

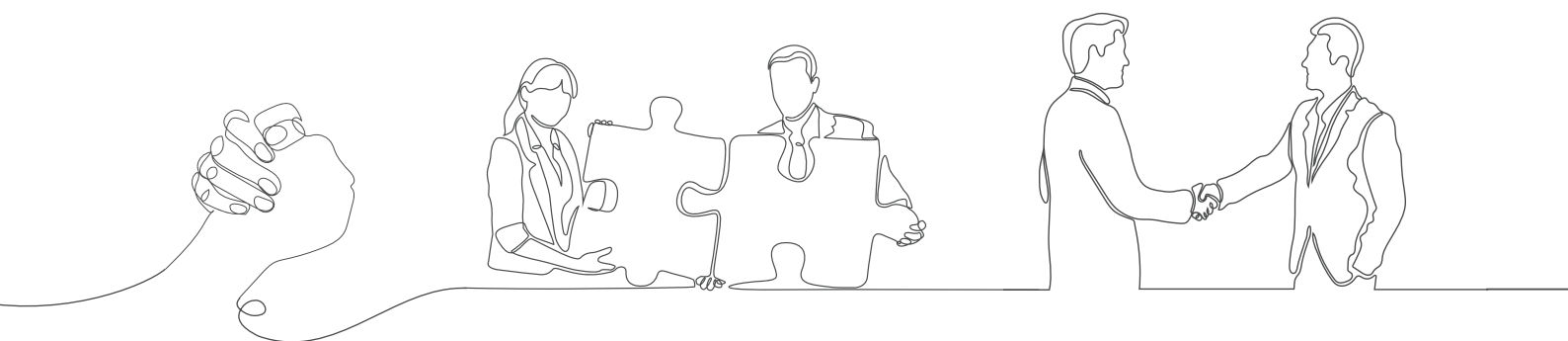
STRUCTURED TO THRIVE

A LEGACY OF

20 Years 

HNB ASSURANCE PLC
INTEGRATED ANNUAL REPORT 2021

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About Us

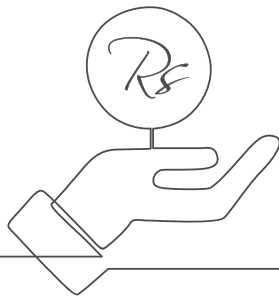
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ABOUT THE REPORT

GRI 102-1 > 102-3 > 102-45 > 102-46 > 102-50 > 102-51 > 102-52 > 102-53 > 102-54 > 102-56



This is the 10th Integrated Annual Report of HNB Assurance PLC, prepared in accordance with International Integrated Reporting Framework (IR) and the 13th report meeting requirements of the Global Reporting Initiative (GRI) Standards.



Scope and Boundary

This report comprises both the financial and non-financial performance of HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited for the financial year ended 31st December 2021. The last Annual Report was for the twelve-month period ended 31st December 2020.



Our Readers

While this report is primarily prepared for our Shareholders, it contains relevant information for other stakeholders including customers, employees, business partners, regulators and the community.



Any Feedback to;

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Board Secretary
HNB Assurance PLC,
Legal and Company Secretarial Division
Iceland Business Center
No.30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka

Available Forms



Print - Available on request
Online - Available in PDF format at www.hnbassurance.com



Sinhala and Tamil Translations of Chairperson's Message, Chief Executive Officer's Review and Financial Statements

Print - Available on request
Online - Available in PDF format at www.hnbassurance.com

Guiding Frameworks and Principles

FINANCIAL REPORTING

- » Companies Act, No.7 of 2007
- » Listing Rules of Colombo Stock Exchange (CSE)
- » Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- » Regulations and Directions issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- » Regulations of Insurance Industry Act, No. 43 of 2000 and the subsequent amendments

CORPORATE GOVERNANCE

- » Code of Best Practices on Corporate Governance 2017 issued by CA Sri Lanka
- » Corporate Governance Framework for Insurers issued by the Insurance Regulatory Commission of Sri Lanka
- » Listing Rules of the Colombo Stock Exchange (CSE)
- » Companies Act, No. 07 of 2007

INTEGRATED REPORTING

- » International Integrated Reporting Framework

SUSTAINABILITY REPORTING

- » Global Reporting Initiative Sustainability Reporting Standards
- » Sustainable Development Goals (SDGs) of United Nations
- » Sustainability Guide of Colombo Stock Exchange
- » Gender Parity Reporting issued by CA Sri Lanka

Reporting Principles



Strategic Focus and Future Orientation

The report provides a review of our value creation process and strategic journey in achieving our organisational Vision and Mission.

Pages 13 to 19



Connectivity of Information

The report illustrates how we create value through interdependencies between our business activities, our stakeholders and our resources.

Internal information presented in the report are collated from relevant department officials and information systems. External information is obtained from reliable sources which have been quoted.

Pages 1 to 366



Stakeholder Relationships

The report reflects how we manage relations with our stakeholders and the initiatives taken to meet their expectations and concerns.

Page 16



Materiality

The report provides a list of material factors affecting sustainable value creation and the process of determining materiality when compiling this report.

Page 17



Conciseness

The report provides a succinct view of our strategy, Governance, performance and prospects. We have used cross-references where appropriate to limit repetition.

Pages 1 to 366



Assurance

External Assurance has been obtained from Messrs KPMG, the Independent Auditors of the Group on the Financial Statements with resulting notes and the integrated report.

Pages 20 to 21



Reliability and Completeness

The report presents an unbiased view of all material matters. Independent actuaries have confirmed the technical reserves and liability adequacy. Information provided have been verified by the Board of Directors, Audit Committee, Other Board Sub-Committees and Group Executive Committee as applicable. Forward-looking statements included in the report are based on future prospects and expectations of the industry and environment. However actual results may materially differ from such statements made.

Pages 1 to 366



Consistency and Comparability

Unless stated otherwise all reporting concepts remain consistent with the most recent published report.

Comparative information is provided where relevant and any change made to be consistent with the current year's presentation have been reported.

Pages 1 to 366



Reporting Enhancements

We continue our quest for excellence in integrated reporting and have sought to enhance the quality of reporting throughout the report in line with the above principles, taking care to simplify the report while ensuring that it is comprehensive and transparent.

- To enhance the integrity of reporting this year we obtained an External Limited Assurance on our Integrated Annual Report. (Pages 20 to 21)
- We have introduced a new segment, Digital Capital comprising investments in hardware and software pivotal in achieving our digital strategy. (Pages 97 to 99)

BUILT TO PROSPER

20 Years 

OF EMPOWERING LIVES

About Us



ABOUT US

Founded 20 years ago, now a leading insurance provider in Sri Lanka, HNB Assurance PLC offers a range of Life Insurance solutions to customers. We also offer a comprehensive portfolio of General Insurance products through our fully-owned subsidiary HNB General Insurance Limited. We cater to a diverse group of customers via an extensive branch network, Bancassurance Officers, Advisors and Brokers.

We play a pivotal role in the economy and lifestyles by supporting individuals and businesses to hedge their risk through a wide range of insurance solutions.



Vision

To be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring.



Mission

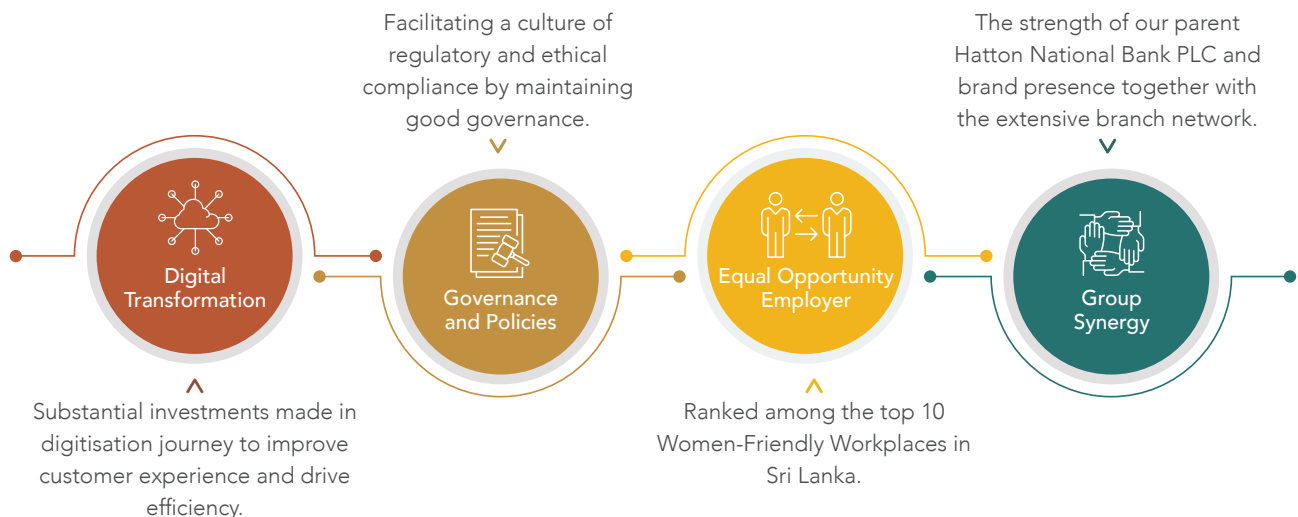
Working together with a passion for excellence and a team spirit non can match, to provide innovative, customised solutions, exploring opportunities beyond conventional boundaries.



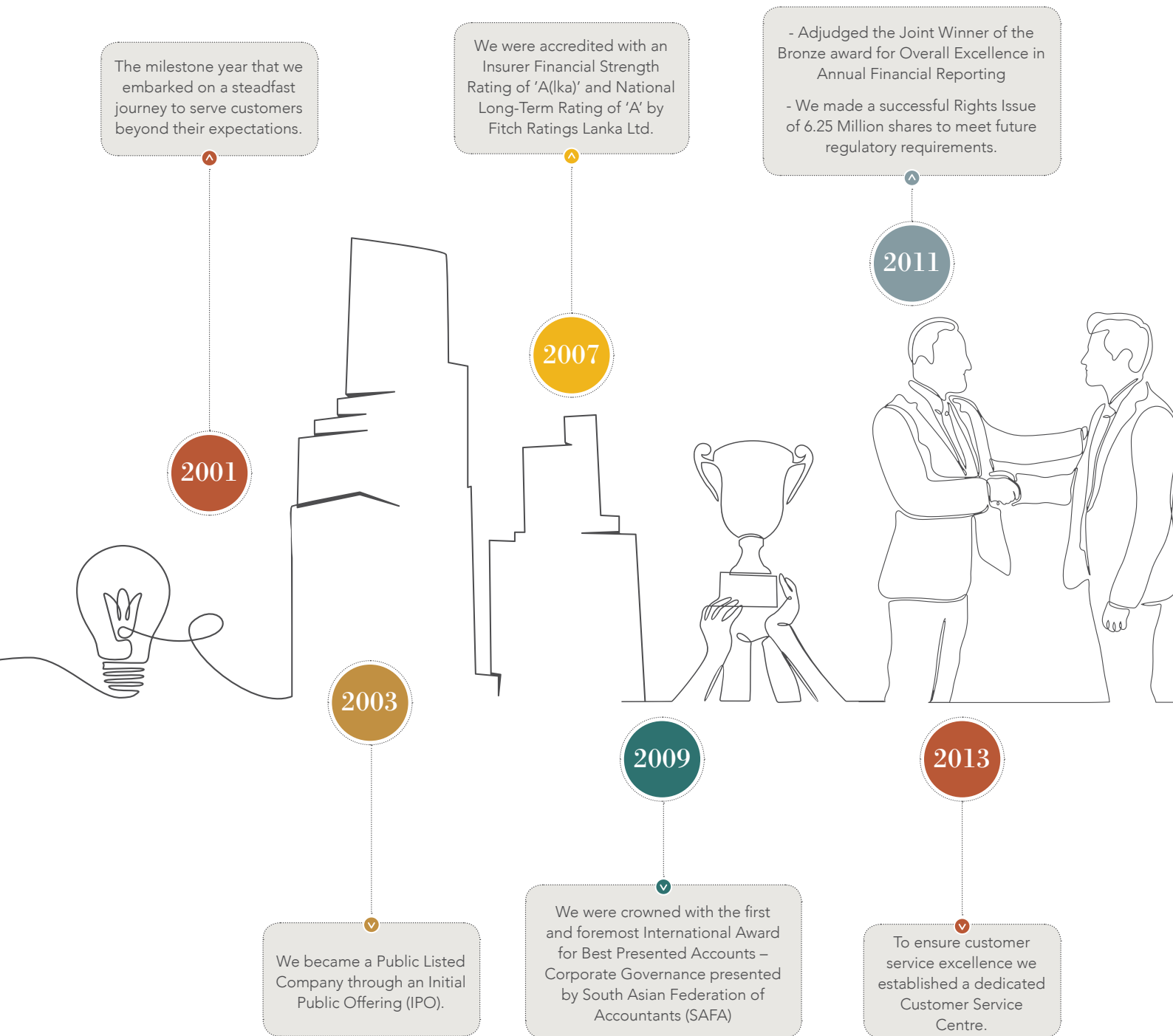
Values

- Show mutual respect in all our interactions
- Empower people to strive for excellence
- Inculcate positive thinking
- Treasure integrity and ethical conduct
- Foster diversity as a corporate strength

Traits that set us apart from the rest



LEGACY OF TWENTY YEARS



HNBGI took on our General Insurance business while we increased our focus on the Life Insurance business as we segregated the businesses as per regulations.

2015

- HNB Assurance PLC and Subsidiary HNB General Insurance Limited obtained the Great Place to Work® certification and were accredited as one of the Top 40 Great Places to Work in Sri Lanka

- We made a sub-division of our ordinary shares on 1:3 basis increasing the ordinary shares in issue from 50,000,000 to 150,000,000 with no increase in the stated capital.

2020

2017

Another unique feat to add to our hallmark of fame: Gold Award for 'Takaful Window/Unit of the Year' for HNB General Insurance Takaful unit at the Islamic Finance Forum of South Asia.

2021

Insurer Financial Strength Rating of both HNB Assurance PLC and HNB General Insurance Limited was upgraded to A+ (lka) with a Stable Outlook by Fitch Ratings Lanka Ltd.



OUR GROUP AT A GLANCE



Profitability

Profit After Tax	
2021	2020
Rs. 1,224 Mn	Rs. 1,175 Mn
Profit Before Tax	
2021	2020
Rs. 1,748 Mn	Rs. 1,630 Mn
Earnings Per Share	
2021	2020
Rs. 8.16	Rs. 7.83
Return on Equity	
2021	2020
15%	16%



Solvency

CAR – Life	
2021	Regulatory Requirement
277%	120%
CAR – General	
2021	Regulatory Requirement
260%	120%
Approved Assets – Life	
2021	Regulatory Requirement
106%	100%
Approved Assets – General	
2021	Regulatory Requirement
153%	100%



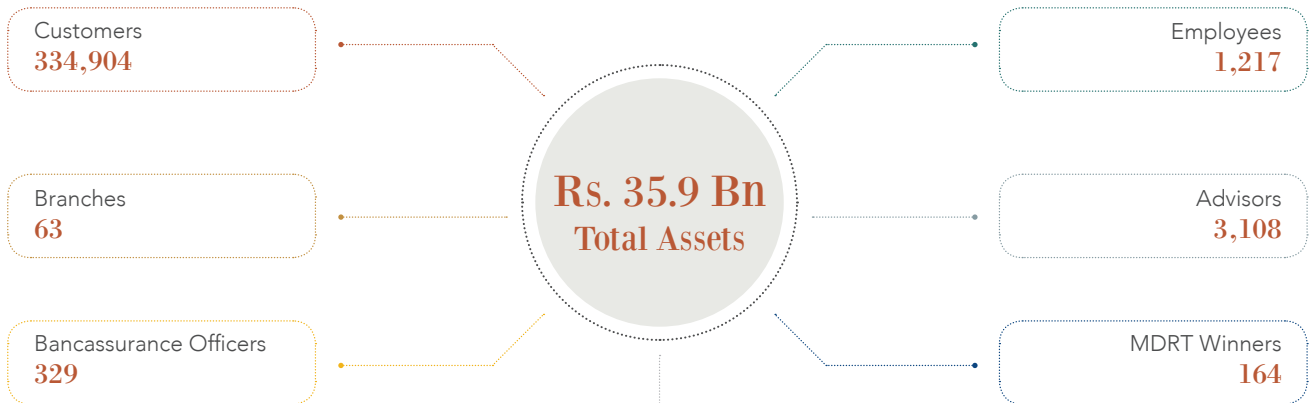
Stability

Total Assets	
2021	2020
Rs. 35.9 Bn	Rs. 31.7 Bn
Funds Under Management	
2021	2020
Rs. 31.1 Bn	Rs. 27.0 Bn
Life Fund	
2021	2020
Rs. 20.0 Bn	Rs. 16.8 Bn
Contract Liabilities - General	
2021	2020
Rs. 3.7 Bn	Rs. 3.3 Bn

Gross Written Premium
Rs. 12.6 Bn

Financial Protection
Financial Return

Claims and Benefits
Rs. 4.2 Bn



A+ (Ika)
Fitch Ratings Lanka Ltd.



Best Bancassurance Provider in Sri Lanka
Global Banking and Finance Review



Market Capitalisation
Rs. 7.3 Bn



OUR PRODUCTS

GRI 102-2



Life Insurance



General Insurance



OUR ACHIEVEMENTS



HNB Assurance was awarded Top Ten Award for Industrial Excellence by The Ceylon National Chamber of Industries.



HNB Assurance was awarded National Service Sector Silver Award by The Ceylon National Chamber of Industries.



HNB General Insurance Limited was awarded National Service Sector Bronze Award for Industrial Excellence by The Ceylon National Chamber of Industries.



Insurance Asia Awards recognized Supreme Health Max of HNB Assurance as 'Health Insurance Initiative of the Year 2021'.



Insurance Asia Awards recognises Pay As You Claim of HNB General Insurance Limited as 'Motor Insurance Initiative of the Year 2021'.



Global Banking and Finance Review recognised HNB Assurance as 'Best Bancassurance Provider in Sri Lanka 2021'.



CIMA recognized HNB Assurance PLC as One of Sri Lanka's Top 10 'Women Friendly Workplaces'.



Annual Report 2020 awarded with the Bronze Award under Insurance Sector Companies at the 56th CA Sri Lanka Annual Report Awards.

STRATEGIC REPORT

Strategy and Resource Allocation

Guided by our vision and mission, our corporate strategy remained agile to uncertainties in our operating environment created by the pandemic. We continue to reinforce the strength of our brand and drive towards growth and stability while meeting expectations of our stakeholders.

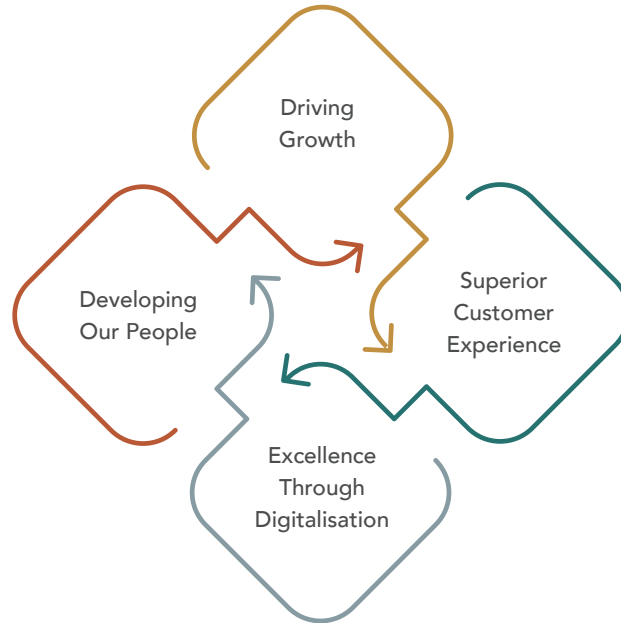
The success of our business over the past 20 years relied on well-thought-out strategies we adopted and our allocation of resources to achieve such strategies. In formulating strategy, we are cognitive of our external environmental challenges and opportunities. We leverage on our strengths to capitalise on opportunities while overcoming our weaknesses to successfully face challenges that come our way.

Strategy Planning Process

Every year HNB Assurance and HNB General Insurance Limited develop a detailed Corporate Plan for the next three years. We adopt a bottom-up approach in building our strategies with inputs obtained from the root level to the top management. The well deliberated short-term, medium-term and long-term strategies are formulated and coupled with the budget for resource allocation are presented to the members of the Board Strategy Review Committee. The Committee also guides the Management where necessary.


The corporate plan is then submitted to the Board for review and approval. Goals, objectives, and Key Performance Indicators are set and assigned to the senior management which are cascaded down to lower levels. Implementation of the strategies are monitored by the Executive Committee, Strategy Committee, and the Board at their meetings. Objectives and KPIs are linked to the performance management system and remuneration and benefits of all staff. Accordingly, ensuring effective implementation of strategies.

Our Strategic Focus Areas



Driving Growth - Revenue

Top line growth was a key strategic focus area for both Life and General Insurance business segments. Objectives were set to surpass the industry growth levels with the intention of improving market share and we are happy to say that in 2021 we were able to surpass industry growth rates in both Life and General Insurance segments thereby increasing market share.

 More information can be read on our Financial and Manufactured Capital from pages 62 to 75).

Product Strategy



Life Insurance

During the year focus was given to increase market penetration by promoting the existing product suite with more attractive terms and premiums to the customers.

Product development strategy was used to capture the market segment focusing on covering education needs of children through introduction of one product.



General Insurance

General Insurance segment adopted a market penetration strategy in growing the top line and focused on promoting its existing product suite to a higher number of customers during the year.

STRATEGIC REPORT

Channel Strategy



Life Insurance

Life Insurance worked towards reducing dependency on Advisor channel in 2021 as well. In line with this objective strategies were formulated to increase contribution from Bancassurance channel. GWP from Bancassurance increased to 42% compared to the 37% previous year and the channel also recorded a growth of 45% during the year.

We also expanded our Alternative Line of distribution to expand our market horizons and build partnerships with financial institutions.




General Insurance

The distribution channels were restructured in 2021 with the aim of serving Corporate and Individual customers better and increasing both top line and market share.


Driving Growth - Profitability

We consider Shareholder wealth creation as an important strategic imperative as Shareholders are key to our legacy of 20 years in this industry. Every measure is taken to increase the profitability of our business operations and add value to our Shareholders both in short and long run. All our strategies are ultimately focused towards increasing the profitability of the Group.

 More information can be read on our Financial and Manufactured Capital from pages 62 to 75.


Superior Customer Experience

Customers are pivotal in our value creation process and we continuously work towards enhancing their experience with us. During the year we worked towards establishing a 'Customer First Ethos' among our employees and the sales force to ensure both our internal and external customers are treated in the best possible manner and to increase customer retention levels of both Life and General Insurance business segments.

 More information can be read on our Social and Relationship Capital from pages 83 to 90.

Developing Our People

We consider our employees to be the most important asset we hold and are committed to create value to them. During the year we focused on improving employee engagement levels and their well-being in the new normal. Investments were made to digitalise HR processes adding more value. Measures were taken to drive a performance driven culture across the organization and to increase the level of motivation.

 More information can be read on our Human Capital from pages 76 to 82.

