tel: 033-2222802, 033-2226441  
Fax: 033-2228430

### Gampola

10B, Nidahas Mw, Keerapana, Gampola.  
Tel/ Fax: 081-2350127

### Godakawela

186, Main Street, Godakawela.  
Tel: 045-2240715

# Distribution Network

## Hh

### Hambantota

77, Tissa Road, Hambantota.  
Tel: 047-2220025-6

### Hanwella

133/8D, Hanwella Avissawella Road, Hanwella.  
Tel: 036-2254095

### Hatton

199/B/2/1, Dimbulla Road, Hatton.  
Tel: 051-2223820

### Hingurakgoda

Airport Road, Hingurakgoda.  
Tel: 027-2246581  
Fax: 027- 2245299

### Homagama

119/2/1, 119/3/1, Katuwana Road, Homagama  
Tel: 011-2892802 – 3  
Fax: 011-2892804

### Horana

161, Ratnapura Road, Horana.  
Tel/ Fax: 034-2264182

## Ii

### Ingiriya

3, Main Street, Ingiriya.  
Tel: 034-2268095

## Jj

### Ja-ela

71/A2/1, Negombo Rd, JA Ela.  
Tel: 011-2243633

### Jaffna

139, Stanley Road, Jaffna.  
Tel: 021-2223753

## Kk

### Kadawatha

1158 2/1, Kandy Road, Kadawatha.  
Tel: 011-3071596

### Kaduwela

152/6, 152/7, NewKandy Road, Pittugala, Malabe.  
Tel: 011-2412890

### Kalawana

46/1/1, Mathugama Road, Kalawana.  
Tel: 045-2255772

### Kalmunai

212, Batticaloa Road, Kalmunai.  
Tel: 067-2222636, 067-2222633  
Fax: 067-2222320

### Kalutara

338/1/2, Main Street, Kalutara.  
Tel: 034-2228964, 034-2223132  
Fax: 034-2228963

### Kamburupitiya

48A, Horapitiya Watta, Magamure, Kamburupitiya.  
Tel: 041-2294580/ 041-2294581

### Kandy

28, Hill Street, Kandy.  
Tel: 081-2227443, 081- 2232731  
Fax: 081-2233291

### Kandy 2

277, D. S. Senanayake Street, Kandy.  
Tel: 081-2233268

### Katugastota

185/4, Galagedara Road, Katugastota.  
Tel: 081-2500286

### Katunayake

16 G/F A2, Plaza complex, Katunayake.  
Tel: 011-2251131  
Fax :011-2251132

### Kegalle

134, Kalugalla Mawatha, Kegalle.  
Tel: 035-2232829  
Fax: 035-2230363

### Kekirawa

41A, Yakalla Road, Kekirawa.  
Tel: 025-2264453

### Kelaniya

338/1/2, Kandy Road, Dalugama, Kelaniya.  
Tel: 0112-905582

### Killinochchi

83 and 85, Kandy Road, Killinochchi.  
Tel: 021 2280117-8  
Fax: 021 2280119

### Kiribathgoda

94, Makola Road, Kiribathgoda.  
Tel: 011-2916924, 011-2916925  
Fax: 011-2916852

### Kirindiwela

153, Gampaha Road, Kirindiwela.  
Tel: 033-2247411

### Kirulapone

57 2/1, High Level Road, Kirillapone, Colombo.  
Tel: 011-2513361

### Kolonnawa

250/1/1, Kotikawatta Road, Gothatuwa, New Town.  
Tel: 011-2410044

### Kotahena

70/1, Vincent Perera Mawatha, Kotahena.  
Tel: 011-3135427

### Kottawa

197 /1/ E, Horana Road, Kottawa.  
Tel: 011-2178008

### Kuliyapitiya

93, Madampe Road, Kuliyapitiya.  
Tel/ Fax: 037-2281904

### Kurunegala

Union Assurance Centre  
6, Rajapihilla Road, Kurunegala.  
Tel: 037-2224252, 037-2222474, 037-2222282  
Fax: 037-2227585

## Mm

### Madampe

87, Walawwatta, Kurunegala Road, Old Town, Madampe.

### Mahaoya

Wijethunga Building, Mahaoya.  
Tel: 063-2244125

### Maharagama

139, Elhena Road, Maharagama.  
Tel: 011-2896474

### Mahawa

193, Moragollagama road, Maho.