Capacity Building



Life Insurance

In 2021 strengthening Advisor force and improving their productivity was a key area of focus. We worked towards increasing our Advisor force to 2,500 Advisors and to provide them with necessary training and development opportunities to build 'Performing' Advisors.

Incentive schemes were also restructured to motivate the sales force and to increase their productivity levels.

With the motive of increasing revenue and expanding our market foot-print focus was also given to expand our branch network during the year.



General Insurance

In General Insurance focus was given to increase the capacity and the capability of the sales force by providing them with necessary training and development opportunities to increase the revenue generated by them. Comprehensive monitoring mechanisms were also introduced to monitor the productivity levels of the sales force.

The sales force was also increased through targeted recruitment activities.

Excellence Through Digitalisation

Digitalisation became a key strategic focus area for us with the changes in global trends and customer expectations as well as industry competition. We embarked on a digitalisation journey in 2020 and during the year 2021 we made sound progress. Business processes were redefined and redesigned to improve efficiency and effectiveness using new technology. Special emphasis was given to introducing cloud based solutions to the Group and moving to a paperless office. To enhance the customer experience, we strengthened our digital payment platforms and Advisors were provided with digital solutions to serve our customers better. HNB General Insurance Limited started the implementation of a new Core Insurance System during the year with the objective of further enhancing efficiency levels and customer experience.

 More information can be read on our Natural Capital and Digital Capital from pages 94 to 99.

SWOT Analysis and Strategic Responses to SWOT (TOWS Matrix)

<p>Internal Factors</p>	<p>S Strengths (S)</p> <ul style="list-style-type: none"> • A legacy of 20 years in the insurance industry • HNB Parent Brand and Network • Extensive Point of Sale (POS) network • A+ (Ika) Fitch Rating with a stable outlook and healthy Capital Adequacy Ratios (CAR) showcasing financial strength and stability • Competent staff and sales force • Strong reinsurance panel 	<p>W Weaknesses (W)</p> <ul style="list-style-type: none"> • High dependency on manual processes in some areas of operations • High turnover rates in the sales force and Bancassurance officers • Low use of digital selling mechanisms
<p>External Factors</p> <p>O Opportunities</p> <ul style="list-style-type: none"> • Underpenetrated insurance market • Increase in ageing population requiring long-term protection benefits • Technological advancements creating a speedy reach direct to customers • Banks and financial institutions seeking to expand income horizons 	<p>S - O Strategies</p> <ul style="list-style-type: none"> • Increase new business using our brand, the HNB brand and the POS network • Investing in digitalisation of processes and services offered • Introducing new products and expanding distribution network to capture new business • Motivating the sales force to increase revenue and market share • Strengthening existing Bancassurance partnerships and entering into new partnerships 	<p>W - O Strategies</p> <ul style="list-style-type: none"> • Investing in new Core Systems and other peripheral systems to digitise processes • Creating attractive career paths especially in the Bancassurance channel to address the turnover and increase retention • Expanding digital sales platforms to collect premiums
<p>T Threats</p> <ul style="list-style-type: none"> • Low rates of economic growth, loss of employment opportunities, decrease in worker remittances, reduction in salaries and wages paid to employees and loss of business income affecting the purchasing power • Increasing interest rates in the market affecting solvency ratios • Increased scrutiny by insurance regulator with the impacts of COVID-19 • Intense competition among the industry players 	<p>S - T Strategies</p> <ul style="list-style-type: none"> • Introducing products with attractive features using internal competencies to gain competitive advantage • Capitalising on the relationships built with reinsurers and leverage on our financial strength to offer competitive terms to customers to gain competitive advantage • Using expertise of staff members to meet all regulatory requirements • Strategic allocation of investment assets to maximise investment returns while maintaining healthy solvency levels 	<p>W - T Strategies</p> <ul style="list-style-type: none"> • Investing in digitalisation and developing digital payment platforms to address the intense competition in the industry • Offering attractive rewards and benefits to reduce attrition of the sales force and capture market share to address the high competition

STRATEGIC REPORT

GRI [102-40](#) > [102-42](#) > [102-43](#) > [102-44](#)





Engaging with our Stakeholders

Stakeholders are identified and categorised based on their ability to impact our value creation process and our capacity to influence their value creation. Throughout the year, we engage with individuals, organisations and institutions that are most integral to our purpose. Effective engagement enables us to align our strategies to work towards mutually beneficial relationships.

Stakeholder	Expectations	Our Strategy	Channels of Engagement
 Customers	<ul style="list-style-type: none"> • Protection and financial returns • Service excellence • Accessibility • Reliability 	<ul style="list-style-type: none"> • Comprehensive product portfolio • Expanding footprint and use of technology to enhance accessibility • Ethical conduct and compliance with regulatory requirements 	<ul style="list-style-type: none"> • Call centres • Island-wide branch network • Bancassurance and Advisor network • Customer Relationship Management Centre
 Shareholders	<ul style="list-style-type: none"> • Return on investments • Growth • Transparency • Stability 	<ul style="list-style-type: none"> • Expansion through product and market expansion • Strong Governance framework • Maintaining a strong balance sheet with stable CAR ratios 	<ul style="list-style-type: none"> • Annual Report • Annual General Meeting • Press releases • Quarterly reports • Corporate websites
 Employees	<ul style="list-style-type: none"> • Attractive remuneration and growth opportunities • Job security • Health and safety • Diversity and inclusion in workplace 	<ul style="list-style-type: none"> • Competitive remuneration • Investment in training and development • Facilitating career progression • Providing a safe workplace with health and safety protocols • Facilitating work from home 	<ul style="list-style-type: none"> • Staff appraisals • Regular meetings • Corporate communication • Training programs • Rewards and recognitions
 Business Partners	<ul style="list-style-type: none"> • Competitive income streams • Business continuity • Growth and stability 	<ul style="list-style-type: none"> • Building sustainable relationships • Providing training opportunities • Safeguarding income streams 	<ul style="list-style-type: none"> • Annual conferences • Training sessions • Timely meetings • E-buddy and other digital platforms • Email and other corporate communications
 Communities	<ul style="list-style-type: none"> • Transparency • Sustainable business practices • Community development 	<ul style="list-style-type: none"> • Continuous investment in CSR activities • Leverage on technology to minimise the impact on the environment • Sound Governance Framework 	<ul style="list-style-type: none"> • CSR events • Website • Press releases • Branch level brand activities
 Regulators	<ul style="list-style-type: none"> • Compliance with regulatory requirements 	<ul style="list-style-type: none"> • Adhere to all rules and regulations applicable 	<ul style="list-style-type: none"> • Timely reporting • Meetings • Responses to proposals

Materiality

Our approach to materiality considers how we create value for all stakeholders across the short, medium and long term. These material topics are aligned with Global Reporting Initiative standards (GRI) and United Nations Sustainable Development Goals (SDGs), and assessed based on economic, environmental and social impacts across the value chain on stakeholders the community at large and on our organisation.

	GRI Standard	GRI Coverage	Importance to HNBA	Importance to External Stakeholders	Change in Materiality	SDG
Economic						
1	201	Economic Performance	●	●	No Change	  
2	202	Market Presence	●	●	No Change	
3	203	Indirect Economic Impacts	●	●	No Change	
4	204	Procurement Practices	●	●	No Change	
5	205	Anti-Corruption	●	●	No Change	
6	206	Anti-Competitive Behaviour	●	●	No Change	
7	207	Tax	●	●	No Change	
Environmental						
8	301	Materials	●	●	No Change	    
9	302	Energy	●	●	No Change	
10	303	Water and Effluents	●	●	No Change	
11	304	Bio Diversity	●	●	No Change	
12	305	Emissions	●	●	No Change	
13	306	Waste	●	●	No Change	
14	307	Environmental Compliance	●	●	No Change	
15	308	Supplier Environmental Assessment	●	●	No Change	
Social						
16	401	Employment	●	●	No Change	          
17	402	Labour/Management Relations	●	●	No Change	
18	403	Occupational Health and Safety	●	●	No Change	
19	404	Training and Education	●	●	No Change	
20	405	Diversity and Equal Opportunity	●	●	No Change	
21	406	Non-Discrimination	●	●	No Change	
22	407	Freedom of Association and Collective Bargaining	●	●	No Change	
23	408	Child Labour	●	●	No Change	
24	409	Forced or Compulsory Labour	●	●	No Change	
25	410	Security Practices	●	●	No Change	
26	411	Rights of Indigenous Peoples	●	●	No Change	
27	412	Human Rights Assessment	●	●	No Change	
28	413	Local Communities	●	●	No Change	
29	414	Supplier Social Assessment	●	●	No Change	
30	415	Public Policy	●	●	No Change	
31	416	Customer Health and Safety	●	●	No Change	
32	417	Marketing and Labelling	●	●	No Change	
33	418	Customer Privacy	●	●	No Change	
34	419	Socio-economic Compliance	●	●	No Change	

● High ● Moderate ● Low

Value Creation Model

The value creation process of the Group is designed around our strategic focus areas and creating sustainable value to our stakeholders. The following diagram illustrates how inputs are transformed to outputs by primary and secondary activities



Outcomes

Impact

FINANCIAL CAPITAL

- 15% ROE
- 7% Dividend Yield
- Rs. 2.7 Bn Investment Income

Financial value created during the year improved with the increased profitability of the operations. We were able to declare a Rs. 480 Million total dividend to Shareholders contributing to Shareholder wealth. Was able to pay attractive bonus to customers.

**HUMAN CAPITAL**

- Rs. 1.6 Bn Personnel Expenses
- 83% Employee Retention
- Top 10 Women Friendly Workplaces

Employee engagement levels were kept at satisfactory levels amidst COVID-19 and work from home arrangements. But, the employee attrition rate increased to 17% in 2021 compared to 14% in 2020.

**SOCIAL AND RELATIONSHIP CAPITAL**

- 334,904 Customers
- 3,108 Advisors
- 164 MDRT Winners
- Positive Impact on the Lives Touched

We continued to create value to our customers through our product suite and through payment of claims and benefits. We also paid Rs. 281 Million COVID-19 claims.

**INTELLECTUAL AND DIGITAL CAPITAL**

- Best Bancassurance Provider in Sri Lanka
- Best Health Insurance in Sri Lanka
- Motor Insurance Initiative of the Year in Sri Lanka
- 10,813 Digitally Underwritten Policies

During the year we made a Rs. 91 Million investment in IT assets. Value created for investors improved with the many awards and accolades won during the year.

**MANUFACTURED CAPITAL**

- Rs. 54 Mn Depreciation of Tangible Assets
- Rs. 69 Mn Investment in Land

During the year we made higher investments in tangible assets and our branch network. HNBGI invested in a land.

**NATURAL CAPITAL**

- 10,436 kg Reduction in Green House Gas Emission
- 11% Reduction in Water Consumption
- 5% Reduction in Electricity Consumption

The use of natural resources decreased with the digitisation initiatives taken during the year. We were able to reduce Greenhouse Gas emissions by 185% during the year.



Positive



0 - 100



500 - 1,000



5,000 - 10,000



Negative



100 - 500



1,000 - 5,000

Customers

Employees

Investors

Society

INDEPENDENT EXTERNAL ASSURANCE

GRI 102-56



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Fax : +94 - 11 244 5872
+94 - 11 244 6058
Internet : www.kpmg.com/lk

Independent Limited Assurance Report to the Directors of HNB Assurance PLC

We have been engaged by the Directors of HNB Assurance PLC ("the Company") to provide limited assurance in respect of the Integrated Report for the year ended 31st December 2021 (the "Integrated Report"). The criteria used as a basis of reporting is the content elements of the International Integrated Reporting Council (IIRC)'s Integrated Reporting Framework (<IR> Framework) as disclosed in this Integrated Report.

Basis for Conclusion

We conducted our work in accordance with the Sri Lankan Standard on Assurance Engagements SLSAE 3000 (Standard). In accordance with the Standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that we are not aware of any material misstatements in the Company's Integrated Report, whether due to fraud or error;
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on their effectiveness; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

Our Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report. We believe that the evidence we have obtained is sufficient

and appropriate to provide a basis for our conclusions.

We have not been engaged to provide an assurance conclusion on the fitness for purpose or the operating effectiveness of the Company's strategy or how the Company creates value, including the governance, strategic management and other key business processes. The procedures we have performed in relation to the Company's strategy and how the Company creates value are outlined below.

Limited Assurance Integrated Report

Based on the limited assurance procedures performed and evidence obtained, as described below, nothing has come to our attention that causes us to believe that the Integrated Report, as defined above, for the year ended 31st December 2021, has not in all material respects, been prepared in accordance with the Content Elements of the IIRC's International Integrated <IR> Framework.

Board of Directors and Management's responsibility

The Board of Directors and Management are responsible for:

- determining that the criteria is appropriate to meet the needs of intended users, being the company's members and any other intended users.
- preparing and presenting of the Report in accordance with the criteria set out in the IIRC's <IR> Framework. This includes disclosing the criteria, including any significant inherent limitations.

- ensuring the Company's strategy is well presented in the Company's Integrated Report and reflects how the Company creates value as they operate in practice;
- identifying stakeholders and stakeholder requirements;
- identifying material issues and reflecting those in the Company's Integrated Report; and
- preparation and fair presentation of the Integrated reporting information; Design and implementation of internal controls that the company determines necessary to enable the preparation and presentation of the Integrated Report that is free from material misstatement, whether due to fraud or error.
- informing us of any known and/or contentious issues relating to the Integrated Report.
- preventing and detecting of fraud and for identifying and ensuring that the Company complies with laws and regulations applicable to its activities;
- process to ensure that the Company personnel involved with the preparation and presentation of the integrated reporting information are properly trained, systems are properly updated and that any changes in reporting is relevant to the integrated report information encompass all significant business units. This responsibility also includes informing us of any changes in the Company's operations.

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M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara FCA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekara CFA, ACMA, MRICS



- the responsibility also includes informing changes in the Company's Operations since the date of our most recent assurance report on the Integrated reporting information.

Our responsibility

Our responsibility is to perform a limited assurance engagement in relation to the Integrated Report and to issue an assurance report that includes our conclusions.

We conducted our assurance engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information (SLSAE 3000) issued by the Institute of Chartered Accountants of Sri Lanka.

We have complied with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

SLSAE 3000 requires that we plan and perform the engagement to obtain limited assurance about whether the Integrated Report is free from material misstatement.

Limited assurance on the Integrated Report

Our limited assurance engagement on the Integrated Report consisted of making enquiries, primarily of persons responsible for the preparation of the Integrated Report, and applying analytical and other procedures, as appropriate. These procedures included:

- Interviews with executives, senior management and relevant staff to understand the internal controls, governance structure and reporting process relevant to the Report;
- Reviewing of the relevant internal policies and procedures developed by the Company, including those relevant to determining what matters most to the Company's stakeholders, how the Company creates value, the Company's external environment, strategy,

approaches to putting members first, governance and reporting.

- Reviewing the description of the Company's strategy and how the Company creates value in the Report and enquiring of management as to whether the description accurately reflects their understanding;
- Assessing of the suitability and application of the Content Elements of the <IR> Framework in the Report;
- Assessing of the alignment between the Company's strategy, the disclosures on how the Company creates value and what matters most to the Company's stakeholders.
- Reviewing Board minutes to ensure consistency with the content of the Report.
- Reviewing the Report in its entirety to ensure it is consistent with our overall knowledge obtained during the assurance engagement.
- Obtaining a letter of representation from management dated 18 February 2022 on the content of the Company's Integrated Report.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance conclusion on the Integrated Report.

Misstatements, including omissions, are considered material if, individually or in the aggregate, they could reasonably be expected to influence relevant decisions of the Company.

Limitations of our review

The Integrated Report includes prospective information. Inherent to prospective information, the actual future results are uncertain. We do not provide any assurance on the assumptions and achievability of prospective information in the Integrated Report.

Purpose of our report

In accordance with the terms of our engagement, this assurance report has been prepared for the Company for the purpose of assisting the Directors in determining whether the Company's Integrated Report is prepared in accordance with the IIRC's International <IR> Framework and for no other purpose or in any other context.

Restriction of use of our report

This report has been prepared for the Company for the purpose of providing an assurance conclusion on the Integrated Report and may not be suitable for another purpose. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Company, or for any other purpose than that for which it was prepared.

Our report should not be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company, for any purpose or in any other context. Any party other than the Company who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk. To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than the Company for our work, for this independent assurance report, or for the conclusions we have reached.

Chartered Accountants

Colombo
18 February 2022



CHAIRPERSON'S MESSAGE

Dear Stakeholder,

Reflections on 20 Years

As HNB Assurance PLC completed 20 years in business in 2021, a brief review of our journey up to this key milestone is a logical starting point to the 20th Annual General Meeting. Our parent, Hatton National Bank PLC (HNB) was the first bank to secure regulatory approval to establish an insurance company, as a fully owned subsidiary in 2000. HNB Assurance (HNBA), as a composite insurance company, commenced its General Insurance business operations in November 2001 and Life Insurance operations in January 2002 and joined the insurance sector as the 11th player. After nearly 15 years of successful operations, HNBA was segregated in 2015 in line with insurance regulatory requirements with HNBA keeping its Life Insurance business while transferring

the General Insurance business to its newly formed subsidiary HNB General Insurance Limited (HNBGI). This move facilitated focused growth of both businesses as depicted in our performance.

HNBA is now the sixth largest life insurer among Fifteen companies in the market and its insurer financial strength rating, by Fitch Ratings, was upgraded to A+ (lka) with a Stable Outlook during the year. Our fully owned subsidiary HNB General Insurance Limited too has witnessed a steady growth and is in the seventh position as a general insurance company amongst fourteen similar companies. HNBGI was also upgraded to the same rating.

Today, HNBA Group has growing revenue streams, making strong inroads in both industry segments. The

appointment of two separate Chief Executive Officers for the two businesses from January 2022 is another noteworthy milestone and both businesses are now ready to shift gears to a new growth paradigm.

Our heritage as a subsidiary of HNB was a key strength not only enabling us to drive synergies but also fast tracking the maturity of our Governance and Risk Management structures and processes. HNBA has consistently been punching above its weight, setting benchmarks with awards for transparency, new products and creating a great workplace. The Board has always been mindful of HNB's importance to the country's economy as a systemically important commercial bank and aligned our culture to reflect the values and the brand, nurturing our legacy.

An Uncertain Landscape

To recap the salient points of the economy in which we operated in the past year, global economic growth recovered to an estimated 5.9% in 2021, from a negative 3.1% in 2020 as per International Monetary Fund. This was supported by accommodating monetary policies, increasing vaccination rates and people adapting to the new norm. However, the recovery was divergent with advanced economies recovering at a faster pace as emerging markets and developing economies were hampered by access to vaccine issues. The latter half of 2021 saw policymakers tighten monetary policy as Central Banks grappled with headwinds in their economies.

Sri Lanka's economic growth in 2021 is estimated at 3.6% compared to negative 3.6% for 2020 as per International Monetary Fund as the roll out of vaccines supported a return to economic activity. However, debt repayments, declining inflows from remittances of migrant workers and the delayed pick up of the tourism industry have resulted in a sovereign downgrade, wide ranging import controls and a foreign exchange liquidity crisis. The country's foreign exchange reserves declined from US\$ 5.7 Billion at the beginning of 2021 to US\$ 2.4 Billion by the end of January 2022, equivalent to around 1.5 months of imports. The rupee remained under pressure, depreciating by 7% during the year against USD and is currently managed at Rs. 203. Both the sovereign downgrade and exchange rate pressure presents challenges in reinsurance arrangements while increasing motor spare part costs.

The pandemic increased awareness of uncertainties and the importance of having safety nets. Accordingly, the industry witnessed increased interest in Health and Life Insurance business. Import restrictions on motor vehicles have now been in place for almost two years due to increasing pressure of foreign currency liquidity resulting in

2021 was a year of capitalising on the changes made and further strengthening our structures to gain momentum despite an increasingly challenging business landscape.

the base for Motor Insurance remaining stagnant during this period. This has affected the growth of General Insurance business as Motor Insurance accounts for around 68% of our General Insurance premiums. Accordingly, Life Insurance GWP grew by 29% while General Insurance GWP increased by 13% in 2021 compared to previous year.

The upward movement in interest rates was a double edged sword as it enhanced returns on investments and our profitability while exerting pressure on the Capital Adequacy Ratio.

Gaining Momentum

2020 was a year of unprecedented change, adapting to a new norm and deploying agile strategies coupled with close monitoring to ensure that we maintained momentum. 2021 was a year of capitalising on the changes made and further strengthening our structures to gain momentum despite an increasingly challenging business landscape. The Board and its Sub-Committees remained active and vigilant, increasing the rigour of review and frequency of meetings as deemed necessary. Operational strategies were aligned to deliver performance in the new norm with acceleration of digital transformation and a transition to remote working which enabled us to maintain business continuity. Successful implementation of strategy enabled us to increase the digital acquisition rate to 90% in 2021. It is noteworthy that this was achieved through maximising performance of existing systems, internal changes and process transformations. We expect to gain significant growth momentum on completion of the digital transformation

projects which are at various stages of completion in both Life and General Insurance businesses.

HNBA seized the opportunity presented by increased awareness of the benefits of Life and Health Insurance to enhance products, add riders and develop new Health products that were relevant to the new norm. Although HNBGI growth was curtailed by the stagnant motor vehicle market, it benefited from interest in Health Insurance. Agile strategies supported growth of General Insurance business across categories, strengthening our competitive positioning from eighth last year to seventh in the General Insurance market.

There were operational challenges. Due to the continued spread of the virus in the country, we needed to close branches from time to time even if one officer was affected, as our branches are lean. Consequently, there was a greater reliance on digital platforms while trainings were also changed to digital. The growing business together with the shift of business to digital platforms in both companies exerted pressure on the capacity of the existing systems. However, it is noteworthy that HNBA and HNBGI surpassed industry growth rates despite all these challenges.

Financial Strength Ratings
- Fitch Ratings Lanka Ltd.



A+ (Ika) Stable Outlook
HNBA / HNBGI

Although both companies continued to maintain strong solvency and liquidity positions, the Board also remained mindful and monitored these closely throughout the year. Regulatory compliance remained a key area of focus. The Investment Committee comprising experts in the field were vigilant of the sustainability of the portfolios and supported an equilibrium in line with the Group's risk appetite. The continued increase in the interest rates necessitated a review of the investment strategies to strike a balance between durations and income. Policy changes were effected as required from time to time to stabilise income, managing the short, medium and long term.

Delivering Sustained Value

HNBA Group recorded a GWP growth of 22% and a Profit After Tax of Rs. 1,224 Million in 2021, delivering a commendable performance while coping with challenges and transformation across multiple processes. Increased claims and inflationary pressures contributed to increased costs while the impact of higher risk free rates impacted on the Life Fund liability valuations which in turn supported our profitability. Profitability of Life Insurance operations increased by 38% primarily due to a 60% increase in the surplus transferred from the Life Fund. Profitability of General Insurance business declined by 25% owing to higher claims experienced due to the increase in accident intimations in Motor and increase in Medical claims in Non-Motor. The Group's balance sheet remains strong with total assets growing by 13%. The Capital Adequacy Ratios stood at 277% and 260% for HNBA and HNBGI respectively and are well above the regulatory requirement. Importantly, our stability and claim paying ability were affirmed by the Insurer Financial Strength Ratings of HNBA and HNBGI improving during the year.