### Mahiyangana

5, Kandy Road, Mahiyangana.  
Tel: 055-2258244, 055-2258255  
Fax: 055-2258200

### Mannar

43, Ward No.2, Pallimuni Street, Mannar.  
Tel/Fax: 023-3238255

### Matale

553/F1/2, Trincomalee Street, Matale.  
Tel/ Fax: 066-2231536

### Matara

13, Station Road, Matara.  
Tel: 041-2223024, 041-2222953  
Fax: 041-2223026

### Mathugama

94/2, Agalawatta Road, Mathugama.  
Tel/Fax: 034-3944339

**Mawanella**

157, New Mawanella Road, Mawanella.  
Tel: 035-2247351

**Madirigiriya**

417, Main Street, Madirigiriya.  
Tel: 027-2248310

**Melsiripura**

105/18, Siripura Estate, 15 Mile Post,  
Melsiripura.

**Minuwangoda**

88/1, Veyangoda Road, Minuwangoda.  
Tel: 011-2281923

**Monaragala**

112, Wellawaya Road, Monaragala.  
Tel/ Fax: 055-2276290

**Moratuwa**

472 1/1, Galle Road, Rawathawathe,  
Moratuwa.  
Tel: 011-2641666, 011- 2641800  
Fax: 011-2641811

**Mullaitivu**

P.W.D Road, Vannankulam, Mullaitivu.

**Muttur**

92/A Ward No:7, Market Road, Muttur.

**Nn****Narammala**

209, Kuliyaipitiya Road, Narammala.  
Tel: 037-2248511

**Nawalapitiya**

31/A, Dolosbage Road, Nawalapitiya.  
Tel: 054-2224088

**Negombo**

147, St.Joseph's Street, Negombo.  
Tel: 031-2235042-3, 031-2224264  
Fax: 031-2224243

**Nikaweratiya**

71, 2nd floor, Puttalam Road,  
Nikaweratiya.  
Tel/ Fax: 037-2260367

**Nittambuwa**

538/3, Near the 38 k.m Post,  
Malwatta, Nittambuwa.  
Tel: 033-2293924

**Nugegoda**

376, High Level Road, Gangodawilla,  
Nugegoda.  
Tel: 011-2815511-3  
Fax: 011-2815515

**Nuwara Eliya**

36, Park Road, Nuwara Eliya.  
Tel/ Fax: 052-2223017

**Pp****Padawiya**

2, New Town, Padawiya.  
Tel/Fax: 025-3770758

**Padukka**

72, Horana road, Padukka.

**Panadura**

571/3, Galle Road, Panadura.  
Tel: 038-2244790  
Fax: 038-2244630

**Pannala**

74/1, Negombo road, Pannala.

**Pelmadulla**

228C, Vidyala Mawatha, Pelmadulla.  
Tel: 038-3392217

**Piliyandala - 1**

48/1/1, Colombo Road, Piliyandala.  
Tel: 011-2619550

**Piliyandala - 2**

329/3A, 1st floor, Colombo road,  
Piliyandala.  
Tel: 011-2609105-06

**Point Pedro**

357, Main Street, Point Pedro.  
Tel / Fax: 011-3158153

**Polgahawela**

67/1, 67 1/1, Colombo Road,  
Polgahawela.  
Tel: 037-2244575

**Polonnaruwa**

5, Batticaloa Road, Polonnaruwa.  
Tel/ Fax: 027-2226611

**Pussellawa**

543 1/1, Nuwara Eliya Road, Pussellawa.  
Tel: 081-2478121

**Puttalam**

97/1, 2nd Floor, Cargills Food City Building,  
Puttalam.  
Tel/ Fax: 032-2265980

**Rr****Rambukkana**

87/14, 1/2, Mawanella Road, Rambukkana.  
Tel: 035-2264646

**Ratmalana**

228, Galle Road, Ratmalana.  
Tel: 011-2726612-3  
Fax: 011-2726611

**Ratnapura**

567 1/1, Senevirathna Building, Colombo  
Road, Ratnapura.  
Tel: 045-2230739  
Fax: 045-2223525

**Ruwanwella**

185 1/2, Avissawella Road, Ruwanwella.  
Tel: 036-2266631  
Fax: 036-2268747

**Tt****Talawathugoda 1**

656/A, Wickramasinghepura Junction,  
Talawathugoda.  
Tel: 011-2796311-2  
Fax: 011-2796310

**Talawathugoda 2**

123, Kaduwela Road, Battaramulla.  
Tel: 011-2074450-4

**Tambuttegama**

319, Rajina Junction, Tambuttegama.  
Tel: 025-2275594 / 025-2276211  
Fax: 025-2276060

**Tangalle**

61, Beach Road, Tangalle.  
Tel: 047-2241545

**Thanamalwila**

Wellawaya Road, Thanamalwila.  
Tel: 047-2285422

**Tissamaharama**

118, Hambantota Road, Tissamaharama.  
Tel: 047-2237711  
Fax: 047 2239644

**Trincomalee**

87, Main Street, Trincomalee.  
Tel: 026-2227530

# Distribution Network

## Vv

### **Valaichchenai**

Main Street, Valaichchenai.  
Tel: 065-2258555 / 065-2258557  
Fax: 065-2258556

### **Vavuniya**

113, Kandy Road, Vavuniya.  
Tel: 024-2223138

## Ww

### **Warakapola**

198 B1/1, 'Willara Complex',  
Main Street, Warakapola.  
Tel: 035-2267441  
Fax: 035-2267039

### **Wariyapola**

273/3, Chilaw Road, Wariyapola.  
Tel: 037-2267206

### **Wattala**

146 3/2, 2nd floor, Pearl Park Shopping  
Complex, Market Junction, Negombo Road,  
Wattala.  
Tel: 011-2932153  
Fax: 011-2932030

### **Weligama**

314, Old Galle road, Weligama.  
Tel: 041-2250821 / 041-2250831

### **Wellawaya**

210, Moneragala Road, Wellawaya,  
Tel: 055-3600031 / 055-2274380  
Fax: 055-2274218

### **Wennappuwa**

6, Colombo Road, Wennappuwa.  
Tel: 031-2255844  
Fax: 031-2253892







# Notice of Meeting

Notice is hereby given that the 28<sup>th</sup> Annual General Meeting of Union Assurance PLC, will be held at the Auditorium of Union Assurance PLC, No. 20, St. Michael's Road, Colombo 3 on Tuesday 31<sup>st</sup> March 2015 at 9.00 a.m for the following purposes;

1. To read the Notice convening the meeting
2. To receive and consider the annual report and financial statements of the Company for the year ended 31<sup>st</sup> December 2014 with the report of auditors thereon
3. To re-elect as a Director, Mr. Harin Amendra Joseph De Silva Wijeyeratne who retires in terms of Article 84 of the Articles of Association of the Company
4. To re-elect as a Director, Mr. Ashan Suresh De Zoysa who retires in terms of Article 84 of the Articles of Association of the Company
5. To re-elect as a Director, Mr. Anthony Dirk Pereira who retires in terms of Article 90 of the Articles of Association of the Company
6. To re-appoint the retiring auditors Messrs. KPMG, Chartered Accountants, and authorise Directors to determine their remuneration
7. Any other business of which due notice has been given

By Order of the Board  
Union Assurance PLC



Keells Consultants (Private) Limited  
Secretaries

25 February 2015

Note:

- a. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a proxy to attend and vote instead of him / her.
- b. A proxy need not be a member of the Company. The form of proxy is attached to the annual report.
- c. The completed form of proxy should be deposited at the registered office of the Company not less than 48 hours before the time appointed for the holding of the meeting.

# Form of Proxy

I/We.....of.....  
 ..... being a member/s of Union Assurance PLC hereby appoint .....  
 ..... of.....  
 .....or failing him/her.