HNBA Group recorded a GWP growth of 22% and a Profit After Tax of Rs. 1,224 Million in 2021, delivering a commendable performance while coping with challenges and transformation across multiple processes.

The HNBA Board composition changed during the year with Mr. Mahendra Jayasekera who completed nine years of service retiring from the Board as well as the Chairman of the Audit Committee on 3rd December 2021. His vacancy was filled by Mr. Ashoka Goonesekere who was appointed with effect from 31st December 2021 both as Board member and Chairman of the Audit Committee. We also welcomed Ms. Chiranthi Cooray to the Board of HNBGI on 17th March 2021 to fill the vacancy created by the resignation of Mr. Dilshan Rodrigo on the same date. The challenging external environment over the last couple of years have highlighted the need for increased oversight by the Board and the Board continues to remain watchful as we move into our third decade.

Our Plans

While there are many challenges in the operating environment of our business, we are cautiously positive that the increased interest in Life and Health Insurance will continue. The Board has approved investments in upgrading the Group's legacy Core Insurance systems to enhance our ability to compete in an intensely competitive market for both Life and General Insurance business. These systems will also support readiness for SLFRS 17: Insurance Contracts while elevating internal and external stakeholder experiences and improving efficiencies and insights for performance management.

We will steer the HNBA Group towards a new growth trajectory leveraging both organic and inorganic growth.

Growth of the Bancassurance channel will be a priority, consolidating our position as the 'Best Bancassurance Provider' in 2021 as affirmed by Global Banking and Finance Review. The appointment of two CEOs, Mr. Lasitha Wimalaratne for HNBA and Mr. Sithumina Jayasundara for HNBGI, support our ambitious plans. Readiness for SLFRS 17 will also be a key area of focus although the local insurance industry has requested for an extension until 2025.

The economic challenges ranging from foreign exchange liquidity, rupee devaluation, inflation and interest rate pressures pose downside risks to our plans. Despite the gravity of the combination, we remain positive that we can continue to deliver sustainable returns to our Shareholders.



Rs. 480 Mn

Dividend to Shareholders

(2020 - Rs. 420 Mn)

+ 14%

Appreciations

I wish to express my sincere appreciation of the contribution of my fellow Board members who have been unstinting in their support throughout this period of uncertainty and are committed to navigating the uncertain terrain that lies ahead.

I also wish to place on record my gratitude for the invaluable services rendered by Mr. Mahendra Jayasekera for nine years, to both companies serving as a Director of HNBA and on a number of Board Sub-Committees of the Group.

The leadership provided by Mr. Prasantha Fernando who retired on 31st December 2021 as CEO saw the HNBA Group through one of the most challenging periods in its history. I express my sincere appreciation for his contribution to the Group.

The results set out in this report is the combined work of a committed team who worked remotely for a good part of the year, facing multiple challenges. Working tirelessly to overcome these challenges the Management and staff have posted excellent results. The Board joins me in expressing our appreciation of their contributions.

Our business partners are a vital link in our supply chain and we are encouraged by their uptake of new platforms for doing business and training as we move towards digitalisation of our operations. We take this opportunity to thank them for their business and their continued confidence in HNBA. Appreciation is extended to the assistance and guidance provided by the regulator, the Insurance

Regulatory Commission of Sri Lanka. Our appreciation also goes out to the Insurance Ombudsman for providing an efficient, independent grievance handling mechanism. Last but not least I thank our customers, who have trusted us to build their safety nets for the confidence they have placed in us.

I conclude by thanking our Shareholders for their continued commitment to the Group.



Rose Cooray
Chairperson

Colombo, Sri Lanka
18th February 2022

BOARD OF DIRECTORS

GRI 102-22



→ Left to Right Standing

Ashoka Goonesekere

Independent/Non-Executive Director
- HNB Assurance PLC

Dilshan Rodrigo

Non-Independent/Non-Executive Director
- HNB Assurance PLC

Damien Fernando

Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited

Rose Cooray

Chairperson/ Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited

Stuart Chapman

Non-Independent/Non-Executive Director
- HNB Assurance PLC

Dr. Sivakumar Selliah

Senior Independent/Non-Executive Director
- HNB Assurance PLC

Ravi Abeysuriya

Independent/Non-Executive Director
- HNB Assurance PLC

Siromi Wickramasinghe

Non-Independent/Non-Executive Director
- HNB Assurance PLC



➔ **Left to Right Standing**

Dr. Prasad Samarasinghe

Alternate Director-Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited

Faizal Salieh

Independent/Non-Executive Director
- HNB General Insurance Limited

Marina Tharmaratnam

Independent/Non-Executive Director
- HNB General Insurance Limited

Arjuna Abeygunasekara

Non-Independent/Non-Executive Director
- HNB General Insurance Limited

Chiranthi Cooray

Non-Independent/Non-Executive Director
- HNB General Insurance Limited

Sanjaya Wijemanne

Non-Independent/Non-Executive Director
- HNB General Insurance Limited

Sitari Jayasundara

Chief Legal & Compliance Officer/Board Secretary
- HNB Assurance PLC and HNB General Insurance Limited

BOARD OF DIRECTORS

GRI 102-23

Rose Cooray

Chairperson/ Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited

B.A. (Hons) (University of Ceylon, Peradeniya),
MSc. (Strathclyde University, U.K.)


 Appointed as the Chairperson on 06th July 2015. Mrs. Rose Cooray, having served the Central Bank of Sri Lanka for over 35 years retired as the Deputy Governor and counts over 47 years of experience in the financial sector. She is the Chairperson of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC and HNB General Insurance Limited. She functioned as Director of Hatton National Bank PLC for nine years and retired in 2019. Whilst being a Director of HNB, she also functioned as a Director of HNB Finance Limited and as the Chairperson of Sithma Development (Pvt) Limited.

On release from the Central Bank, she had served the Ministry of Finance and Planning as Director General Fiscal Policy and Economic Affairs for nearly 6 years and represented, the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority. She has represented the Monetary Board on the Board of West Coast Power (Pvt) Ltd. Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing development projects. She has wide experience in negotiating financial facilities with multilateral donors/bilateral trade agreements. She has contributed papers to professional journals.

Dr. Sivakumar Selliah

Senior Independent / Non-Executive Director
- HNB Assurance PLC

(MBBS, M.Phil)

 Was appointed to the Board in 2014, Dr. Selliah holds a MBBS degree and a Master's Degree (M.Phil). He has over two decades of diverse experience in varied fields including Manufacturing, Healthcare, Insurance, Logistics, Packaging, Renewable Power, Plantation, Retail etc.

Dr. Selliah is currently the Deputy Chairman of Asiri Hospital Holdings PLC, Asiri Surgical Hospital PLC and Central Hospitals Private Ltd.

He is a Director of Lanka Tiles PLC, HNB Assurance PLC, Softlogic Holdings PLC, Odel PLC, Lanka Walltiles PLC, Lanka Ceramic PLC, ACL Cables PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium (Pvt) Ltd.

Dr. Selliah is the Chairman of JAT Holdings PLC, Vydexa (Lanka) Power Corporation (Pvt) Ltd and Cleanco Lanka (Pvt) Ltd. Dr. Selliah is also the Deputy Chairman of Evoke International Ltd.

Dr. Selliah also serves as a Member of the Governing Council of the University of Colombo.

He has also served as a Senior Lecturer in the Medical faculty for many years in the past.

He also serves on the following Board sub committees of some of the companies listed above as a member or Chairman: Human Resource and Remuneration Committee, Related party Transaction Committee, Audit Committee, Investment Committee and Strategic Planning Committee.

Dilshan Rodrigo

Non-Independent/Non-Executive Director
- HNB Assurance PLC


MBA (Cranfield University, UK) FCMA (UK),
FCCA (UK)

 Executive Director/Chief Operating Officer of Hatton National Bank PLC and Chairman of HNB Finance PLC, Director of Guardian Acuity Asset Management Ltd and Credit information Bureau of Sri Lanka. A Senior Banker with extensive experience in Retail Banking, Finance, Institutional Banking and Risk Management in leading local and foreign commercial banks operating in Sri Lanka. Elected Chairman for a two-year period of the Asian Banker's Policy Advocacy Committee, a forum for advancing the cause of banking and finance in the region and promoting regional co-operation. Served as Lecturer and Examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka, Guest Lecturer at Postgraduate Institute of Management and Director Certification Program at Sri Lanka Institute of Directors. Has presented technical papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management. A former President of ACCA Sri Lanka Division.

Siromi Wickramasinghe

Non-Independent/Non-Executive Director
- HNB Assurance PLC

Attorney-at-Law

 Presently is a Director of Agstar PLC. Also functions as the Head of Credit Counselling Center. A fellow of the Chartered Management Institute, UK. Counts over 35 years of multi-functional and progressive experience in the Sri Lankan Banking Sector including 13 years in the Corporate Management level of Hatton National Bank PLC. Previously held the position of Chairperson of HDFC Bank, General Manager/CEO of Lankaputhra Development Bank, Chairperson of Ceybank Asset Management Company,

(a subsidiary of Bank of Ceylon), Director of Commercial Bank of Ceylon PLC, Commission Member of SEC and a Director of Sri Lanka Banks' Association.

Ravi Abeyseriya

*Independent/Non-Executive Director
- HNB Assurance PLC*


CFA, FCMA (UK), CGMA, MBA
(Monash University, Australia)

 Mr. Ravi Abeyseriya is the Group Director of Candor Group, Director of Seylan Bank PLC, Bio Foods (Pvt) Limited and Colombo City Holdings PLC. He is also the Advocacy Chair and Board Director of CFA Society Sri Lanka and The Sri Lanka Institute of Directors. Formerly, he was the Head of Strategic Business Development at Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka. He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC) and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka and was a Director of Sri Lanka Insurance Corporation (SLIC). He is a Member of Disciplinary Review Committee (DRC) of the CFA Institute, USA. Further, he is the President of the Association of Alternative Financial Institutions, Sri Lanka, Co-Chair of the National Agenda Committee-Finance and Capital Markets of the Ceylon Chamber of Commerce, and a member of the Code of Conduct Review Committee (CoCRC) of the Central Bank of Sri Lanka (CBSL) appointed by the Monetary Board of CBSL. Mr. Abeyseriya has also functioned as a member of Board Risk Oversight Committee and Financial System Stability Consultative Committee of CBSL and President of several finance and IT associations. He was named as "Lifetime Achievement" award laureate by CFA Institute, USA in 2017 for his outstanding work and dedication to the investment management profession.

Damien Fernando

*Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited*

MBA (University of Sri Jayewardenepura)
FCMA (UK)

 Mr. Fernando is a Fellow member of Chartered Institute of Management Accountants of United Kingdom. He has been awarded a Master's Degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura in 1992.


He holds Directorship in Addison (Pvt) Ltd and HealthCey (Pvt) Ltd also serving as a non-executive Director of Hatton National Bank PLC and Consultant -Strategy of Melstacorp PLC.

He served as the Executive Director of Sri Lanka Insurance Corporation Limited from 2003 to 2009 and held Board positions in companies in sectors of Food & beverage, Manufacturing, Healthcare, Telecommunications, Finance, Asset Management, and in Unit Trusts.

Stuart Chapman

*Non-Independent/Non-Executive Director
- HNB Assurance PLC*

MBA (University of Colombo), Dip in Marketing (CIM-UK), Dip in Life Insurance (USA), Dip in Business Management (NIBM), CIM (UK), CMA (Australia).

 Mr. Chapman holds an MBA from the University of Colombo, a Diploma in Marketing from the Chartered Institute of Marketing UK. Mr. Chapman also holds a Diploma in Life Insurance Sales and Marketing from the Life Underwriters Training Council USA and a Diploma in Business Management from the National Institute of Business Management Sri Lanka. He is a Fellow Member of the Chartered Institute of Marketing, UK and the Institute of Management UK. He is also a Member of the Institute of Certified Management Accountants, Australia.

Mr. Chapman's management experience, spanning over 30 years include Sales, Marketing and general management functions. His Industrial exposure spans Healthcare, FMCG, Consumer Durables, Insurance, Banking and Telecommunications.

Mr. Chapman is also an Independent Non-Executive Director of Hemas Pharmaceuticals (Pvt) Limited and United Motors PLC.

Mr. Chapman was the former Managing Director GlaxoSmithKline (GSK) Pharmaceuticals and served on the Boards of Glaxo Wellcome Ceylon Limited and SmithKline Beecham Pvt. Ltd. Some of his previous appointments include Managing Director-Hemas Healthcare Sector, Marketing Director-Reckitt Benckiser, Senior Brand Manager Unilever, Managing Director/CEO-Lanka Orix Leasing Company and Director Life-Ceylinco Insurance.


Mr. Chapman was also a former Director/CEO of Janashakthi Insurance PLC.

Mr. Chapman held several Industry positions including Honorary President and a Founder Member of the Chartered Institute of Marketing Sri Lanka, President of the Sri Lanka Chamber of the Pharmaceutical Industry – the apex body for the pharmaceutical industry in Sri Lanka and Co-Chairman of the Pharmaceutical & Cosmetics Steering Committee of the Ceylon Chamber of Commerce.

Ashoka Goonesekere

*Independent/Non-Executive Director
- HNB Assurance PLC*

FCA, FCMA, MBA (USJP)

 Mr. Ashoka has more than 36 years of experience in the Banking industry covering financial reporting, financial management, taxation, financial operations and risk management. He is a Master of Business Administration of the University of Sri Jayewardenepura (PIM) and a fellow member of both


BOARD OF DIRECTORS

the Institute of Chartered Accountants of Sri Lanka and the Institute of Cost and Management Accountants of Sri Lanka. Ashok has been in the corporate management of Hatton National Bank PLC as the Chief Financial Officer and in the DFCC Bank PLC as the Senior Vice President/Chief Financial Officer and the Senior Vice President Integrated Risk Management/Chief Risk Officer. He had served in the Boards of Acuity Partners (Pvt) Ltd, Acuity Stock Brokers (Pvt) Ltd, Acuity Securities Ltd and of Sithma Development Ltd. Ashok also served as a Board member of the Sri Lanka Accounting and Auditing Standards Monitoring Board and in addition had chaired and served in several Board sub committees.

Faizal Salieh

*Independent/Non-Executive Director
- HNB General Insurance Limited*

BA (Econ) Hons. MBA, FCPM

 Has long and extensive experience in commercial and development banking both in Sri Lanka and overseas and has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank, NDB and Amana Bank; experienced Board Director of several companies in the business of Banking, Finance, Insurance, Fund Management, Stockbroking, Manufacturing, Trading and Education; has served on State University Boards, The Ceylon Chamber of Commerce Board and several Government and Non-Governmental Committees in the fields of Finance, Economic Affairs, Housing, Construction and Tertiary Education. He is presently the Chairman of The Sri Lanka Institute of Directors, Senior Independent Director of Cargills Bank, and a Council Member and Financial Sector Consultant at Gerson Lehrman Group, USA.

Marina Tharmaratnam

*Independent/Non-Executive Director
- HNB General Insurance Limited*


FCA, Post Graduate Diploma (CIM, UK),
Diploma in Computer Systems and Design (NIBM)

 She has held senior positions in the insurance and banking sector, initially training as an Accountant at Ernst & Young. She has been CEO/ Director of Union Assurance, Executive Vice President Operations of DFCC Bank, Finance Director/ Company Secretary of Eagle Insurance, Finance Director of United Tractor & Equipment Ltd and a Tax consultant at KPMG Ford Rhodes, Pannell Kerr Forster, British Virgin Islands. She has held Board positions at Singer Finance PLC, DFCC Vardhana Bank PLC, United Tractor & Equipment Limited, Eagle Insurance Company Limited, Eagle NDB Fund Management Co. Ltd. She was also the Chairperson of World Vision Lanka. She was the President of the Sri Lanka Institute of Directors and a Member of the National Council for Economic Development (NCED) for Capital Markets from 2004 to 2007, has served on various committees of the Institute of Chartered Accountants of Sri Lanka, was a Director of Employers Federation and served on the main committee of the Ceylon Chamber of Commerce.

Sanjaya Wijemanne

*Non-Independent/Non - Executive Director
- HNB General Insurance Ltd.*

B.Sc. in Business and Finance
(Mount Saint Mary's University-USA)

 Mr. Sanjaya Wijemanne is the Deputy General Manager – Retail & SME Banking at Hatton National Bank PLC and manage the areas of Personal Financial Services (Leasing, Pawning, Personal & Housing Loans), SME/Microfinance, Credit Cards, Sales & Business Development, Network Management, Deposit Mobilization, Marketing Communications, Customer Service, Club & Priority Banking, Digital Banking, Inward Remittances & Exchange House Relationships

and Bancassurance. He has a B.Sc. in Business & Finance from Mount Saint Mary's University, USA.

He is also a Director at Acuity Stockbrokers (Pvt) Ltd, Acuity Partners (Pvt) Ltd and LankaClear (Pvt) Ltd.

He commenced his career with Ceylinc Securities & Financial Services and then joined HNB as a Management Trainee/ Executive. Thereafter, he joined HSBC where he held different positions such as Vice President-Custody & Clearing, Head of Sales, Head of Branches including Premier Banking, Branch Manager- Kollupitiya Branch/Manager Premier Center.

He then joined Standard Chartered Bank & held position of Head of Retail Banking, General Manager - Premium Banking Branch Sales & Services and General Manager- Wealth Management Value Center.

Arjuna Abeygunasekara

*Non-Independent/Non-Executive Director
- HNB General Insurance Limited*

MBA (University of Colombo), B.Sc. (University of Colombo), ACMA (UK), CGMA, ACI


 Mr. Arjuna Abeygunasekara counts over 20 years of experience in the Banking Sector including branch banking and treasury management in four leading commercial banks in the country. He currently holds the position of Deputy General Manager – Treasury and Markets of Hatton National Bank PLC. He is also a Non-Executive Director to the Board of Acuity Securities Ltd.

Mr. Abeygunasekara holds a Bachelor of Science Degree from the University of Colombo and a Master of Business Administration Degree from the University of Colombo. He has obtained the status of ACI and the status of Chartered Global Management Accountant and is an Associate Member of Chartered Management Accountants UK. In addition, he serves the Centre for Banking Studies of the Central Bank of Sri Lanka as a recourse person.

Chiranthi Cooray

*Non-Independent/Non-Executive Director
- HNB General Insurance Limited*

MBA (Wales), S.C.P. SHRM (USA),
I.P.M.A. - CP (USA).

 Ms. L Chiranthi Cooray is Deputy General Manager/Chief Transformation Officer of Hatton National Bank PLC. Chiranthi serves on the Boards of the HNB General Insurance Ltd, CSR Sri Lanka (Guarantee) Ltd & Advisory Board of AISEC Sri Lanka and serves as a Trustee of the HNB Sustainability Foundation. She also serves in the SLID Education & Technical Working Committee and Women's Chamber of Industry & Commerce Policy Advocacy Committee.

She is a past President of the Association of Human Resource Professionals, Sri Lanka. Chiranthi holds a Master's Degree in Business Administration from the University of Wales (Cardiff Metropolitan). She is a Senior Certified Professional SHRM USA and Certified HR Professional from IPMA, USA. She has completed CIMA (UK) exams and is awaiting admission to membership. Chiranthi was awarded the HR Leadership Award for Global HR Excellence organized by World HR Congress in February 2015.

She has also been awarded the Gold Category at the Women for Governance Professional & Career Women Awards 2014/2015 by the Women in Management for her exceptional contribution and achievements in the field of Human Resources. Under her leadership the Hatton National Bank PLC has achieved many local and international awards in the last 10 years in HR and Sustainability spheres. In 2017, Chiranthi served as the Chairwoman of the National Task Force to recommend a strategic road map to increase female labour force participation in Sri Lanka for the National HR Development Council of Sri Lanka.

Dr. Prasad Samarasinghe

*Alternate Director-Non-Independent/
Non -Executive Director
-HNB Assurance PLC & HNB General
Insurance Limited*

PhD (Australian National University, Australia),
B.Sc. (Eng.) University of Moratuwa, M.Sc. (Eng.)
University of Moratuwa


 Dr. Prasad Samarasinghe is the Managing Director of Lanka Bell Ltd, Bell Active (Pvt) Ltd, Bell Solutions (Pvt) Ltd and Bellvantage (Pvt) Ltd. He holds Directorship in DCSL Brewery (Pvt) Ltd, Hayleys Fiber PLC, Techno Park (Pvt) Ltd and serving as Alternate Director for Hatton National Bank PLC. Also he is the Chairman of Federation of Information Technology Sri Lanka (FITIS) and holds the Directorship of two non-profit organizations TRACE, Information and Communication Technology Industry Skills Council (ICTISC). Currently he is serving as Council Member of BCS -The Chartered Institute for IT Sri Lanka Section & Computer Society of Sri Lanka (CSSL).

He obtained his Doctorate in Telecommunications from the world ranked research university, the Australian National University, Canberra, Australia. Dr. Samarasinghe holds a B.Sc. (Eng.) Degree in Electronics and Telecommunications with First Class Honors and a M.Sc. in Engineering, both from the University of Moratuwa, Sri Lanka. A member of the IEEE (Institute of Electrical and Electronic Engineers) and the IET (Institute of Engineering and Technology), he also has a Licentiate (Parts I and II) from the Institute of Chartered Accountants of Sri Lanka with the island's best results in Financial Accounting, Business Mathematics, Statistics and Data Processing. In the past, Dr. Samarasinghe held the posts of Chief Operating Officer at Sri Lanka Insurance Corporation Ltd, Head of Information Technology at Commercial Bank PLC and Director of e-Channeling PLC.

Sitari Jayasundara

*Chief Legal & Compliance Officer/
Board Secretary
- HNB Assurance PLC and HNB General
Insurance Limited*

MBA (PIM-USJ), Attorney-at-Law
Pg. Adv. Dip (Finance, Banking & Insurance Laws)

 Ms. Sitari Jayasundara is an Attorney-at-Law and holds Master's Degree in Business Administration from University of Sri Jayewardenepura (PIM), a Post Graduate Advanced Diploma in Finance, Banking and Insurance Laws from the Council of Legal Education Sri Lanka.

Having joined HNB Assurance PLC in year 2009, Sitari currently heads the overall Legal, Corporate Secretarial and Compliance operation of HNB Assurance PLC and HNB General Insurance Limited in the capacity of Chief Legal & Compliance Officer/ Board Secretary and she is a member of the Executive Committee. She counts over a two decade long legal career in the fields of Corporate law, Intellectual property, Corporate Governance and Compliance and heading the Legal & Compliance and Company Secretarial Divisions of HNB Assurance PLC for over 12 years. Sitari is the Chairperson of Board Secretaries Forum under the aegis of Sri Lanka Institute of Directors (SLID) and Institute of Chartered Corporate Secretaries of Sri Lanka (ICCSSL) and she was the immediate Past Chairperson of Legal Advisory Forum (LAF) of Insurance Association of Sri Lanka (IASL).

Prior to joining HNB Assurance PLC, Sitari served as Director-Business Mate (Pvt) Limited, the Corporate Secretarial arm of Baker Tilly Edirisinghe & Company, Chartered Accountants and Legal Officer & Company Secretary of Delmege Group of Companies.



CHIEF EXECUTIVE OFFICER'S REVIEW

Gaining Ground

Taking over the reins as the Chief Executive Officer on 1st January 2022, I am excited about navigating the next chapter of HNB Assurance PLC, a company which has made significant inroads into the insurance industry in Sri Lanka over the past 20 years. By the end of 31st December 2021 our Life Fund has grown to over Rs. 20 Billion while our top line surpassed Rs. 7 Billion in 2021. HNB General Insurance Limited, our fully owned subsidiary has recorded a top line of Rs. 5.6 Billion, enabling the Group to post a Gross Written Premium (GWP) of Rs. 12.6 Billion. The Group achieved a Profit After Tax of Rs. 1.2 Billion for the year ended 31st December 2021. Another notable development is the Fitch Insurer Financial Strength Ratings of both companies being upgraded to A+(lka) from A (lka) with a Stable Outlook.

HNB Assurance has built a strong reputation for governance and transparency, winning several awards for financial reporting over the years. Importantly, claims were honoured, well beyond the technical requirements (Ex-gratia basis), establishing trust in the market, particularly during the pandemic. The Company has also been recognised as a 'Great Place to Work' in 2020 and this year was recognised as one of the Top 10 Women Friendly Workplaces, reflecting a positive culture that is a key strength. Awards for products affirm the Group's ability to innovate while our awards for Bancassurance channel and the growing number of Million Dollar Round Table (MDRT) winners are testimony to the strength of our supply chains. Also, as a subsidiary of the financial powerhouse, Hatton National Bank PLC, we have benefitted from both the brand association as well as the disciplined governance and risk

Highlights 2021

- » Fitch Ratings of both HNBA and HNBGI upgraded to A+ (lka) with a Stable Outlook
- » Overall GWP Growth of **22%**
- » Life Insurance GWP growth of **29%**
- » General Insurance GWP growth of **13%**
- » Funds Under Management growth
 - Life **17%**
 - General **8%**
- » Group Profit After Tax **Rs.1.2 Bn**
 - Life Insurance - **Rs.1 Bn**
 - General Insurance - **Rs.0.3 Bn**
- » Capital Adequacy Ratios
 - Life **277%**
 - General **260%**

management systems of the parent and other group synergies. These are key strengths that will support our ambitious growth plans for the years ahead.

Investing In Our Future

HNBA is committed to investing in our team, our supply chain partners and digitalisation to drive profitable and sustainable growth, ensuring we move forward in sync. Developing our people has been a key area of focus, aligning their career goals with the business goals through effective performance management systems. Motivating our teams was key and we maintained salaries, incentive schemes and increments throughout the pandemic period. Their safety was a priority which led to a sustained period of telecommuting since the initial lockdown with staff mostly working from home. Training was moved to online platforms ensuring that their knowledge was continually refreshed and enhanced. Life Insurance was strengthened with the recruitment of more than 500 people to the sales force as Advisors.

Strengthening supply chains was key to gain growth momentum. Bancassurance business grew by 45%, while the more dominant Advisor channel grew by 20% in Life Insurance. Similarly, General Insurance also witnessed a growth of 10% through Bancassurance and 13% growth through the Broker channel. HNB Assurance PLC's MDRT winners improved by 45% with 164 members compared to 113 in 2020. Reinsurance panel was strengthened through one of the world's leading reinsurers, Munich Re, for Life and a solid panel of globally reputed reinsurers for General Insurance for 2022 despite the country's credit downgrades.

Our digitalisation journey was accelerated in 2020 with the onset of the pandemic as we migrated swiftly to remote selling and working as the country went into lockdown. Today over 90% of our policies are issued digitally and we have also supported customer

convenience with multiple remote payment solutions. The current level of digitalisation has been achieved with the infrastructure in place in 2020 and by adding tools to facilitate customer intimations of claims and payments in addition to enabling remote access for our teams. We are now focusing on the upgrade of our Core Insurance Systems which will level up our digital offerings, supporting agility in the market, deeper insights, enhanced customer experience and preparation for new accounting standards. HNBGI invested in a Core Insurance System in 2021 and has made considerable progress with completion scheduled for 2022. The system for Life Insurance is in early stages and is scheduled to go live in 2023. The Core Systems upgrade will also be supported with enhanced data analytics, chatbots and robotic process automation, etc., paving the way for a paradigm shift in growth.

A Market in Flux

The onset of the pandemic and the prolonged duration has given rise to market shifts and high levels of uncertainty in the outlook. Life Insurance benefitted from the increased demand for Life and Health Insurance which supported industry growth of 21% in 2021. Advisors were also encouraged with the increased awareness for Life and Health Insurance products, supporting references and leads. We also witnessed increased interest in riders which enabled customers to gain more benefits from the insurance policies.

The growing foreign exchange liquidity crisis in the country necessitated the continuance of import restrictions over motor vehicles which was a blow to the General Insurance industry as Motor Insurance accounted for 59% of business. Inevitably, the industry witnessed a marginal de-growth of 2% in Motor Insurance in 2021. However, the Non-Motor Insurance sector of the industry grew by 11% driven by the growth of Marine and Fire classes of insurance.

Investing in Our Future

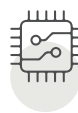


Rs. 1.6 Bn

Investing in Our People

(2020 - Rs. 1.4 Bn)

+ 12%



Rs. 211 Mn

Investing in Digitalisation

(2020 - Rs. 178 Mn)

+ 18%

- + Strengthening supply chains
- + Sales force strengthened with increased head count and training
- + Expanded Bancassurance channels
- + Planned expansion of customer touchpoints
- + Digital support for supply chains

CHIEF EXECUTIVE OFFICER'S REVIEW

The low interest regime that prevailed in the early part of the year dampened investment income while it boosted the Mortgage protection insurance business as demand for housing loans increased. However, upward movement of interest rates by 400 basis points in the latter half of the year impacted valuations of investments and necessitated an increase in short term investments pending stabilisation of interest rates. Increasing inflation created pressure on disposable income, leading to an increase in surrender rates. This also has the potential to dampen growth and profitability of the Life Insurance industry in the year ahead as costs increase. Increasing foreign exchange rates dampened profitability of the General Insurance business as costs of claims increased due to import of spare parts and increased reinsurance costs. The decrease in tax rates from 28% to 24% was a relief and supported profitability in the General Insurance business.

On the regulatory front, the industry requested deferment of the implementation date for SLFRS 17 from 2023 to 2025 and we remain hopeful that this request will be allowed. Despite this, HNBA has commenced preparations to comply with SLFRS 17 implementation guidelines. We also complied with the direction to have two separate CEO's for Life and General Insurance businesses with effect from 1st January 2022.

Agile & Determined

HNBA Group recorded a top line of Rs. 12.6 Billion, as GWP increased by 22% over the Rs. 10.4 Billion recorded in 2020, outpacing industry growths of both Life and General Insurance businesses. Profitability improved by 4%, as the resurgence in General Insurance claims and reversal of Rs. 104 Million of the Deferred Tax asset in the Company due to the change in the income tax rates moderated profit growth. Claims paid increased to Rs. 4.2 Billion in 2021 compared to Rs. 3.6 Billion in 2020

HNBA is committed to investing in our team, our supply chain partners and digitalisation to drive profitable and sustainable growth, ensuring we move forward in sync.

largely driven by increased claims of General Insurance business and Medical claims of both businesses. Total asset growth of 13% to Rs. 35.9 Billion was largely driven by the increase in the Life Fund which grew by 19%. Market capitalisation at the close of the year was Rs. 7.3 Billion, a decline of 17% over 2020 despite the strong performance of the Group as ASPI growth was largely driven by export and logistics sectors.

Life Insurance

Life Insurance recorded a milestone year as we crossed the Rs. 1 Billion mark in Profit After Tax (PAT) recording 38% growth in profitability on top line growth of 29%. Profits were boosted by a 60% growth in surplus transfer from the Life Fund and dividend income from subsidiary. Although no dividend was declared by HNBGI in 2020 due to regulatory restrictions on the industry, in 2021 a dividend of Rs. 115 Million was declared which supported Company profits. This also helped to offset the negative effect of the Deferred Tax Asset Reversal on profitability, albeit only at Company level. Rider uptake was enhanced to 20% paving the way to future profitability. We paid Rs.179 Million COVID-19 claims as discretionary payments although pandemics are exclusions and a further Rs. 1 Billion as Life maturity claims. Capital Adequacy Ratio at the close of 2021 stood at 277%, well above the regulatory requirement of 120% although it declined from the 338% in 2020 due to the sharp upward movement of the risk free rate by 400 basis points during the year.

General Insurance

The General Insurance business also recorded strong GWP growth of 13% moving up the ranks from 8th to 7th place, as it outpaced industry growth of 3%. Growth of Motor business was 8% although the industry declined by 2% due to import restrictions on motor vehicles. Health, Marine and Miscellaneous categories recorded strong growth, increasing the GWP from Non-Motor categories to 32% in 2021 compared to 28% in 2020. Claims increased by 25% to Rs. 2.6 Billion with the resumption of economic activities in 2021 and greater mobility of vehicles, including Rs. 105 Million in COVID-19 related claims. Accordingly, profitability moderated to Rs. 338 Million, a decline of 25% over 2020. The Capital Adequacy Ratio improved to 260% from 255% in 2020.

Focused Risk Management

Early identification and management of risks are key to sustain growth and profitability. Technology will be a key catalyst as we plan to go live on the General Insurance system in 2022 and for Life Insurance in 2023. Shedding legacy systems and ensuring processes are aligned to new systems will be a key risk for the Group over the next two years and the Board has increased its oversight to ensure a smooth transition while ensuring the effectiveness of internal controls.

Interest rate is a key driver, impacting investment income positively but resulting in lower valuation of interest bearing investments and Life Capital Adequacy Ratio as the risk free rate increased. The continuing pandemic posed threats to business continuity and the wellbeing of our teams which were managed with most of the team working from home. Cyberthreats were another area of concern as threat level increased across countries and we strengthened our defences. Inflation is an increasing concern as it drives up the cost of claims and lead to lower disposable income, dampening business growth and increasing the likelihood of policy surrenders. Devaluation of the rupee, which has been managed with significant intervention by Central Bank of Sri Lanka, continue to be a cause for concern as it has the potential to increase costs of claims. The foreign currency liquidity crisis may pose issues to remittance of reinsurance premiums of the entire industry and prolong import restrictions which will affect General Insurance business. The Company considered these and any other risks emerging from the environment and implements mitigation strategies accordingly under the oversight of the Board Risk Management Committee.

Investing in Communities

We continue to invest in communities and providing drinking water has been a key project that HNBA has supported over the years which has now extended to cover 60 schools around the country. This year with the aim of helping the country overcome the COVID-19 pandemic, we provided medical equipment to hospitals and other medical institutes around the country for a value of Rs. 4.6 Million. It must be noted that this was a project supported by the employees of both companies as they contributed Rs. 2.1 Million as voluntary donations from their salary. We also tied up with the College of Community Physicians of Sri Lanka in 2021 to develop a series of videos to create awareness and importance of



Rs. 35.9 Bn

Total Assets

(2020 - Rs. 31.7 Bn)

+ 13%

COVID-19 vaccination further doing our duty to help Sri Lanka to combat the virus successfully.

We have also reviewed strategies to reduce our carbon footprint. The move to paperless office is key while the plans for virtual branches and continued work from home policies make a significant contribution in this regard. Lean Six Sigma projects also support this key initiative and we will continue to integrate more sustainable practices throughout our operations.

Looking Ahead

Continued lockdowns due to new variants and increasing caseloads gave rise to varying levels of economic activity during 2021. We now see more countries lifting various restrictions as economies strain to maintain growth momentum. HNBA Group remains cautiously positive that the year ahead will see an uptick in economic activity, easing the pressure on foreign exchange liquidity and inflation as policymakers focus attention on resolving these critical issues.

Life Insurance GWP is expected to grow by 25%, with the launch of more products to cater to niche markets, supporting the increase in our market share. To achieve this, we will focus on three key areas, sales force expansion, providing an exceptional customer experience for both internal and external customers, and technology transformation. General Insurance will seek to grow by 20% despite the challenges in the industry. Our aspirations are supported by our investments in the future described above and the plans to expand our

presence with new business hubs including virtual branches. Expansion of sales channels will be driven through focused relationships with a wider range of supply chain partners. We are extremely fortunate to have a youthful and dynamic team supporting the experienced professionals at the helm and retaining and supporting them to unlock their potential, which is the cornerstone of our growth plan.

Acknowledgements

Firstly, I thank the HNBA Group team who demonstrated their agility and determination in delivering a commendable performance amidst an uncertain and challenging landscape. In 2021, we were led by the industry veteran Mr. Prashantha Fernando who retired on 31st December 2021 steering the Company through the pandemic years and having served the Company for nine years. I take this opportunity to thank him for his contributions to the Group's performance. I thank the Board for their vigilance and guidance as we look to pick up pace on our journey and the exemplary leadership provided by the Chairperson. I extend my appreciation to the Management of Hatton National Bank for the continuous guidance and the support extended to us throughout 2021.

We are appreciative of the role our business partners including Reinsurers and Insurance Brokers have played in our journey and look forward to moving ahead together. Our loyal customers have propelled the progress of the HNBA Group and we are grateful for their continued trust and confidence. We look forward to enhancing the value created for our investors as we write the next chapter of HNBA's growth.

Lasitha Wimalaratne
Chief Executive Officer
HNB Assurance PLC

Colombo, Sri Lanka
18th February 2022

GROUP EXECUTIVE COMMITTEE



→ Left to Right Standing

Nilesh Amarasinghe
Chief Investment and Strategy Officer
HNB Assurance PLC and HNB General Insurance Limited

Lasantha De Alwis
Chief Technical Officer
HNB General Insurance Limited

Jude Benjamin
Chief Business Officer (Personal Lines and Branch Network)
HNB General Insurance Limited

→ Left to Right Seated

Lasitha Wimalaratne
Chief Executive Officer
HNB Assurance PLC

Sampath Wickramarachchi
Chief Business Officer
HNB General Insurance Limited

Punsirini Perera
Chief Financial Officer
HNB Assurance PLC and HNB General Insurance Limited



➔ **Left to Right Standing**

Dinesh Udawatta
Chief Technical Officer
 HNB Assurance PLC

Dinuka Pattikiriarachchi
Chief Human Resources Officer
 HNB Assurance PLC and
 HNB General Insurance Limited

Nalin Subasinghe
Chief Actuarial Officer
 HNB Assurance PLC and HNB General Insurance Limited

➔ **Left to Right Seated**

Sitari Jayasundara
Chief Legal & Compliance Officer/Board Secretary
 HNB Assurance PLC and HNB General Insurance Limited

Suneth Jayamanne
Chief Information Officer
 HNB Assurance PLC and HNB General Insurance Limited

Sithumina Jayasundara
Chief Executive Officer
 HNB General Insurance Limited

GROUP EXECUTIVE COMMITTEE

Lasitha Wimalaratne

Chief Executive Officer
- HNB Assurance PLC

BA (Hons), MBA, FCII, ANZIIF (Fellow), ACIM,
Chartered Insurer

 Lasitha has over 24 years of experience with 21 years of experience in Life Insurance Operations and Sales inclusive of 07 years at AIA Insurance Sri Lanka and 03 years of Marketing and Sales exposure in London. Prior to joining HNB Assurance PLC in 2019 he functioned as the General Manager - Life Operations and Specified Officer at Softlogic Life Insurance PLC. Lasitha joined HNB Assurance PLC in 2019 and served in the capacity of Chief Operating Officer and Principal Officer prior to being appointed as the Chief Executive Officer of HNB Assurance PLC.


Lasitha holds a Master of Business Administration Degree (MBA) from the University of Wales, UK and a B. A. (Hons) Degree in Business Studies from the University of Sunderland, UK. He is a Chartered Insurer and a Fellow Member of the Chartered Insurance Institute (FCII). Lasitha is also a Fellow of the Australian and New Zealand Institute of Insurance and Finance and an Associate Member of the Chartered Institute of Marketing, UK (ACIM).

Lasitha is the current Secretary of the Insurance Association of Sri Lanka (IASL) and is the immediate Honorary Past President of the Sri Lanka Insurance Institute (SLII) and has been serving as a Council Member from 2011. He was also the Founder Secretary General of the Association of Chartered Insurance Professionals (ACIP) and was a Council Member until March 2021. He was the first to publish a book on Life Insurance in a local context, titled "Jeewitha Rakshanaye Asiriya".

Sithumina Jayasundara

Chief Executive Officer
- HNB General Insurance Limited

MBA (UK), ACCII (UK), ANZIF (Snr Assoc),
Chartered Insurer


 An old boy of St. Anthony's College, Kandy, Sithumina counts over 24 years of experience in the Insurance Industry. Prior to joining HNB General Insurance Limited, he has led many teams and held several key positions related to Non-Life at Asian Alliance Insurance PLC, MBSL Insurance Company Limited, Janashakthi Insurance Co. Limited and Eagle Insurance PLC. Sithumina has obtained foreign exposure through different training programmes and conferences related to General Insurance and specializes in the field of Re-insurance. Having joined HNBGI in 2014, He was appointed to the Group Executive Committee in 2015 and subsequently promoted as the Chief Technical Officer and Specified officer, Chief Operating Officer and Principal Officer of HNB General Insurance Limited prior to being promoted as Chief Executive Officer.

Sithumina is the current President of the Sri Lanka Insurance Institute (SLII) and a founding Council Member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka. He holds a Master's Degree in Business Administration from the Cardiff Metropolitan University, UK, an Advanced Diploma in Insurance (ACII - UK) and holds the status of a Chartered Insurer and the Senior Associateship of the Australian and New Zealand Institute of Insurance and Finance.

Nilesh Amarasinghe

Chief Investment and Strategy Officer
- HNB Assurance PLC and HNB General Insurance Limited


B.Sc. Econ & Mgt Hons (LSE), MBus. (Fin) (UTS)

 Nilesh counts more than 16 years of extensive experience in Capital Markets specialising in fund management, macroeconomic strategy, investment strategy etc. Having joined HNBA

as a Management Trainee, Nilesh served HNBA as Assistant Manager – Investments, Manager – Investments and Head of Investment prior to assuming the role as the Chief Investment & Strategy Officer. As the CISO, he is responsible for the performance of more than Rs.30 Billion funds of the HNB Assurance Group. Nilesh, who has been a member of the Executive Committee of the HNBA Group for more than 8 years, also serves as the Secretary to the Strategy Review Committee of the Company.

Jude Benjamin


Chief Business Officer (Personal Lines and Branch Network)
- HNB General Insurance Limited

 Jude is a charismatic and a dynamic personality hailing from S. Thomas College, Mount Lavinia who holds expertise of over two decades in marketing including, brand building, marketing communication, business development, event management as well as Broker development. He held many Senior Managerial positions at leading companies such as Orient Insurance Limited, a subsidiary of the prestigious Al-Futtaim Group in Dubai, American International Group (AIG), Asian Alliance Insurance and Whittall Boustead Ltd Insurance Division (Union Assurance PLC) which is an associated company of John Keells Holdings PLC prior to joining HNBGI as its Chief Business Officer for Personal Lines and Branch Network in December 2016

Dinesh Udawatta

Chief Technical Officer
- HNB Assurance PLC

B.Sc. (Statistics) Hons (Colombo), FIII (India), MBA (Colombo), ANZIIF (Fellow) CIP (Australia), ACII (UK), Chartered Insurer

 Dinesh joined HNB Assurance in 2003. Currently he is serving as the Chief Technical Officer for Life Insurance. Having joined in 2003 as an Actuarial Executive and Dinesh developed his Technical competencies in Life Insurance.

He acquired professional qualifications from three well known Insurance Institutes and developed his career as a life technical person. He served as Head of Operations - Life Insurance for two years prior to being promoted as CTO. He counts over 19 years of experience in the Life Insurance Industry. He has undergone extensive training both locally and overseas including at Munich Re, Munich, Germany, FALIA and OLIS Japan.

Dinuka Pattikiriarachchi

*Chief Human Resources Officer -
HNB Assurance PLC and HNB General
Insurance Limited*

MBA Special HR(Colombo),MBA (Preston,USA),
National Diploma in HRM(IPM, SL), Asian Personal
Manager (NICC, Japan)

 An old boy of De Mazenod College, Dinuka holds a Master of Business Administration Degree specializing in Human Resources from the University of Colombo and a Master of Business Administration Degree from the University of Preston, USA and a National Diploma in Human Resources Management from the Institute of Personnel Management, Sri Lanka. He has obtained the Asian Personnel Manager Certification from NICC, Japan. Dinuka is currently reading for a Doctorate in Business Administration and is serving as a visiting lecturer at the University of Colombo, Master of Business Administration Program.

Dinuka has held many key positions in both local and international entities and counts over 26 years of professional experience. Beginning his career journey at Habib Bank AG Zurich, he then joined MAS Linea Aqua Private Limited and Ceylon Pencils Private Limited subsequently. Prior to his current appointment, he held the position of Senior Manager Human Resources at Nestlé Lanka PLC.


Sitari Jayasundara

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Punsirini Perera

*Chief Financial Officer
- HNB Assurance PLC and HNB General
Insurance Limited*


MBA (PIM-USJ), BBA (Colombo), ACMA (UK),
CGMA

 Punsirini Joined HNB Assurance PLC as a Management Trainee in 2009 and advanced progressively in responsible positions where she has played a key role in the Finance Division. She was promoted as a Senior Manager -Finance in 2017 and functioned as the Head of Finance prior to being promoted as Chief Financial Officer in 2020. She counts over 15 years of experience in the Finance field.

Suneth Jayamanne

*Chief Information Officer
- HNB Assurance PLC and HNB General
Insurance Limited*


B.Sc. (Eng.), MBA (UK)

 Suneth holds a B. Sc. (Eng.) Computer Science & Engineering Degree from the University of Moratuwa and MBA (UK) from University of west London. He is a CIMA passed finalist and completed CIM Advance Certificate level. Suneth is also an ISO 27001 Lead Auditor and Certified in ITIL. Suneth counts over 19 years of experience in the IT industry working at many organizations. He started his professional career at Zillione Systems Solutions (Pvt) Ltd and then continued at Ernst & Young where he was functioning as an IT consultant at the capacity of Senior Manager level. During Ernst & Young Career he got involved in many IT projects covering different business practices such as Banking and Finance, Telecom, Stock Exchange, Airlines, Textile, Healthcare, and number of e-Governance projects. Prior to join HNBA in 2020 he was functioning as the Head of IT at LOLC Technologies covering Insurance, Leisure and Healthcare sectors.

Lasantha De Alwis

*Chief Technical Officer
- HNB General Insurance Limited.*

B.Sc. Special (Hons) University of Sri
Jayewardenepura, ACII (UK)

 Lasantha joined HNBGI on 1st December 2020. Before joining HNBGI, he held the position as the Chief Executive Officer of Sanasa General Insurance Co. Ltd where he counts over 20 years of experience in the General Insurance Industry. He has rendered his service to HNB Assurance PLC as a Senior Executive Officer in 2002 and was later promoted to the post of Assistant Manager. He is an active member of the General Insurance Forum and Working Committee of SRCC & TC fund and he is a member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka. Further, he is functioning as a lecturer in conducting lectures for study courses relating to insurance organized by Sri Lanka Insurance Institute.