Mr. Ajit Damon Gunewardene of Colombo, or failing him  
 Mr. Gerald Fredrick Christopher De Saram of Colombo, or failing him  
 Mr. Ashan Suresh De Zoysa of Colombo, or failing him  
 Mr. Suresh Rajendra of Colombo, or failing him  
 Ms. Dilani Champika Alagaratnam of Colombo, or failing her  
 Mr. Harin Amendra Joseph De Silva Wijeyeratne of Colombo, or failing him  
 Mr. Anthony Dirk Pereira of Colombo,

as my / our proxy to represent me / us and vote on my / our behalf at the 28<sup>th</sup> Annual General Meeting of the Company to be held on Tuesday 31<sup>st</sup> March 2015 at 9.00 a.m and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

I / We, the undersigned, hereby direct my / our proxy to vote for me / us and on my / our behalf on the specified resolution as indicated by the letter "X" in the appropriate cage;

	For	Against
To re-elect as a 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"/>
To re-elect as a Director, Mr. Ashan Suresh De Zoysa who retires in terms of Article 84 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director, Mr. Anthony Dirk Pereira who retires in terms of Article 90 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint the retiring auditors Messrs. KPMG Chartered Accountants, and authorise Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

Signed on this .....day of ..... Two Thousand and Fifteen.

Signature / s of Shareholders / s:.....

*Note: instructions as to completion of proxy form are noted on the reverse hereof.*

# Form of Proxy

## 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 corporation in accordance with its articles of association or constitution.
5. If this form of proxy is returned without any indication of how the person appointed as proxy shall vote, then the proxy shall exercise his / her discretion as to how he / she votes or, whether or not he / she abstains from voting.

# Corporate Information

GRI-G4

G4-3

G4-5

G4-7

## Name of Company

Union Assurance PLC

## Legal Form

A public limited liability company incorporated in Sri Lanka on 8 January 1987 and registered under the Companies Act No. 7 of 2007 and quoted on the Colombo Stock Exchange since 1988

## Company Registration Number

PQ 12 [Previous registration number N(PBS)137]

## Tax Payer Identification Number (TIN)

134001372

## VAT Registration Number

134001372 7000

## Directors

Ajit D Gunewardene - Chairman  
D C Alagaratnam  
A S De Zoysa  
G F C De Saram  
S Rajendra  
H A J De Silva Wijeyeratne  
A D Pereira

## Board Remuneration Committee

Ajit D Gunewardene  
G F C De Saram  
H A J De Silva Wijeyeratne

## Board Nominations Committee

Ajit D Gunewardene  
G F C De Saram  
A S De Zoysa

## Board Audit and Compliance Committee

H A J De Silva Wijeyeratne  
S Rajendra  
A S De Zoysa

## Investment Committee

K N J Balendra  
A S De Zoysa

## Secretaries and Registrars

Keells Consultants (Private) Limited  
117, Sir Chittampalam A. Gardiner Mawatha,  
Colombo 2

## Auditors

Messrs. KPMG (Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
Colombo 3

## Consultant Actuaries

Actuarial & Management Consultants (Pvt) Ltd.  
434, 1st Floor, R A De Mel Mawatha,  
Colombo 3

NMG Financial Services Consulting Limited  
65 Chulia Street, 37-07/08 OCBC Centre, 049513  
Singapore

## Lawyers

The Legal Department  
John Keells Holdings PLC  
117, Sr Chittampalam A Gardiner Mawatha.  
Colombo 2

## Bankers

Bank of Ceylon  
Citibank, N.A.  
Commercial Bank of Ceylon PLC  
Deutsche Bank AG  
DFCC Bank PLC  
DFCC Vardhana Bank PLC  
Hatton National Bank PLC  
Hongkong and Shanghai Banking Corporation  
Housing Development Finance Corporation  
Bank of Sri Lanka  
National Development Bank PLC  
National Savings Bank  
Nations Trust Bank PLC  
Pan Asia Banking Corporation PLC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank  
Union Bank of Colombo PLC

## Reinsurance Panel

ARIG  
Asia Capital Reinsurance Group Pte Ltd  
Asian Re  
General Insurance Corporation of India  
Hannover Re  
Korean Re  
Lloyds  
Malaysian Re  
Mapfre  
Munich Reinsurance Company  
National Insurance Trust Fund  
SCOR Reinsurance Asia Pacific Pte Ltd  
Sirius Reinsurance  
Swiss Reinsurance Company Ltd  
Toa Reinsurance Company Ltd  
TRUST Re

## Registered Office of the Company

Union Assurance Centre  
20, St Michaels Road,  
Colombo 3

## Investor Relations

All investor queries should be directed to;  
Investor relations hotline 011-2428859  
e-mail: investorrelation@ualink.lk

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