Sampath Wickramarachchi

*Chief Business Officer
- HNB General Insurance Limited*

Postgraduate Advanced Professional Diploma in
Management from University of Sunderland, UK


 An old boy of Wesley College Colombo, and Cavendish Collage, London - United Kingdom, Sampath holds a Postgraduate Advanced Professional Diploma in Management from the University of Sunderland and has obtained both local & foreign exposure through different training programs from institutions including the National Insurance Academy - India, Sri Lanka Institute of Marketing and National Institute of Business Management - Sri Lanka. His professional experience spans for over 25 years and has held several key positions in areas such as, Agency Development, Bancassurance, Corporate Sales and National Sales Distribution. Having started his career at Eagle Insurance PLC, then he moved to Aviva NDB Insurance PLC and joined Asian Alliance Insurance PLC and subsequently joined HNB General Insurance Limited.

GROUP EXECUTIVE COMMITTEE

Nalin Subasinghe

*Chief Actuarial Officer - HNB Assurance PLC
and HNB General Insurance Limited*

B.Sc. in Mathematics Special (Colombo), M.Sc. in
Actuarial Management (UK)

 Nalin holds a Bachelor of Science (Hons) Degree in Financial Mathematics from the University of Colombo and a Master of Science Degree in Actuarial Management from the Heriot-Watt University, Edinburgh, United Kingdom. Nalin is currently reading for Fellowship from the Institute & Faculty of Actuaries, United Kingdom.

Nalin's professional career in the Insurance Industry spans for over 17 years and counts extensive actuarial, investment administration and overall insurance business experience and has held several senior positions in leading entities. Having started his professional career at Sri Lanka Insurance Corporation - SLIC in 2004, Nalin served the organization as the Deputy General Manager Actuarial and Risk Management and in charge of both Life and General insurance actuarial functions. Apart from his core responsibilities, he also acted as Head of Investment for a year where he managed an investment asset portfolio of over Rs. 150 Billion. He was the Nominee Director of SLIC for Capital Alliance Limited and Ceylon Asset Management where he acted as Chairman of the latter. Prior to his current appointment, he held the position of Chief Actuarial Officer at Union Assurance PLC (Vice President- John Keels Holdings PLC) and is the current Chairman of Actuarial Subcommittee of the Insurance Association of Sri Lanka.

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SENIOR MANAGEMENT TEAM

HNB ASSURANCE PLC



Dinesh Yogaratnam
Head Marketing and
Customer Experience



Harindra Ramasinghe
Head of Distribution -
Advisor Channel



Sanesh Fernando
Head - Partnerships



Hiran Fernandopulle
Head - Life Distribution



Geethani Saram
Head of Support Services



Salinda Perera
Head - Administration



Shiran Fernando
Head - Sales Training &
Development



Mahendra Wilegoda
Head of Operations



Shaazna Ossen
Head - Customer Experience



Nadaraja Sugunan
Zonal Head - North & East



Padma Dhanayake
Senior Manager - Technical



Sanjeewani Pitadeniya
Senior Manager - Customer
Experience & Investigations



Ravindra Rathnayaka
Senior Manager - IT



Kamini Gunawardene
Senior Manager - Marketing



Waruna Peiris
Senior Manager - Actuarial



Tharuka Jayasekera
Senior Manager - Finance



Prasad Thambawita
Senior Manager - Life Claims



Yoga Gunadasa
Senior Manager - Legal



Harshana Aponsu
Senior Manager - Finance



Ranesh Silva
Senior Manager - Finance



Jagath Gaspe
Senior Zonal Manager -
Central



R M K G Harischandra
Senior Zonal Manager



Hemantha Liyanage
Zonal Manager - Metro



Michael Joseph
Zonal Manager - East



W A Priyantha
Zonal Manager



Nuwan Wijesooriya
Zonal Manager



Saman Kumara
Acting Zonal Manager

SENIOR MANAGEMENT TEAM

HNB GENERAL INSURANCE LIMITED



Chitparan Vivekanandan
Head of Finance & Support
Services



Hifly Huzair
Head - Takaful



Asanka Seneviratne
Head - Broker Management



Prasanna Wijesinghe
Head of Partnerships



A R Bazlin Salih
Zonal Head - Southern



T Rizapan
Zonal Head - North & East



Nalaka Madhurange
Zonal Head - Metro Zone



Gayan Ranasinghe
Zonal Head



Hazana Caffoor
Senior Manager - Motor



Thameera Walpita
Senior Manager - Motor
Claims



Sanath Ranaweera
Chief Engineer



Poornima Nazeem
Senior Manager
- Bancassurance



Ayodhya Perera
Senior Manager - Non Motor
Claims



Devaka Jayasinghe
Senior Manager - Broker
Development



Dharshana Maldeniya
Senior Manager - Agency
Channel



Rukmal Ravindra
Senior Manager - Broker
Business Development



Roshan Kularathne
Senior Manager Finance



Erandika Dayawansa
Senior Manager-Speciality
Lines



Anuruddha Wickremasinghe
Zonal Manager

FORMED FOR THE FUTURE

20 Years 

OF VISIONARY STRATEGY

Management Discussion & Analysis

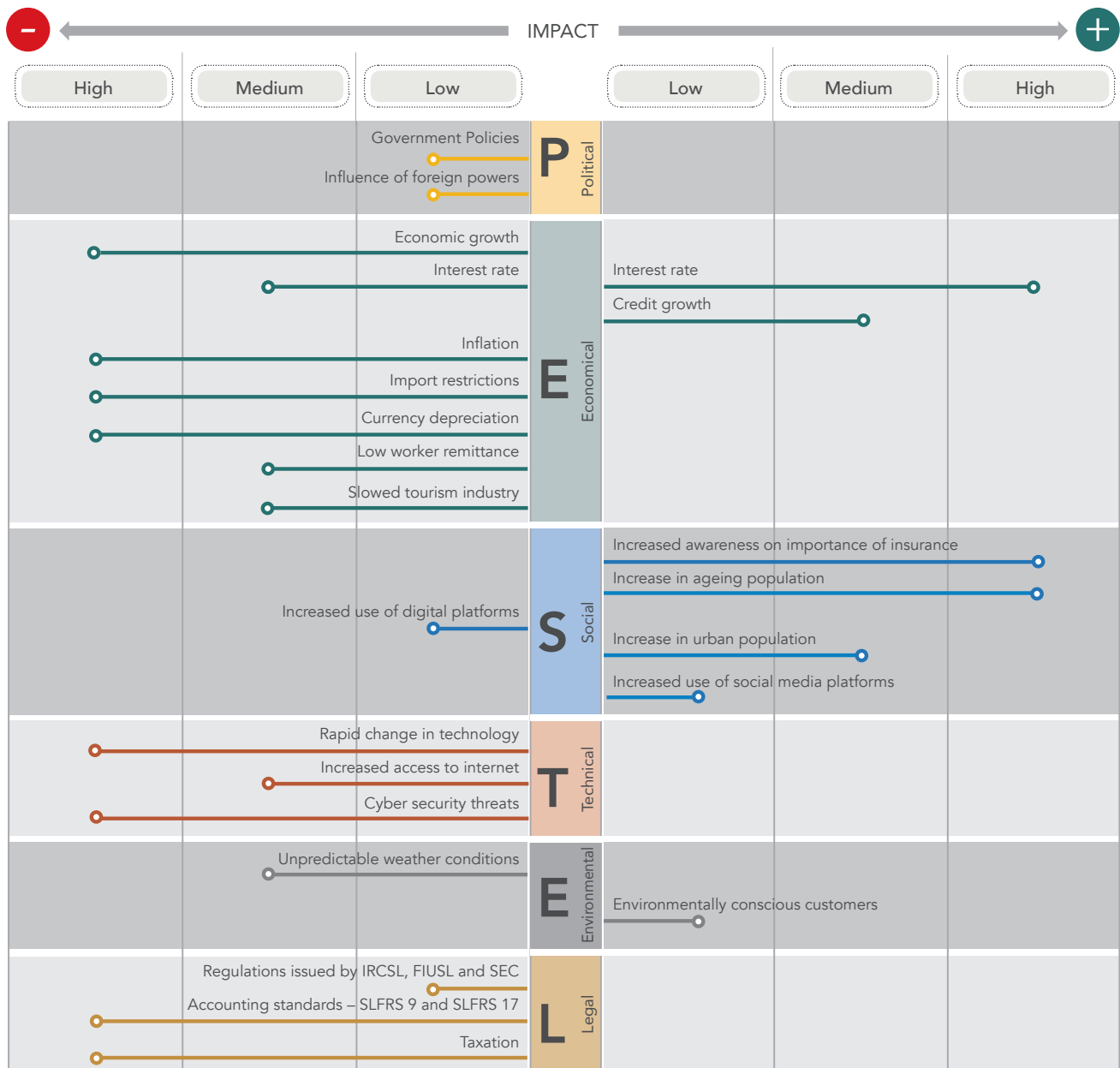


OUR OPERATING ENVIRONMENT

GRI 102-15

PESTEL Analysis

PESTEL Impact Map



● Negative ● Positive ● Neutral

P

Political Factors



Implementation of policies by the Government.

Impact to the Group

Affects the strategic decisions taken and implemented.

Our Response

Building in assumptions into relevant financial and business models to minimise unforeseen business impact.

Influence of foreign powers (especially China, US, India) on the country's political and economic decisions (by way of conditions) is quite likely to increase.

Impact to the Group

Demand for insurance products would be affected as a spill over effect of affecting general demand patterns.

Our Response

All business decisions are taken by analysing the external environmental trends in depth.

E

Economic Factors

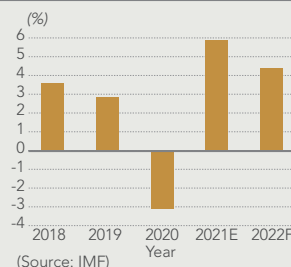


Global Economy

Economic Growth

Global economy witnessed a recovery but the momentum was weakened due to the negative impact by the pandemic. It is projected to grow 5.9% in 2021 and 4.9% in 2022. Beyond 2022, global growth is projected to moderate to about 3.3% over the medium term.

Projected Annual GDP Growth



Impact to the Group

Spill over effect of the growth momentum to the local economy and the insurance industry affects the demand for insurance.

Our Response

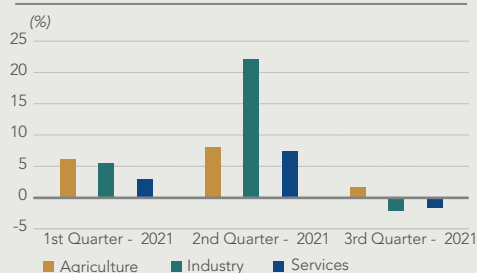
Global trends were considered when developing the Corporate Plan of the Company and subsidiary and strategies are formulated accordingly.

Local Economy

Gross Domestic Product (GDP) Growth

The Sri Lankan economy showed some recovery during the first nine months of the year with a GDP growth 4.4% following a contraction of 3.6% in 2020.

Quarterly GDP Growth - Sector Wise



Impact to the Group

Spill over effect of the growth momentum affects the demand for insurance.

Our Response

Economic trends were considered when developing the Corporate Plan of the Company and subsidiary.

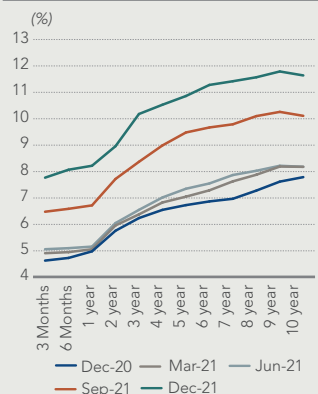
E Economic Factors

Interest Rate and Credit Growth

The accommodative monetary stance followed by the Central Bank till August 2021 led the market interest rates to historically low levels, availing low cost funds both private and public sector credit grew by 18.6% and 14.5% YoY respectively at the end of December.

However, in August 2021 Central Bank reversed its stance by raising key policy rates by 50 basis points, signalling the end of its easing Monetary Policy stance. With that average interest yield increased over 300 basis points during the year and 1 year T-Bill stood around 8.25% levels at the end of 2021.

Yield Curve



Impact to the Group

Low interest rate environment during early 2021 negatively impacted the investment income of the Company and on the pricing of interest combined products.

On the other hand this condition created positive impact on CAR of the Company up to the 1st half of 2021.

Our Response

Aligned our investment and business strategies in line with the movement of the interest rates of the economy to increase the returns made to our Shareholders and Policyholders.

Inflation

Inflation which remained somewhat restrained during the early part of 2021 accelerated thereafter mainly due to increases in prices of items in both food and non-food categories. Headline inflation measured by CCPI and NCPI reached 12.1% and 14.0% YoY respectively in December 2021.

Inflation



Impact to the Group

Directly impacted the spending capacity of the population and this led to negative impacts on business operations.

Our Response

Strategic pricing of products, without compromising profitability, to increase affordability.

External Sector and Exchange Rate

The trade deficit for 2021 was USD 8.1 Billion, up from USD 5.9 Billion a year earlier. Trade deficit grew by 36.1% compared to 2020. During the year the Rupee depreciated by 7.0% against the US Dollar and remains under intense pressure at year end. In 2021, the country only received USD 5.5 Billion of worker remittances, which is a 23% decline from USD 7.1 Billion in 2020. In 2021, Sri Lanka has welcomed 194,495 tourists despite the challenges emanating from the global COVID-19 pandemic.

Impact to the Group

Import restrictions on vehicles and Dollar depreciation directly impacted the Motor Insurance business of HNBGI with the hit on new businesses and higher spare parts cost increasing claim costs.

Our Response

Strategic pricing of products were made. Greater focus on sale of Non-Motor Insurance. Liaising closely with our main banker HNB on forex settlements.

S

Social and Demographic Factors



Increased awareness on the importance of insurance related to health/protection and investments (savings).

+ Impact to HNBA

This creates new market opportunities for Life Insurance.

✓ Our Response

- Increase awareness on insurance and products through propaganda activities.
- Promotion of health riders, Super CI and Supreme Health Max.

Gradual increase in aging population.

+ Impact to HNBA

Creates opportunities for health, pension and retirement products.

✓ Our Response

Promoting our products such as Supreme HealthMax and Super CI Rider.

Increased use of mobile platforms for interaction, changing market dynamics and customer preferences.

- Impact to the Group

More preference is given for online transactions.

✓ Our Response

Strengthen IT infrastructure to increase business generated through digital platforms and providing training to business channels.

Increase in urban population.

+ Impact to the Group

Increased demand for insurance products.

✓ Our Response

Capturing market opportunities through restructuring of our distribution network.

Increase in tendency and time spent on social media platforms by potential and existing customers.

+ Impact to the Group

Creates opportunities for social media marketing and awareness building.

✓ Our Response

During the year investments were made on social media advertising.

T

Technological Factors



Rapid evolution and diffusion of technology.

- Impact to the Group

Creates opportunities for new developments in terms of new systems and customer touchpoints.

✓ Our Response

- Invested in digitalisation of processes.
- Revamped call centres using latest technology.

T Technological Factors

Ever-increasing access to the internet through various devices and greater data penetration.

- Impact to the Group

Customers have greater access to information to compare and contrast the service offerings available.

✓ Our Response

- Awareness building about our products through digital platforms and developing innovative products to meet customer requirements.
- Promoting online platforms for premium.

Increase in cyber security threats.

- Impact to the Group

Increased threats to data and information.

✓ Our Response

- Increased investments to address cyber security threats.
- Introduction and promotion of online payment methods.

E

Environmental Factors



Adverse and unpredictable weather conditions due to climate changes such as rising temperatures, drought, shift in rainfall patterns, the severity of storms and cyclones, etc.

- Impact to the Subsidiary

Will increase the claims cost of the Subsidiary primarily.

✓ Our Response

Evaluating and incorporating increased risk when underwriting insurance policies, use of risk management techniques such as flood mapping, etc.,

Customers are more conscious about the natural environment and the impact made by businesses towards the environment.

+ Impact to the Group

Focus must be given for sustainable business practices.

✓ Our Response

We adopt sustainable business practices across our value chain reducing the negative impact made on the natural environment.

L

Legal Factors



Regulations issued by Insurance Regulatory Commission of Sri Lanka

Circular # 01 of 2021 - Clearance of Insurance Products prior to launch.
(Note: Through this Circular Existing Circular #38 and #39 were repealed)

Impact to the Group

All insurers are required to file clearance of products within certain period of time and inform the launch date of new products to IRCSL and obtain the opinion of IRCSL regarding the fair and equitable nature of products/policy forms prior to launch.

Our Response

HNBA Group adhered with said requirements and submitted all new products and policy forms to IRCSL prior to stated period of time and obtained necessary opinion before its launch.

Circular # 02 of 2021 – Prohibition of promotion/advertisement of 3rd party Motor Insurance.

Impact to the Group

All General Insurers issuing Motor policies are prohibited from promoting/advertising 3rd party Motor Insurance policies.

Our Response

HNBGI took necessary steps to adhere with the requirement.

Direction # 01 of 2021 - Dividend Declaration and Distribution (10th March 2021)
and its Amendment (30th August 2021).

Impact to the Group

Regulator has issued terms and conditions to insurers when declaring and distributing dividends (including interim dividends) to Shareholders. Accordingly, the Boards of Directors of the Insurers are required to consider following terms and conditions when declaring and distributing dividends to its Shareholders.

Our Response

Group has taken necessary steps to adhere to the requirements.

- Results of the Audited Financials for the applicable period.
- Decisions on contingent liabilities have been taken by the Company following a proper scrutiny and risk assessment to ensure sustainability of financials and solvency position of the Company. Impact on financials and solvency position considering the proposed payout to the Shareholders. Subject to compliance with relevant accounting standards.
- Prudently considering stress testing analysis and all the potential risks faced by the insurer in the COVID-19 economic and health environment, including the assessment of insurer's capacity to continue to write business under different scenarios.
- Possible RBC Rule Changes in near future.
- An appropriate buffer over the enforcement levels of TAC (Rs. 500 Million) and CAR (160%) after having considered all above.

L Legal Factors

– Impact to the Group

Further, the Board of Directors is required to submit a confirmation to the IRCSL that it has considered all the above factors and said confirmation should be submitted by Principal Officer prior to two weeks before the declaration of dividend to Shareholders.

✓ Our Response

Group has taken necessary steps to adhere to the requirements.

Direction # 02 of 2021 – Restriction on Providing Codes & Restriction on Changing Codes.

– Impact to the Group

Insurers are prohibited from providing codes to persons, other than Insurance Brokers and Insurance Advisors. Further this direction request insurance companies to refrain from changing existing codes unless there is written consent of the Insurance Advisor or Insurance Broker who initiated the sale. However, such consent is not required if the Policyholder wishes to change the Insurance Advisor or the Insurance Broker.

✓ Our Response

Group has taken appropriate steps to adhere with said requirements.

Direction # 03 of 2021 / Direction #14 (Revised) – Industry to refrain from employing persons whose service had been terminated on the grounds of financial misappropriation or fraud.

– Impact to the Group

Request Insurers, Brokers and Loss Adjusters to refrain from employing persons, whose services have been terminated on the grounds of financial misappropriation or fraud and in the event of such termination, Insurers, Brokers and Loss Adjusters are required to follow the principals of natural justice prior to such decision is taken.

✓ Our Response

Group has taken appropriate steps to adhere with said requirements.

Direction # 04 of 2021 – Termination of using Telecommunication Service Providers' Platforms (Mobile Insurance) and matters connected therewith and incidental thereto.

– Impact to the Group

Requires Insurers to prohibit selling insurance products to the General public through telecommunication service provider platforms. Further, IRCSL recommended few alternative arrangements regarding the same and emphasised the regulatory measures against insurers who may violate this Direction.

✓ Our Response

Group has taken necessary arrangements to terminate the agreements with the Telecommunication service providers accordingly.

L Legal Factors

Amendment to Determination # 10 - Maximum Compensation payable for Long Term Insurance Business and General Insurance Business.

– Impact to the Group

Stipulates the maximum compensation payable to Insurance Brokers and Insurance Advisors. Commission has been divided to regular commission and bonus commission and relevant rates and its applicable requirements prescribed. This amended Determination applicable to Long-Term Insurance Business and General Insurance Business.

✓ Our Response

Group has taken necessary arrangements to adhere with the requirements.

Direction 05 of 2021 - Revision of Direction # 09 (13th May 2016) on Principal Officers of Insurers and Insurance Brokers.

– Impact to the Group

Principal Officer of an Insurer or an Insurance Broker shall be the Chief Executive Officer/Managing Director and shall be responsible for the general control, Directions, and supervision of the business activities of the company. Further, this Direction shall come into effect from 1st November 2022.

✓ Our Response

Group has taken the necessary measures to comply with the said requirements of the Direction through the appointment of Principal Officers as CEOs of HNB Assurance PLC and HNB General Insurance Limited with effect from 1st January 2022.

Guidelines to Insurers and Brokers who obtain leads from Licensed Finance Companies, Licensed Finance Leasing Companies and Licensed Banks under a referral model. (Withdrawal of the Referral Model Guidelines)

– Impact to the Group

IRCSL has withdrawn the Guidelines issued to Insurers and Brokers who obtain leads from Licensed Finance Companies, Licensed Finance Leasing Companies and Licensed Banks Under a Referral Model.

✓ Our Response

Group has taken necessary steps to adhere with the requirements of this Guideline.

Legislations imposed by Financial Intelligence Unit of Sri Lanka

Revised Guideline # 03/2020 – Non face to face Customer Identification and verification using Electronic Interface Provided by the Department of Registration of Persons. (This guideline is applicable to Life Insurance Companies only)

– Impact to the Group

Provides guidelines for using the electronic interface provided by the Department for Registration of persons to verify the identity of non-face-to-face customer on boarding.

✓ Our Response

This revised guideline was received on 30th December 2020; accordingly HNBA has taken necessary arrangements to adhere to the said requirements.

L Legal Factors

Legislations imposed by Financial Intelligence Unit of Sri Lanka

Guideline # 01 of 2021 – Guidelines for Enhancing Suspicious Transaction Reporting Quality.

– Impact to the Group

Guidelines issued as a supplement to the “Guidelines for Financial Institutions on Suspicious Transaction Reporting No 06 of 2018” which address key areas of prerequisites for detecting and reporting suspicious transactions, avoiding defensive reporting, timing of forming and reporting suspicion, risk management and supplemental and supporting information.

✓ Our Response

Group has taken necessary steps to adhere with the requirements of this Guideline.

Rules and Regulations imposed by Securities and Exchange Commission of Sri Lanka

Securities and Exchange Commission of Sri Lanka Act, No 19 of 2021.

– Impact to the Group

This new Securities and Exchange Commission Act repeals and replace the Securities and Exchange Commission Act No 36 of 1987.

✓ Our Response

As a Listed entity HNB Assurance PLC has taken necessary arrangements to adhere with the requirements of this new Act.

Accounting Standards Issued by Sri Lanka Institute of Chartered Accountants

SLFRS 9 – Financial Instruments

– Impact to the Group

SLFRS 09 – “Financial Instruments” will replace LKAS 39 – “Financial Instruments: Recognition and Measurement”. New elements and impact of this standard are given in detail in Note 3.1.1 on pages 212 to 214.

✓ Our Response

The Group has used the temporary exemption provided in SLFRS 04 and will implement the Standard along with SLFRS 17.

SLFRS 17 – Insurance Contracts

– Impact to the Group

SLFRS 17 will replace SLFRS 4 on accounting for insurance contracts. New elements of this standard are given in Note 3.2.1 on pages 214 to 217.

✓ Our Response

The Group has completed a gap assessment and initiated a road map to implement SLFRS 17.

Proposed Budget and Tax Changes Issued by Ministry of Finance

Budget proposals and other recent changes

● Impact to the Group

Budget proposals are yet to be formally enacted. Hence as of the reporting date there is no effect to the Group or Company.

✓ Our Response

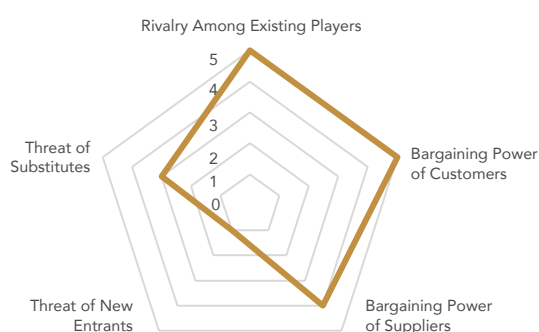
Once the said proposals are formally enacted, the Group will be fully compliant with the proposed tax changes.

Competitive Landscape of the Insurance Industry – Five Forces Analysis

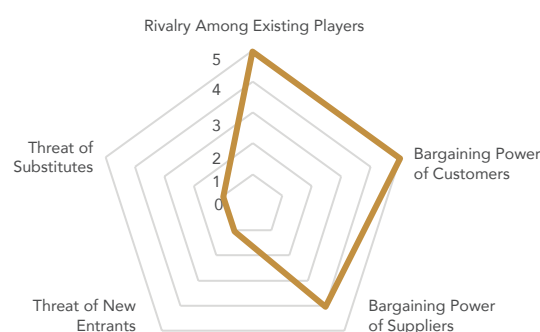
Force	Analysis	Impact to HNBA	Impact to HNBGI
Rivalry among existing players	Though the insurance penetration level is around 1.31%, the rivalry among the existing players is intense as around 80% of the total market is dominated by the top five players of the industry. Also, the small players are constantly fighting to grow their market share further increasing the level of competition.	●	●
Threat of new entrants	The threat of new entrants to the industry is low with the Rs. 500 Million minimum capital requirement, investments in system and technology as well as it being a highly regulated industry by the Insurance Regulatory Commission of Sri Lanka.	●	●
Bargaining power of suppliers	The main suppliers of the insurance market are Reinsurers and their bargaining power is high. We deal with international reinsurers and they have the capacity of influencing the terms and conditions of the agreements entered into with local insurance providers.	●	●
Bargaining power of customers	Customers in the insurance industry have many alternatives available in terms of the insurance provider as well as different insurance covers. Accordingly, customers have a low switching cost and high power to bargain.	●	●
Threat of substitutes	There are no direct substitutes available for insurance products. However, investment plans, pension schemes and educational plans offered by banks and other financial institutions may act as indirect substitutes in Life Insurance. The General Insurance segment has no close substitutes available in the market.	●	●

● Low ● Moderate ● High

Five Forces Analysis - HNBA



Five Forces Analysis - HNBGI



HNB Assurance PLC and HNB General Insurance Limited operate in a very competitive industry and our strategies are directed towards gaining competitive advantage in the respective industry and increasing market share.

BUSINESS LINE REVIEWS

LIFE INSURANCE: Q & A WITH CEO

GRI 102-7

Industry Performance

Industry grew by 21% compared to the growth of 16% previous year. The growth was mainly driven by growth of New Business and Single premium which recorded growth rates of 29% and 58% respectively. Renewal premium also increased by 15% compared to 2020.

(Source: Industry figures shared by the Insurance Association of Sri Lanka)

Capital Adequacy Ratios for Life Insurance stood at 335% at the end of 3Q 2021.

(Source: Industry Performance Q3, Insurance Regulatory Commission of Sri Lanka)

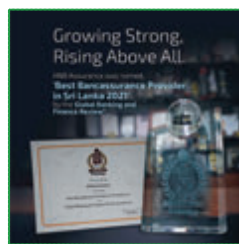
Our Business

- HNBA offer a wide range of Life Insurance solutions covering Protection, Endowment, Health, Retirement and Savings needs.
- Our market share accounts for 5.7% of the Life Insurance industry.
- We connect with our customers via a branch network of 62 branches, 2,762 Advisors and 244 Bancassurance Officers.

Key Performance Indicators	Unit	2021	2020	2019	Growth 2021
Gross Written Premium	Mn	7,091	5,487	5,175	29%
Profit After Tax	Mn	1,000	724	827	38%
Life Fund	Mn	20,063	16,833	14,269	19%
Claims Ratio (without maturities)		10%	9%	9%	(1%)
Expense Ratio		42%	45%	49%	(3%)
Premium Persistency		87%	76%	81%	11%
Lapse Ratio		43%	41%	44%	(2%)
Capital Adequacy Ratio		277%	338%	322%	(61%)

Performance Highlights

- › Topline grew by 29% surpassing the industry growth of 21%. This is the highest top line growth recorded by the Company. Contributing to growth New Business and Renewal premium grew by 26% and 21% respectively. Group Life segment recorded a growth of 99% and Single Premiums by 84%.
- › Profit After Tax increased by a notable 38% during the year surpassing the Rs. 1 Billion profit milestone.
- › The Surplus to Life Shareholder increased by a staggering 60% recording a value of Rs. 980 Million compared to Rs. 612 Million in 2020.
- › Claims ratio with maturities have declined with the increase in Net Earned Premium by 29% reducing the effect of 10% increase net claims incurred.
- › The Capital Adequacy Ratio of the Company declined to 277% in 2021 against the 338% recorded previous year with the increase in risk free rates during the latter part of the year.
- › Fitch Insurer Financial Strength Rating was upgraded to A+ (lka) with Stable Outlook.



Strategy and Outlook

Short-Term

- Economic uncertainties in the country likely to continue impacting business performance.
- Forex crisis will impact business and will be a key point in reinsurance treaty discussions for 2023.
- Sales force will be expanded to increase business volumes and market share.
- Focus on exceptional customer service to attract and retain customers.
- Continue to focus on cost rationalisation and improving efficiency through lean six sigma.

Medium to Long-Term

- Economic activities are expected to rebound to a new normal.
- Improve market share to 10% in Five years.
- Invest in advanced technologies such as AI, data analytics, drone aids and block chain to improve productivity and efficiency.



GWP Growth
29%



Market Rank
06



Customers
158,202

Q How was the Life Insurance Landscape in 2021?

Like every dark cloud has a silver lining, the uncertainty of the pandemic made people more conscious about the quality of life, health and more importantly, the need to create a financial safety net for their loved ones. This supported Life Insurance industry expansion, with the industry recording a 21% healthy growth.

Further, the low interest rates which prevailed in the first half of the year had a positive impact on the growth of short term life covers as it gave a guaranteed return of around of 8%, which was more attractive compared to what was offered by the banks. Healthy growth in housing loans also saw an increase in the Mortgage Protection Insurance covers as customers took advantage of prevailing low interest rates for housing loans.

Q What was HNBA's Strategy for Life Insurance in 2021?

HNBA focused on driving digitalised solutions for client acquisition and renewals. This enabled us to overcome the challenges we faced with the onset of COVID-19 as Life Insurance business is reliant on the quality of customer engagement and building of trust. We were successful in surpassing our forecasted growth rate of 21% by achieving a growth of 29% with growth in New Business reaching 26% while Renewals grew by 21%. More than 90% of our New Business was generated through digital platforms while over 75% of the Renewals were made via online platforms.

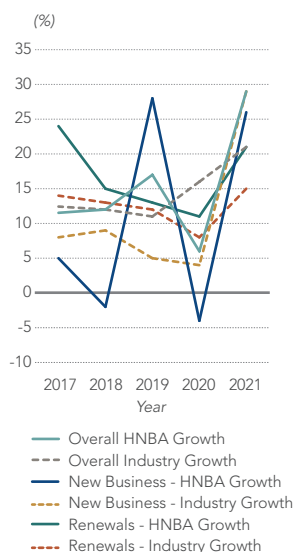
We also needed to enhance our reach and this was achieved through growth in our sales force and expansion of our branch network with the opening of five virtual branches. There were challenges to growth of our sales force as there were delays in conducting requisite examinations and relevant trainings during lockdown periods with restrictions that were in place. However, to ensure our sales force was well equipped to face



the relevant examinations we provided them with necessary trainings through webinars.

Growth in the Bancassurance channel was driven by increasing the number of banking sector partners and by exploring new avenues for growth with our parent, HNB.

Growth Rates



Q What Were the Highlights for Life Insurance in 2021?

We were successful in achieving a growth rate of 29%, well above the industry growth rate which was supported by our digitalisation initiatives. Emphasis was given to acquiring New Business through digital selling platforms while renewal rates increased with the migration to digital payment channels. Digitisation also had a positive impact on our turnaround times in underwriting and claim settlement which are key areas of concern for our customers.

The Life Fund of the Company recorded a value of Rs. 20 Billion, growing by 19%, and Total Assets grew by 13% reaching value of Rs. 29 Billion. The Capital Adequacy Ratio (CAR) stood at 277% which was well above the statutory minimum requirement of 120%.

Keeping our promise of being the most trusted insurance partner, we ensured that our customers were looked after during these tough times. Accordingly during the year we paid Rs. 179 Million COVID-19 related claims though it is an exclusion under Life Insurance.

BUSINESS LINE REVIEWS

LIFE INSURANCE: Q & A WITH CEO

The upgrading of the Insurer Financial Strength rating of HNBA from A(Ika) to A+(Ika) with a stable outlook was a fitting celebratory milestone for HNBA's 20th anniversary. Further, we surpassed Rs. 7 Billion in GWP and Rs. 1 Billion in Profit After Tax, affirming our strong commitment to prudent and sustainable growth. The Surplus Transfer of Rs. 980 Million with a growth of 60% was also a contributory factor to the improved profitability of the Company.

We also won the award for the Best Bancassurance Provider in Sri Lanka awarded by Global Banking and Finance Review and Best Health Insurance provider in Sri Lanka awarded by Insurance Asia Awards. HNB Assurance PLC was also awarded National Service Sector Silver Award and Top Ten Award for Industrial Excellence by The Ceylon National Chamber of Industries at National Industries Achiever Awards 2021. Furthermore, we also produce a record breaking 164 MDRT winners in 2021.

Despite the challenging working conditions, we were successful in maintaining high levels of service by executing effective work from home arrangements. Successful resource allocation in an effective and timely manner facilitated remote working while driving cost efficiencies through rationalisation of operating expenses.

Q What were the Key Challenges in 2021?

Access to our existing and potential customers amidst lockdowns and travel restrictions was a major challenge during the year. We optimised use of our digital platforms and reached out to customers with a series of webinars on safety during the pandemic with the College of Community Physicians, strengthening client relationships. The newly revamped call center and the dedication of our branch staff also played a vital role in maintaining customer engagement and uninterrupted customer service.

We also faced difficulties in collecting premiums from certain customer segments that were affected by the pandemic and the decrease in disposable income.

Substantial and urgent investments were needed to facilitate remote working arrangements and to enhance our digital platforms. This was overcome through effective and efficient resource allocation which was critical to maintain business continuity amidst disruptions as most of our staff worked from home throughout 2021.

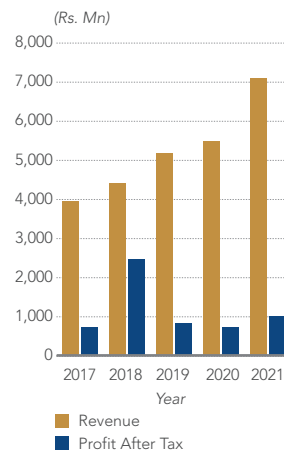
Maintaining employee morale and job satisfaction during the pandemic was another key challenge during the year. Certain employees struggled with managing work life balance and the Human Resources team played a key role in this regard, engaging with employees via various virtual platforms, supporting employees to address issues and enabling employee retention and motivation.

Q What's the Business Landscape Likely to be in 2022?

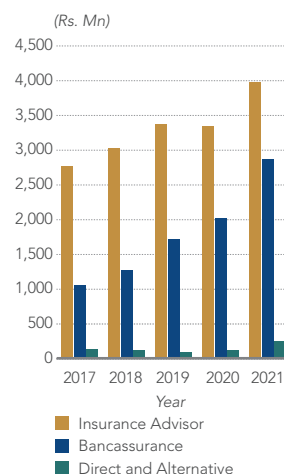
We expect the interest in Life Insurance to continue due to low insurance penetration in Sri Lanka. However, the country's macro-economic factors will be critical in determining the course of the industry in 2022. Scarcity of foreign exchange reserves will pose a threat to the industry when meeting reinsurance obligations.

Despite the significant economic challenges, the Life Insurance industry is set to make headway with substantial investments in digitalisation. Intense competition will compel the industry players to enhance their product portfolios giving customers a broader spectrum of products.

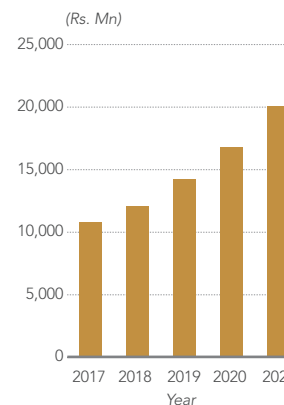
HNBA - Performance



GWP by Channel



Life Fund



Q What are HNBA's Plans for 2022?

Our plans for 2022 are multifaceted. We will continue to focus on growing our sales force to pursue our aspirations to achieve a 10% market share. Plans are underway to increase the sales cadre to 3,500 which stands at around 2,700 at present. Growth in the Bancassurance channel will also be pursued with expansion into untapped areas within HNB while increasing the number of tie-ups with other banks and non-bank financial institutions.

Identifying product gaps and offering the best suite of products in the market will be another key strategy, ensuring that we cater to the diverse needs of a broader potential customer base.

We will continue our digital transformational journey with investments in Core System upgrades to integrate all business operations, driving significant operational efficiencies and enhancing service levels.

Enhancing internal and external customer experience will be a key focus area and a number of initiatives are in the pipeline for this. Enhancing customer experience will be driven by a dedicated Customer Experience Division which will also monitor customer satisfaction throughout the year. Planned initiatives include the launch of a customer mobile app to empower customers to manage their insurance needs, focused improvements in turnaround times, enhancing customer engagement through our improved call centres etc. Our dynamic Human Resources Division will be responsible for driving the initiatives to enhance internal customer experience which include addressing employee training and development needs.

This broad spectrum of initiatives are designed to build on the momentum gained in 2021, strengthening our competitive positioning in the market.

BUSINESS LINE REVIEWS

GENERAL INSURANCE: Q & A WITH CEO

GRI 102-7

Industry Performance

Industry grew by a marginal 3% compared to the 1% de-growth recorded in 2020. The Motor Insurance segment declined by 2% with the restrictions imposed on Motor Vehicle importation. However, the Non-Motor Insurance segment grew by 11% driven by Fire and Miscellaneous classes of insurance.

Ten out of the Thirteen General Insurance companies have recorded increased claims ratios compared to 2020, the highest increase being 10%. Nine out of Thirteen have experienced higher Motor Claims ratios in 2021. The highest increase was 7%.

(Source: Industry figures shared by the Insurance Association of Sri Lanka)

Capital Adequacy Ratios for General Insurance stood at 223% at the end of 3Q 2021.

(Source: Industry Performance Q3, Insurance Regulatory Commission of Sri Lanka)

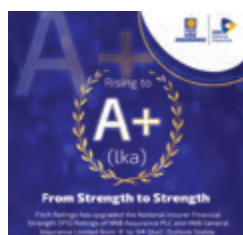
Our Business

- We offer Motor and Non-Motor Insurance solutions and cater to conventional as well as Takaful markets.
- Our market share accounts for 5.5% of the General Insurance industry.
- We connect with our customers via a branch network of 57 branches, 62 Brokers, 85 Bancassurance Officers and 346 Advisors.

Key Performance Indicators	Unit	2021	2020	2019	Growth 2021
Gross Written Premium	Mn	5,649	4,998	4,818	13%
Profit After Tax	Mn	338	451	250	(25%)
General Insurance Contract Liabilities	Mn	3,736	3,309	2,871	13%
Claims Ratio		63%	55%	64%	8%
Expense Ratio		37%	39%	37%	(2%)
Combined Ratio		100%	94%	101%	6%
Capital Adequacy Ratio		260%	255%	226%	4%

Performance Highlights

- Topline grew by 13% surpassing the industry growth of 3%. Contributing to growth in the Motor Insurance and Non-Motor Insurance segments grew by 8% and 26% respectively.
- We outperformed the market to improve our market share in 2021, moving one notch up to become the 7th largest General Insurance provider in the industry.
- Motor Insurance contribution to GWP declined to 68% compared to 72% in 2020 with the motor vehicle importation restrictions imposed.
- Claims Ratio increased to 63% compared to 55% in the previous year. The increase was mainly driven by COVID-19 related Medical claims. With the removal of travel restrictions the Motor claims ratio also increased to 55% compared to 51% in 2020.
- Profit After Tax also witnessed a decline in 2021 as a result of the increased claims cost of the Company.
- The Capital Adequacy Ratio of the Company improved to 260% in 2021 against the 255% recorded previous year showcasing a strong financial position.
- Fitch Insurer Financial Strength Rating was upgraded to A+ (lka) with a Stable Outlook.



Strategy and Outlook

Short-Term

- The import restrictions on motor vehicles are likely to continue impacting the Motor Insurance business.
- Increase in inflation rate will reduce the disposable income and thereby impacting the business performance and the forex crisis will have an impact imports of motor vehicle spare parts
- Strategic pricing of products, evaluation of customer portfolios and devising retention strategies.
- Efficiency enhancement through systems development

Medium to Long-Term

- Economic activities are expected to rebound to a new normal.
- More focus on digitalization on purchasing, claim settlements and premium payments and other inquires.
- Increase in investments on advanced technologies such as artificial intelligence, data analytics and block chain to improve productivity and efficiency.



GWP Growth
13%



Market Rank
7



Customers
176,702

Q What were the Key Developments in the Operating Landscape that Impacted Operations?

Overall, the economic landscape in 2021 was not favourable for the General Insurance business. Continued restrictions on import of motor vehicles had a major impact on Motor insurance, especially on client acquisitions. Further, the declining disposable income drove a considerable segment of Motor Insurance holders to move to third party insurance while the Motor Insurance claims saw a significant increase compared to 2020 due to the resumption in travel and easing of mobility restrictions.

Moreover, Marine Insurance business was also affected by the import restrictions placed by the Government and the forex crisis faced by the country. The Engineering class of business was affected by the lack of new development projects taking place in the country.

Claims under Medical Insurance escalated with the Government’s decision to allow private hospitals to treat COVID-19 patients.

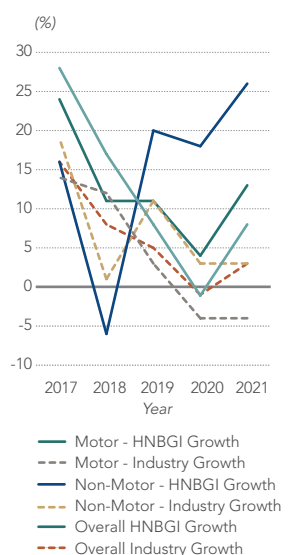
Q What was the Strategy for General Insurance in 2021?

Continued emphasis was given to enhancing digital technology to adapt to the new normal business environment and to enhance customer service and experience. Our digital solutions for acquisitions and renewals and claim processing together with increased digital collection platforms paved the way for a top line growth of 13% despite the 3% growth in the overall General Insurance industry. This topline growth was also facilitated through service differentiation which enabled us to maintain competitive pricing for our products. Well thought-out marketing campaigns targeting selected customer segments combined with increased focus on cross-selling and up-selling also had a positive impact on our profitability.



Sales force was restructured and expanded during the year with the aim of enhancing customer service and to increase operational efficiencies by driving productivity.

Growth Rates



Q What were the Highlights for HNBGI in 2021?

Despite the low growth in the overall General Insurance market, HNBGI was successful in achieving a growth rate of 13%. This growth was mainly driven by our digitisation initiatives and improved customer satisfaction, the latter being reflected through an improved Net Promotor Score of 78 for claims settlement. Broker channel was the highest contributor to GWP with a growth of 13% (2020: 17%). In 2021, capitalising more on the Group synergies enabled a 10% growth in GWP generated through the HNB channel compared to of 3% in 2020.

Showcasing the stability of the business, the Capital Adequacy Ratio of HNBGI improved to 260% in 2021 from 255% recorded last year and this is well above the regulatory minimum ratio of 120%

HNBGI was awarded A+(Ika) National Insurer Financial Strength rating from Fitch Ratings Sri Lanka Limited, affirming our prudent risk management structure and commitment for sustainable growth.

BUSINESS LINE REVIEWS

GENERAL INSURANCE: Q & A WITH CEO

HNBGI was also awarded the Most Innovative Motor Insurer of the Year by Insurance Asia Awards and the National Bronze Award for Service Sector Industrial Excellence by The Ceylon National Chamber of Industries at the National Industries Achiever Awards 2021.

Q What were the Key Challenges in 2021?

Restricted access to customers and staff due to mobility constraints was a major challenge in 2021. Enhanced digital platforms enabled HNBGI to engage with customers despite these restrictions while the sales force and extensive branch network also enabled us to stay connected and provide uninterrupted services to our customer base.

Despite the precautionary measures implemented resulting in most of our staff working from home at any given time throughout the year, we were effective in maintaining service quality by facilitating effective work from home arrangements. Virtual platforms were used for staff training and for keeping up the employee morale and satisfaction. Significant investments were required to enable remote working facilities, and this was achieved through effective and efficient resource allocation.

Another major challenge faced during the year was the increase in claims ratio which also impacted the bottom line performance of HNBGI. The claims ratio increased to 63% compared to the 55% recorded previous year. The high claims ratio was driven especially by the Medical claims with the increase in COVID-19 related claims. The claims ratio of Medical class recorded a value of 114% compared to 83% 2020. As a spill-over effect of increased claims ratio the Profit After Tax of HNBGI decreased by 25% compared to last year recording a value of Rs. 338 Million. Nevertheless, amidst all these challenges we were able to maintain our Combined Operating Ratio at 100%.

Q What's the Business Landscape Likely to be in 2022?

The country's macro-economic conditions will play a critical role in defining the near term future of the industry. The risk of not being able to make reinsurance settlements on time due to lack of forex reserves in the country is a key concern of the industry. The industry has brought this concern to the notice of the regulator.

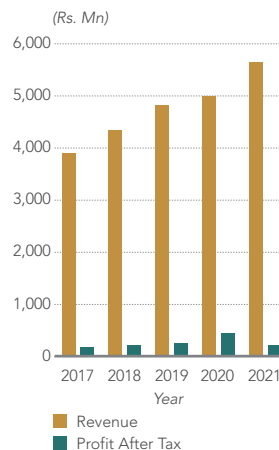
In spite of these challenging conditions, the industry will continue to develop its digital infrastructure with substantial capital influx to drive operational efficiencies and to improve customer service and experience, which are deciding factors in maintaining market share in this highly competitive industry.

Q What are HNBGI's Plans for 2022?

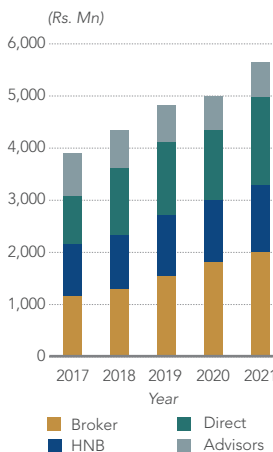
We have challenged ourselves to become one of the top five General Insurance companies in Sri Lanka leveraging on our strengths and by identifying gaps in the market. We plan to expand our presence and market share by restructuring and strengthening our distribution channels catering to a higher number of customers effectively and efficiently across the country.

Emphasis will also be given to increasing customer service and experience by differentiating our services with focus given to building trust and addressing pain points in the customer value proposition. Responding to the changing market trend would be another area of focus to enhance customer satisfaction.

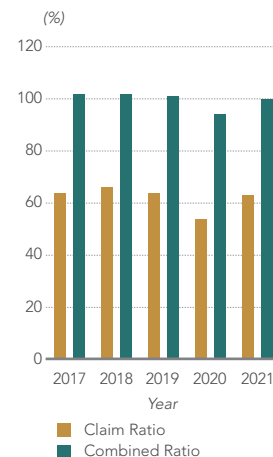
HNBGI - Performance



GWP by Channel



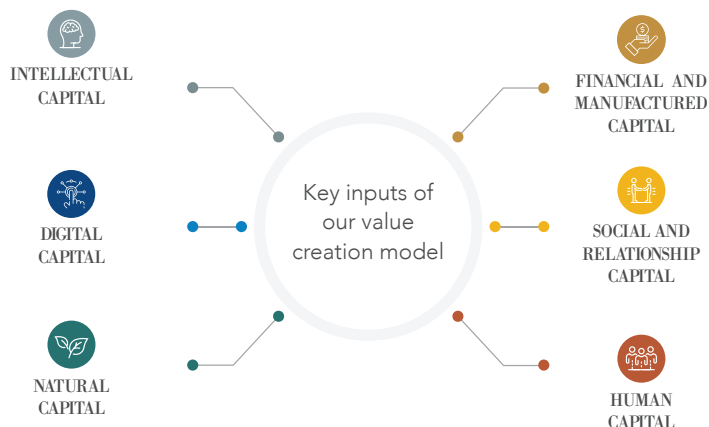
Claim Ratio Vs Combined Ratio



CAPITAL MANAGEMENT AND ECONOMIC VALUE ADDED

GRI 102-7 > 201-1

Capital Management



The sections that follow, detail the means by which each form of Capital is utilised for the execution of the businesses' short-term and long-term strategies towards generating sustainable value to all stakeholders concerned. The sections also describe the management approach, performance indicators and capital trade-offs under each form of Capital.

Economic Value Added

Rs. 8,311 Mn

Direct Economic Value Generated
(2020 - Rs. 7,115 Mn)

➤ Net Earned Premium

Rs. 10,756 Mn
(2020 - Rs. 8,927 Mn)

➤ Investment and Other Income

Rs. 2,701 Mn
(2020 - Rs. 2,580 Mn)

➤ Cost of External Services

Rs. 921 Mn
(2020 - Rs. 833 Mn)

➤ Net Claims & Benefits

Rs. 4,223 Mn
(2020 - Rs. 3,559 Mn)

Rs. 6,913 Mn

Economic Value Distributed
(2020 - Rs. 5,888 Mn)

➤ Salaries and Other Benefits

Rs. 1,596 Mn
(2020 - Rs. 1,404 Mn)

➤ Commission Cost

Rs. 1,512 Mn
(2020 - Rs. 1,293 Mn)

➤ Income Tax

Rs. 73.15 Mn
(2020 - Rs. 191.31 Mn)

➤ Increase in Life Insurance Fund

Rs. 3,249 Mn
(2020 - Rs. 2,576 Mn)

➤ Dividend

Rs. 480 Mn
(2020 - Rs. 420 Mn)

➤ Donations/CSR Activities

Rs. 3.09 Mn
(2020 - Rs. 3.39 Mn)

Rs. 1,398 Mn

Economic Value Retained
(2020 - Rs. 1,227 Mn)

➤ Retained as Depreciation and Amortisation

Rs. 84.38 Mn
(2020 - Rs. 73.63 Mn)

➤ Retained in Reserve

Rs. 1,313 Mn
(2020 - Rs. 1,153 Mn)



FINANCIAL AND MANUFACTURED CAPITAL

GRI 102-7 > 102-11

How we enhance the value of our Financial Capital is critical to our growth aspirations as our business model is about creating financial safety nets for our customers. Financial stability is key to fulfilling our obligations and strong capital positions underpin our value proposition to customers and other stakeholders. Market risks play a key role in determining our overall performance and are carefully managed within the Group's overall risk appetite. Manufactured Capital is the combination of physical infrastructure together with Property, Plant and Equipment that is a crucial input in our value creation process

Management Approach



At HNB Assurance PLC we manage our Financial Capital with utmost integrity and care as we want to ensure our Policyholders are given the financial stability and security expected by them while giving the maximum return to our Shareholders. Hence, we manage our Financial Capital focusing on areas of investment management, liquidity management, profitability management, risk management and budgetary controls. Furthermore, we continuously invest in quality Manufactured Capital that will enhance our customer reach and increase efficiency of our business processes.



Total Assets
2021: Rs. 35.9 Bn
2020: Rs. 31.7 Bn



Investment Income
2021: Rs. 2.7 Bn
2020: Rs. 2.6 Bn

Group's Performance Indicators

	Unit	2021	2020	Change
Financial Performance				
Gross Written Premium	Rs. Mn	12,647	10,399	22%
Investment Income	Rs. Mn	2,687	2,565	5%
Profit After Tax	Rs. Mn	1,224	1,175	4%
Funds under Management	Rs. Mn	31,095	26,953	15%
Market Capitalisation	Rs. Mn	7,260	8,730	(17%)
Returns to Investors				
Shareholders' Funds	Rs. Mn	8,123	8,194	(1%)
Return on Equity		15%	16%	(1%)
Earnings per Share	Rs.	8.16	7.83	4%
Net Asset Value per Share	Rs.	54.15	54.63	(1%)
Dividends per Share	Rs.	3.20	2.80	14%
Market Price per Share	Rs.	48.40	58.20	(17%)
P/E Ratio	Times	5.93	7.43	(20%)
Manufactured Capital				
Capital Expenditure	Rs. Mn	177	83	113%

SDG Focus Areas under Financial and Manufactured Capital



8. Decent Work and Economic Growth

- Contribute towards economic growth through GWP generated and the Claims and Benefits paid to our customers
- Island wide branch network provides employment opportunities across the country contributing to economic growth



10. Reduced Inequalities

- Our island-wide branch network provides access to insurance products and services



Capital Adequacy Ratio
HNBA - 277%
HNBI - 260%



Plans for 2022

- Improving the market share by growing the top-line while managing profitability effectively
- Expanding our branch network focusing on virtual branch concept to promote sustainability
- Investing in a Core Life Insurance system to cater to increasing business volumes

Financial Performance

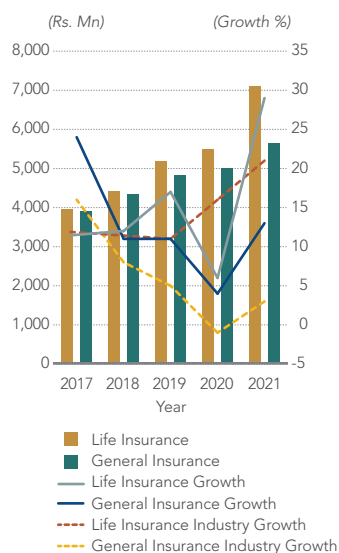
During the year under review, we created value to our Shareholders and other stakeholders by aggressive growth in our top line, improving our bottom-line and strengthening our financial position. What ensues is an analysis of our financial performance and includes both a Group level discussion and insights on our key segments, Life Insurance and General Insurance. As the Company is in the Life insurance business, performance of that segment will be the performance of the Company as well.

Description	Life Insurance		General Insurance	
	2021 Rs. Mn	2020 Rs. Mn	2021 Rs. Mn	2020 Rs. Mn
Gross Written Premium	7,091	5,487	5,649	4,998
Premium Ceded to Reinsurers	(356)	(265)	(1,293)	(1,043)
Net Written Premium	6,736	5,222	4,355	3,955
Net Change in Reserves for Unearned Premium	-	-	(242)	(164)
Net Earned Premium	6,736	5,222	4,113	3,791
Total Other Revenue	2,491	2,224	584	528
Total Benefits, Claims and other Expenses	(7,774)	(6,446)	(4,285)	(3,687)
Profit Before Taxation	1,452	999	411	631
Income Tax Expense	(452)	(275)	(73)	(180)
Profit for the Year	1,000	724	338	451

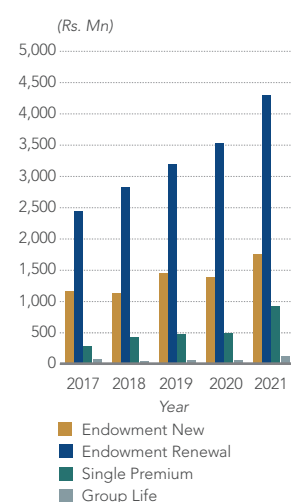
Gross Written Premium (GWP)

Group consolidated GWP grew by 22% to Rs.12.6 Billion (2020: Rs. 10.4 Billion) supported by growth in both Life and General insurance segments which recorded growth rates of 29% and 13% respectively. With the higher growth, Life insurance contribution to Group GWP increased to 56% from 53% in 2020.

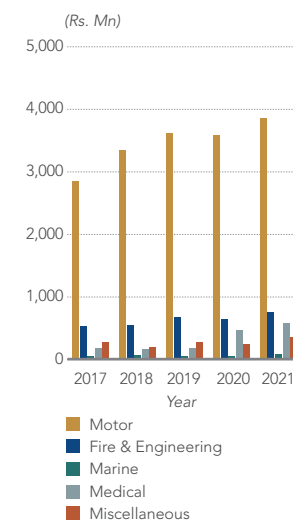
Gross Written Premium - Group



Life Insurance GWP Achievement



General Insurance GWP Achievement



Group's Financial Performance Highlights

- Recording a GWP growth of 22% in the Group
- Our subsidiary HNBGI improving its industry ranking from 8th to 7th position
- Recorded the highest Surplus transfer of Rs. 980 Million from Life Policyholders' to Shareholders' Fund which boosted Group profitability
- During the year subsidiary paid a dividend of Rs. 115 Million which improved Company profits
- Group incurred Rs. 281 Million for COVID-19 related claims even though pandemics are exclusions in insurance

FINANCIAL AND MANUFACTURED CAPITAL



Life Insurance

Life Insurance achieved a growth of 29% outshining the industry growth rate of 21% to record a GWP of Rs. 7.1 Billion (2020: Rs. 5.5 Billion).

This was possible by strong growth in all premium categories. Life Endowment premiums grew by 23% compared to 19% of the industry. Revamped incentive models, expansion of our agency and bancassurance channels, and trainings to improve productivity of the two key channels helped increase New Business Premiums by 26%. Our strategies focused on maintaining persistency by availing a wide array of payment options, promotion of online collections and concerted effort by the policy conservation unit enabled us to post Rs. 4.3 Billion in renewals, surpassing industry growth. A notable development was the performance of single premium policies especially MRP which recorded Rs. 496 Million with a 229% growth.

Business Class	Growth Rates	
	HNBA	Industry
New Business Premium	26%	29%
Renewal Premium	21%	15%
Group Life	99%	2%
Mortgage	229%	
Reducing Plans		58%
Single Premium	21%	
Total	29%	21%

Both distribution channels supported the GWP achievement with Bancassurance contributing Rs. 2.9 Billion with a 45% growth and Agency channel Rs. 4.1 Billion with a 20% growth over 2020.



General Insurance

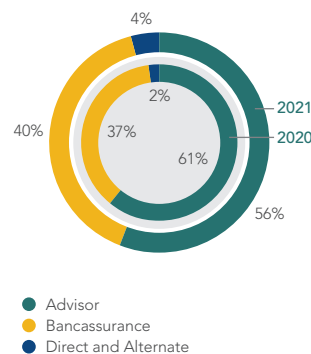
General Insurance was able to outperform the industry growth rate of 3% and recorded a 13% growth in GWP surpassing industry growth in all premium classes.

Due to the vehicle import ban in place and vehicle owners preferring third party cover over comprehensive covers due to economic conditions, the Motor industry contracted by 2%. However, our Motor premiums grew by 8% through service level improvements and strategic pricing. The ratio of motor to non-motor declined from 72% to 68% as we improved performance of other classes. Several large corporate accounts were added to the portfolio enabling growth in Fire, Marine and medical classes. We ventured into Cyber insurance addressing an emerging need of Sri Lankan customers on cyber security related business continuity.

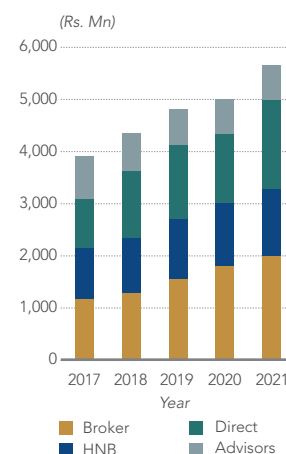
Business Class	Growth Rates	
	HNBA	Industry
Motor	8%	(2%)
Fire & Engineering	17%	13%
Marine	50%	35%
Medical	24%	3%
Miscellaneous	49%	16%
Total	13%	3%

All business channels contributed to the GWP growth. Performance was driven by 13% growth through Broker channel and 10% from Bancassurance through HNB while GWP from Direct and other banks and financial institutes grew by 48% from a lower base. Advisors' GWP marked a 25% decrease due to the environmental factors.

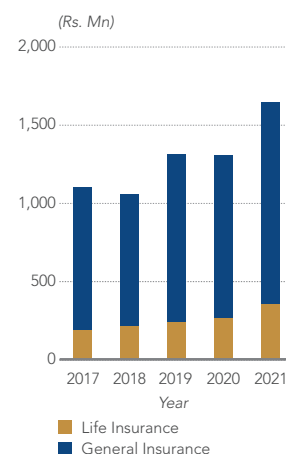
Life Insurance Channel wise GWP Mix



General Insurance Channel wise GWP Mix



Premium Ceded to Reinsurers - Group



Challenges and Strategies of Managing Financial and Manufactured Capitals

Life Insurance

Challenges	Strategies
Limitations in access to customers due to travel restrictions	<ul style="list-style-type: none"> Adoption of digital selling. Online payment methods promoted increasing online/ bank transfers.
Increase in inflation and lower disposable income and managing expenses	<ul style="list-style-type: none"> Strategic pricing of new products and increased focus on MRP, Group Life and Micro sectors. Budgetary controls.
Interest rate movement and credit growth	<ul style="list-style-type: none"> Improving service standards of MRP and repricing where necessary to exploit MRP business generated through credit growth. Timely introduction of Super 5 investment policies
Intense competition	<ul style="list-style-type: none"> Introduction of Study Guard to offer protection for children's education. Promotion of new health riders Super CI and Supreme Health Max. Training distribution channels on protection-based insurance.

General Insurance

Challenges	Strategies
Limitations in new business due to vehicle import restrictions	<ul style="list-style-type: none"> Compete in the in Motor market through strategic pricing in Motor considering profitability of vehicle types. Continuous enhancement of service standards and personalised customer service.
Decrease in premium collection due to lower disposable income	<ul style="list-style-type: none"> Promotion of payments using instalments plans. Introduced digital payment platforms for customer convenience. Strategies implemented with introducers.
Increase in vehicle prices resulting in drop in Motor resale market	<ul style="list-style-type: none"> Concentrated on existing market portfolio and adopted attractive pricing strategies to selected vehicle categories.
Greater awareness and need for Medical Insurance	<ul style="list-style-type: none"> Adopted a methodology for pricing medical business considering the client's business portfolio and historical behaviour of the business.

Premium Ceded to Reinsurers

Reinsurance costs increased by 26% to Rs.1,649 Million in line with business growth as GWP to reinsurance remained at 13%. General Insurance accounted for 78% of total reinsurance outgo of the Group compared to 80% in 2020.

Reinsurance in Life grew by 34% due to growth in MRP policies and new health riders which attract more reinsurance. In General Insurance, Fire and miscellaneous class GWP increase led to a 24% increase in Reinsurance.

Net Earned Premium (NEP)

The Group recorded Rs. 10,756 Million (2020: Rs. 8,927 Million) as Net Earned Premium which marked 20% increase from 2020. NEP growth of 29% in Life is

reflective of the growth in GWP owing to reinsurance ceded being 5% of Life GWP, a marginal increase from 4.8% in 2020.

In General Insurance, the higher GWP achievement in 2021, especially towards the latter part of the year, saw a higher transfer to unearned premium reserves resulting in a Net Earned Premium of Rs. 4.1 Billion. This marks a 9% growth compared to 13% in GWP.

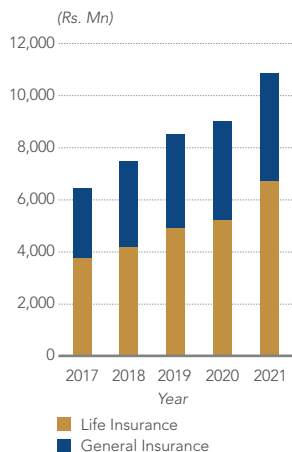
Other Revenue

Other Revenue increased by 8% to Rs. 2,926 Million due to increased investment Income and Fee and Commission Income. Investment Income, which comprise interest and dividend income, realised and fair value gains/losses, accounted for 92% of Other Revenue.

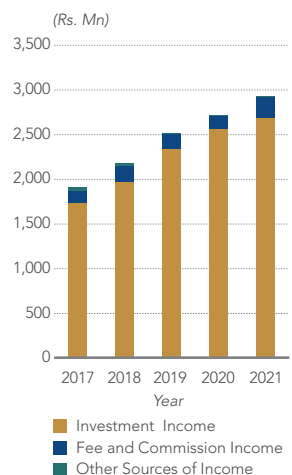
Investment Income increased by a modest 2% to Rs. 2,555 Million (Rs. 2,493 Million) at Group level as interest rates remained low for most of 2021, despite a growth of 15% in funds under management. Interest rates picked up in the latter half of 2021 and are expected to increase further in 2022. 90% of the Group Investment income arose from Life Insurance compared to 85% in 2020. Fee and commission income recorded a 60% increase owing to higher profit commissions received from reinsurers based on the profitability of the portfolios.

FINANCIAL AND MANUFACTURED CAPITAL

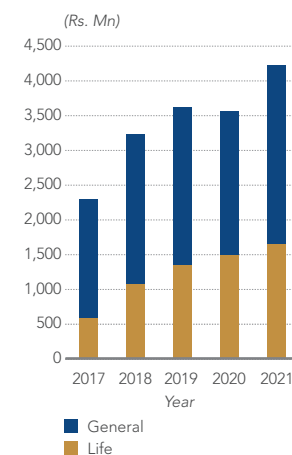
Net Earned Premium - Group



Other Revenue - Group



Net Benefits and Claims -Group



Performance of Investment Portfolio – HNBA Group

Strategic Asset Allocation

Slightly overweight short-term investments with the expectation of interest rate increase while managing long-term investments for ALM requirements

Rs. 31.1 Bn
15.4% Growth

Realigned investments to fixed income investments including Government Securities to mitigate market volatility and uncertainty

All investments are made above the investment grade ratings

Continues monitoring on market behaviours to maintain healthy investment portfolio to generate maximum return within the Company risk appetite

Investment Performance

Despite the low interest rate environment in the beginning of the year, Group surpassed the last year investment income achievement by 4.8% while maintaining healthy portfolio yield.

Rs. 2.7 Bn
4.8% Growth

The Group reaped maximum benefit of upward shift of the yield curve at the end of the year due to strategically overweight short-term investments

9.3%
Investment Return

Realised gains on Equity and Treasury Bonds also contributed positively towards investment income performance

Net Benefits and Claims

Net Benefits and Claims increased by 19% to Rs. 4,223 Million for the Group in 2021 (2020: Rs. 3,559 Million). Growth was driven by General Insurance which saw a 25% increase over 2020 due to higher Motor and Medical claims. Although pandemics are exclusions, the Group paid Rs. 220 Million in COVID-19 related claims in 2021, of which Rs. 115 Million was from Life and Rs. 105 Million was from General. This decision was to ensure that we live up to our vision of being 'a trusted partner' to our customers in these unprecedented times.

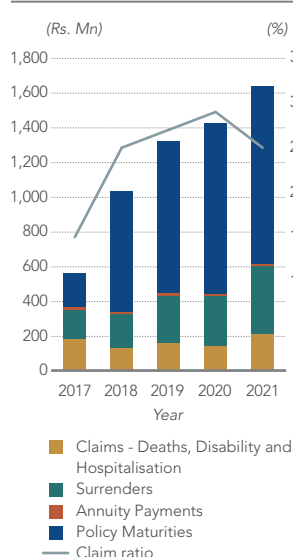


Life Insurance

While 62% of Net Claims and Benefits of Life Insurance in 2021 arose from Maturity claims which are planned outgoes (2020:69%), the Company experienced an uptick in surrenders and medical claims which resulted in a 10% increase in Net Claims and Benefits. This showed a direct link to the pandemic as medical claims were mainly on account of hospitalisations due to COVID-19 and surrenders are due to inflationary pressures. Accordingly, the claims ratio excluding maturities increased marginally to 10% from 9% in 2020.

Claims	2021 Rs. Mn	2020 Rs. Mn
Death and Other	158	89
Hospitalisation	111	57
Maturity	971	1,044
Surrender	392	290
Annuity	14	14
Total	1,646	1,494

Life Insurance Claims



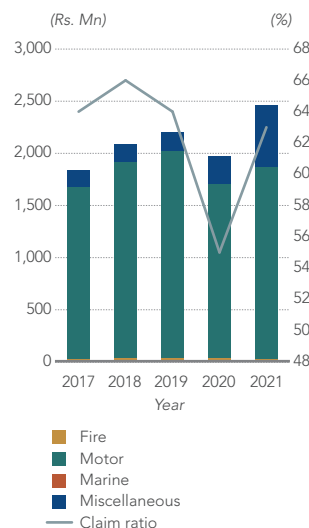
General Insurance

General Insurance claims increased to Rs. 2,579 Million, a 25% increase over 2020. Higher number of accidents were intimated in 2021 with resumed economic activities and mobility of people, which resulted in higher Motor claims. Depreciation of the rupee increased the cost of spare parts creating further pressure on Motor claims ratio. Motor claims ratio increased to 55%, 4% higher than 2020. Further, Medical Claims also increased compared to 2020 due to COVID-19. Consequently, General Claims ratio increased to 63% from 54% in 2020.

Claims Ratio	2021 %	2020 %
Motor	55	51
Non Motor	110	86
HNBGI Total	63	55

$$\text{Claims Ratio} = \frac{\text{Net Claims Incurred}}{\text{Net Earned Premiums}}$$

General Insurance Claims



Expenses

Underwriting and Net Acquisition costs, representing commissions and cost incurred directly to acquire a business, increased by 18% to reach Rs. 1,456 Million. However, this was in-line with the 22% growth in GWP.

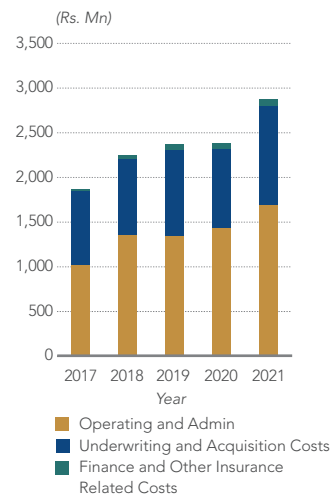
In Life Insurance, Underwriting and Net Acquisition costs grew by 24% which is comparable to the New Business growth of 26%. This is because commission for New Business Premium is significantly higher than for renewals. Increase in Acquisition costs in General Insurance was limited to 3% primarily due to the change in GWP mix to higher Non-Motor compared to 2020.

The Group incurred Rs. 2,893 Million as Other Operating and Administration costs in 2021, 14% higher than the spend in 2020. The increase was mainly driven by selling expenses and staff costs. The Group increased its spend on selling expenses including advertising to support growth in top-line. Staff costs increased as we took care of our people by rewarding performers and strengthening our sales staff. Although growth in Other Operating and Administration expenses in Life was higher than General the cost drivers were the same. It must be noted that only a marginal increase was seen in other administration costs due to the continuation of cost rationalisation made across the Group. We currently have 15 lean projects in progress which also contributed to savings. These savings helped Life insurance was able to reduce its Expense Ratio to 42% in 2021 from 45% in last year. General Insurance Expense Ratio also decreased by 2% to 37% in 2021.

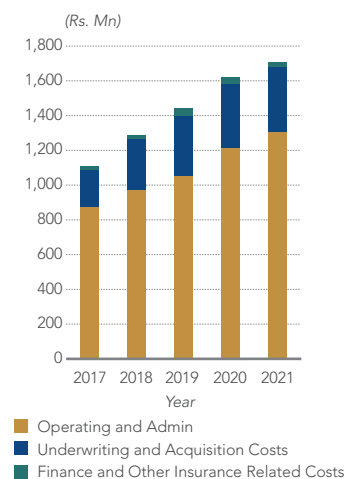
Finance and other insurance related costs increased by 12% to Rs. 112 Million for the Group primarily driven by cost in the Life business which grew by 52%. This is due to insurance related costs in Life increasing with the growth in business.

FINANCIAL AND MANUFACTURED CAPITAL

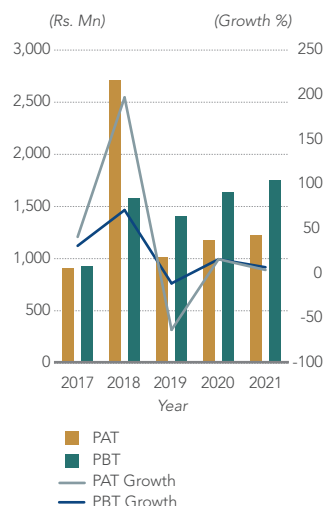
Total Expenses - Life



Finance Expenses - General



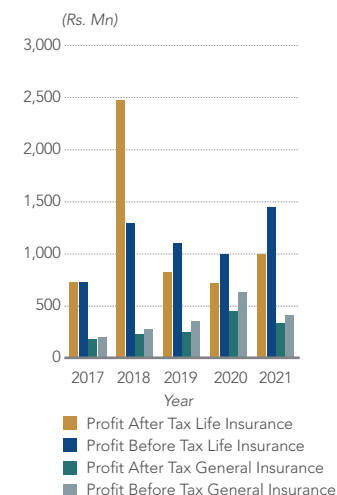
Profitability Vs Growth- Group



Profitability

HNBA Group recorded Profit Before Tax (PBT) and Profit After Tax (PAT) of Rs. 1,748 Million (2020: Rs. 1,630 Million) and Rs. 1,224 Million (2020: Rs. 1,175 Million) respectively in 2021. Group PBT growth was moderated to 7% due to the decline of 25% in General insurance profits. Change of the income tax rate from 28% to 24%, which was substantively enacted in 2021, increased the tax expense by Rs. 70 Million for the Group owing to a reversal of deferred tax asset in the Company. Accordingly, effective tax rate increase to 30% in 2021 compared to 28% in 2020. This resulted in Group PAT growth being limited to 4%.

PAT and PBT



Life Insurance

Profitability of the Company improved significantly in 2021, with PBT recording a 45% growth and PAT recording a 38% growth. PBT of the Company reached Rs. 1,452 Million (2020: Rs. 999 Million). Surplus transfer from Life business to the Shareholders, as certified by the Consultant Actuary, marked a 60% increase with the Rs. 980 Million transfer made in 2021. While the growth of the business was instrumental for the higher profitability, increase in the risk-free rates at the latter part of the year made a positive impact on the Life profits. Dividend received from HNBGI of Rs. 115 Million (2020: nil due to regulatory restrictions on industry) considerably increased PBT of the Company. A deferred tax reversal of Rs. 103 Million was recorded due to the change in the income tax rate which increased the tax expense. Nevertheless, the Company was able to surpass the Rs. 1 Billion mark in PAT in 2021 which is a remarkable achievement.

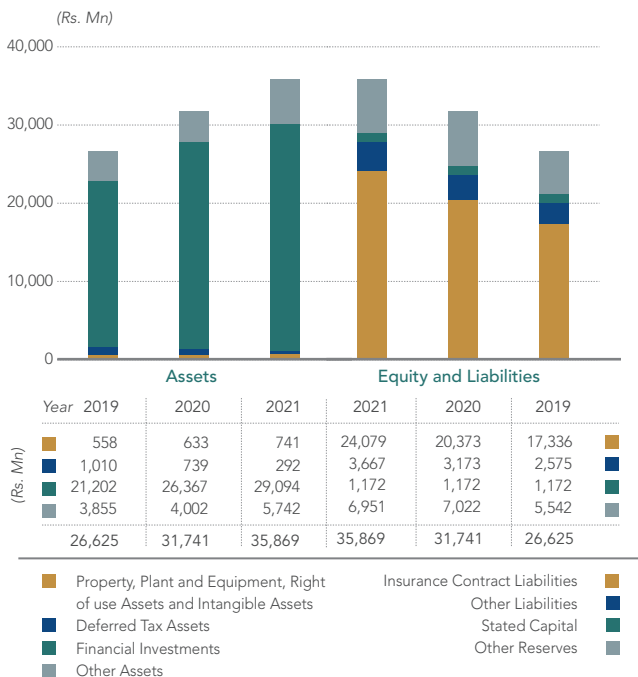


General Insurance

The PBT of General Insurance decreased by 35% to Rs. 411 Million on account of the increase in Motor and Medical claims. PAT of HNBGI showed a 25% decrease as the effective tax reduced due to the change in the tax rate from 28% to 24%.

Financial Position

Financial Position Analysis



Total Assets

Consolidated assets increased by 13% to Rs. 35.9 Billion, reflecting improved asset positions in Financial Investments showcasing the high level of stability of Group's financial position.



Life Insurance

Total assets of the Company increased by 13% to Rs. 29.5 Billion by end 2021 largely due a 12% growth in Financial Investments which reached to Rs. 24.7 Billion and Cash and Cash equivalents increased to Rs. 1.6 Billion. Rs. 51 Million was invested in computer equipment to support the digitalisation strategy.

Deferred Tax Asset reversed by Rs. 452 Million due to utilisation of tax losses and reduction in the income tax rate to 24%.

Although Reinsurance receivables saw an increase of 84%, reinsurance payables also increased due to slower settlements with delays caused by the pandemic. However, Company has a net payable position to reinsurers.



General Insurance

Total assets of the General Insurance business increased by 10% to Rs. 7.6 Billion, mainly due growth in financial investments and cash and cash equivalents primarily comprising short term investments. Property Plant and Equipment grew by 167% with the Land and Buildings added to the books amounting to Rs. 68.6 Million on purchase of property for a salvage yard operation and investment in Computer equipment of Rs. 27 Million to support the Work from Home Policy.

Premium receivables increased by 12% with the growth of business while reinsurance receivables increased by 26% due to slower settlements globally. However, HNBGI has a net payable position in reinsurance.

Group's Financial Position Highlights

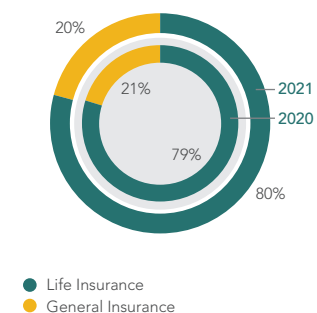
- New addition to Property, Plant and Equipment category of the Group "Land and buildings"

As a strategy to reduce cost of Motor claims and considering the scarcity and escalation in price of spare parts, HNBGI established a salvage yard by acquiring a property at Devalapola, Minuwangoda, at a cost of Rs. 68.6 Million. This includes both land and building and further information is disclosed in Note 07 of the Financial Statements.

- Accelerated the Recovery of Deferred Tax Assets (DTA)

Group expects to recover the DTA well before the stipulated time of expiration for recovery. The increase in profitability of the Company accelerated the recovery of DTA resulting in a utilisation of tax losses against taxable income and reduction. Deferred tax asset of Company reduced to Rs. 274 Million and is expected be fully recovered by end 2022. Further information is disclosed in Note 44 of the Financial Statements.

Total Assets - Group



FINANCIAL AND MANUFACTURED CAPITAL

Financial Investments

Financial Investments surpassed Rs. 29 Billion as at 31st December 2021 and represented 81% of total assets of the Group. The Group maintained a diversified portfolio of financial assets with 49% of the total investments comprising of investment made in Government Securities, 25% in Corporate Debt Securities 25% in Term deposits and remaining 1% in Equity and Unit Trusts investments.



Life Insurance

Company has invested its Rs. 24.7 Billion of Financial Investments in a diversified portfolio of securities. Approximately 69% of Financial Investments are in Loans and receivables (L&R) category and amount to Rs. 17 Billion. Investments in L&R increased by 13% due to the Company shifting investments to shorter term repo investments to capitalise from interest rate increase. Available For Sale (AFS) investments, comprising 29% of investments, increased by 15%. Company held 49% of investments in Government Securities and 26% in Corporate debentures. Further, 95% of Financial Investments including short term deposits invested in A- and above rated instruments.

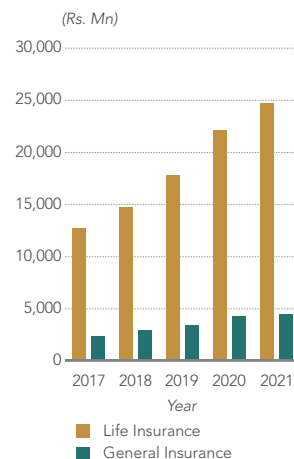


General Insurance

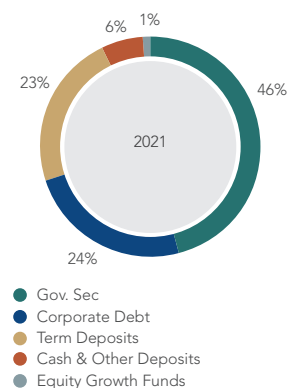
HNBGI maintained financial investments of Rs. 4.4 Billion as at 31st December 2021. Majority of the investments were in Loans and Receivables and amounted to Rs. 3.3 Billion, representing 74% of investments while 21% in in AFS assets.

94% of Financial Investments including short-term deposits invested in A- and above rated instruments.

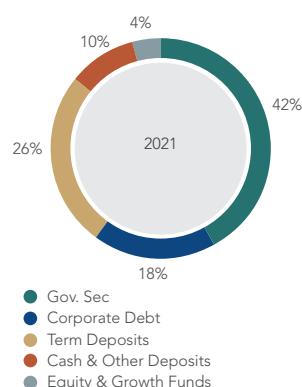
Financial Investments



Asset Allocation - HNBA



Asset Allocation - HNBGI



Cash & Cash Equivalents

Cash & Cash Equivalents of the Group increased by 197% to Rs. 2.1 Billion with the increase investments in short term deposits. Investments were kept at shorter maturity assets due to upward movement expectation of future interest rates.

Funding

Funding structure consists of Equity and Liabilities. The Equity and Liability mix is as follows;

	Group		Company	
	2021 Rs. Mn	2020 Rs. Mn	2021 Rs. Mn	2020 Rs. Mn
Stated Capital	1,172	1,172	1,172	1,172
Retained Earnings	6,645	5,841	5,549	4,968
Available For Sale Reserve	4	94	4	16
Other Reserve	(11)	(52)	(7)	(34)
Life Policyholders' Available For Sale Reserve Fund	(67)	758	(67)	758
Restricted Regulatory Reserve	381	381	381	381
Total Equity	8,123	8,194	7,032	7,261

The funding structure of the Group remains stable with marginal variations reflecting the commitment to maintaining financial stability during uncertain times. Equity to Total Assets ratio is 23% for the Group and 24% and 28% for Life & General respectively at the close of 2021. This compares favourably with the industry average as at Q3 2021 which were 0.21 and 0.48 for Life and General. The Equity to Assets ratio declined marginally during the year for the Group and the Industry.

Equity to Assets Ratio

	Life		General	
	2021	2020	2021	2020
HNBA	24%	28%	30%	30%
Industry*	21%	22%	48%	48%

*Industry numbers are as at 3Q 2021

Equity

Equity declined marginally by 1% as the Life Policyholders' Available for Sale Reserve Fund declined from Rs. 758 Million in 2020 to negative Rs. 67 Million in 2021. This is attributable to the reversal in gains recorded in 2020 due to the sharp increase in the interest rates at the latter part of 2021 which resulted in the market values of Treasury Bonds classified as Available for Sale decreasing. However, it should be noted that this is temporary as gains or losses on mark-to-market Government Securities are fully reversed by maturity of the security.

Retained earnings increased by 14% to Rs. 6.6 Billion in 2021 due to the commendable performance of the Group, cushioning the decline in the Life Policyholders' Available for Sale Reserve.

Leverage and Capital Structure

The ensuing details the sources by which the total assets of the Group as at the period end, were funded

Total Assets of **Rs. 35.9 Bn**
as at 31st December 2021
of the Group



Funding Channels

Shareholder Funds

23%

Policyholder Liabilities

67%

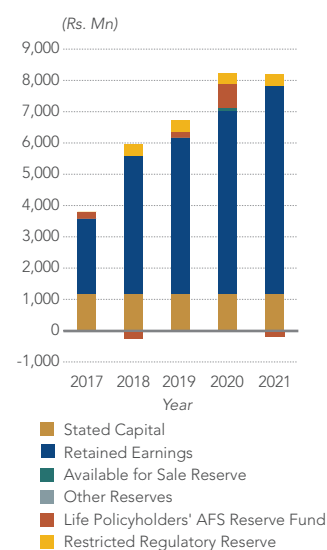
Reinsurance Creditors

3%

Other Creditors

7%

Equity - Group



FINANCIAL AND MANUFACTURED CAPITAL

Liability

Group's and Company's Liability mix is as follows;

	Life Insurance		General Insurance	
	2021 Rs. Mn	2020 Rs. Mn	2021 Rs. Mn	2020 Rs. Mn
Insurance Contract Liabilities	20,343	17,064	3,736	3,309
Employee Defined Benefit Liabilities	137	151	102	104
Reinsurance Creditors	453	291	632	409
Lease Creditors	390	378	31	15
Other Liabilities	1,108	898	827	935
Total Liabilities	22,432	18,782	5,328	4,772

Group's total liabilities increased by 18% to reach Rs. 27.7 Billion as at 31st December 2021 driven by Life insurance Contract Liabilities which increased by 19% and General insurance contract liabilities which grew by 13% reflecting strong business growth. Total insurance Contract liabilities reflects 87% from the total liabilities of the Group.



Life Insurance

The Life Fund surpassed Rs. 20 Billion by end December 2021, accounts for 89% of liabilities of the Company. GWP growth of 29% resulted in the transfer of Rs. 3.2 Billion to the Life Fund during the year. The Life Fund was valued by Consultant Actuary Mr. Abhishek Chadha, FIA, for and on behalf of Willis Towers Watson India Private Limited to comply with the requirements of the Regulation of Insurance Industry Act, No. 43 of 2000 and the valuation report is available on page 192. On the recommendation of the Consultant Actuary, Rs. 980 Million was transferred to Shareholder's Fund in 2021 (2020: Rs. 612 Million). The Actuary also carried out a Liability Adequacy Test for Life Insurance Contract Liability and no additional provisions were required as stated in the same report.

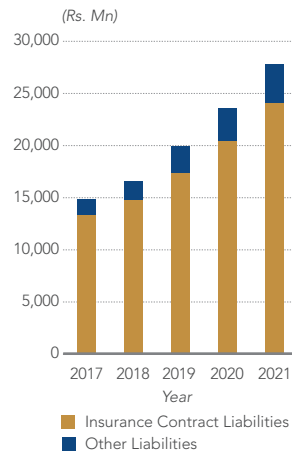
The Company maintained a proper segregation of assets and liabilities for all three sub funds of the Life Fund, Participating, Non-Participating and Universal Life Funds in accordance with the Direction 15 issued by the IRCSL.



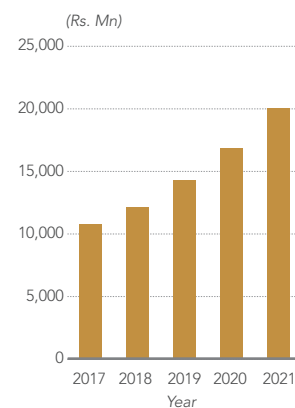
General Insurance

Contract Liabilities for General Insurance which amounted to Rs. 3.7 Billion comprised Reserves for Net Unearned Premium, Title Insurance and Gross Outstanding Claims. The 13% growth in GWP supported increase in Unearned premium reserves while claims outstanding increased due higher claim intimations. The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Reserves as at 31st December 2021 were actuarially computed by the Consultant Actuary, Ms. Sipika Tandon Mathur, FIA and the report is provided on page 193. She also carried out a Liability Adequacy Test for General Insurance Contract Liability and there were no additional provisions required as stated in the same report.

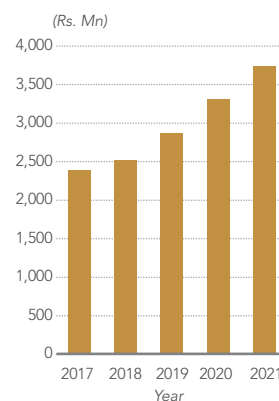
Liabilities - Group



Life Fund



Insurance Contract Liabilities - General



Liquidity & Cashflow Management

Working Capital/Liquidity Position

Being a service provider in the insurance industry, the Group adopted a mixed approach that combines elements of the cash flow matching approach and the liquid assets approach. The increase in current assets is primarily driven by an increase in cash and short-term investments. Intermittent lockdowns stemming from the pandemic which continued even in 2021 necessitated careful liquidity management during the year. However, the Group's adaptation to remote working has been a key strength, supporting net assets position and cashflow generation throughout these stressful periods.

The Group presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in Note 47.

Managing Liquidity

- Digital payment platforms and selling enabled a steady flow of cash in terms of revenue for both businesses segments.
- Regular cashflow forecasts made to ensure both Company and subsidiary had sufficient liquidity levels and this was monitored by Board Risk Committee.
- Sufficient liquid investments maintained in the form of repo investments to utilise in case of lower than expected inflows
- Company and subsidiary did not face any liquidity concerns during 2021 (2020: no concerns occurred).

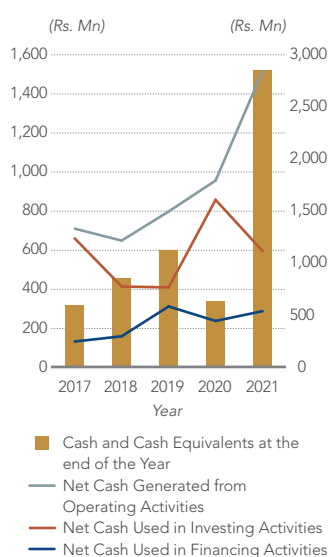
Group's Current Assets/Liability	2021 Rs. Mn	2020 Rs. Mn	%
Current Assets	16,656	13,670	22%
Current liabilities	7,072	6,111	16%
Net Current asset Position	9,584	7,559	27%

Cashflows	2021		2020	
	Life Insurance Rs. Mn	General Insurance Rs. Mn	Life Insurance Rs. Mn	General Insurance Rs. Mn
Net Cash Generated from Operating Activities	2,843	299	1,794	566
Net Cash (Used in) /Generated from Investing Activities	(1,118)	57	(1,609)	(438)
Net Cash Used in Financing Activities	(541)	(124)	(447)	(14)

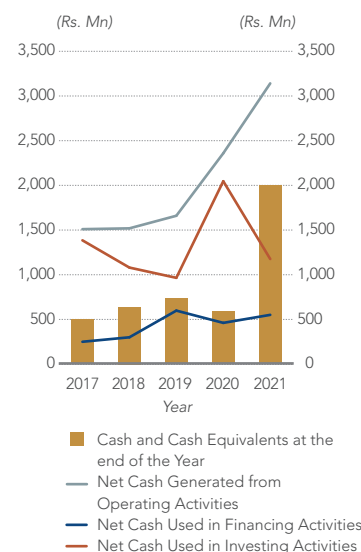
Cashflows

Cashflows of both Life insurance and General Insurance are stable reflecting steady growth in investments and a prudent approach to managing liquidity. Cashflow generation from operating activities recorded healthy increases in both Life and General operations, supporting increased investments and improved returns to shareholders. Increased short term investments underpinned the increase in cash and cash equivalents as we expect interest rates to move up over the short term.

Net Cashflow Position - Company



Net Cashflow Position - Group



FINANCIAL AND MANUFACTURED CAPITAL

Regulatory Capital Performance

Capital Adequacy Ratio (CAR)

HNBA and HNBGI have consistently maintained Capital Adequacy Ratios (CAR) well above the regulatory minimum required level, while efficiently managing the liquidity positions.

Solvency Margin Statements for both HNBA and HNBGI are prepared in accordance with the "Solvency Margin (Risk Based Capital) Rules 2015" and amendments thereto.

Approved Assets

Approved Assets are calculated as per section 25 (1) of the Regulation of Insurance Industry Act No.43 of 2000 and Determination 1 of the IRCSL. Both HNBA and HNBGI cautiously monitored and met the Approved Asset criteria throughout the year.

Capital Adequacy Ratio (CAR)

	HNBA		HNBGI	
	2021	2020	2021	2020
Total Available Capital (TAC) (Rs. Mn.)	11,140	8,967	1,903	1,841
Risk Based Capital Requirement (Rs. Mn.)	4,023	2,654	732	722
Risk Based Capital Adequacy Ratio	277%	338%	260%	255%
Regulatory Minimum CAR	120%	120%	120%	120%

Approved Assets

	HNBA		HNBGI	
	2021	2020	2021	2020
Approved Assets maintained in business (Rs. Mn)	21,296	18,504	4,708	4,337
Long Term Insurance Fund (LTF)/ Technical Reserve (TR) (Rs. Mn)	20,063	16,833	3,075	2,689
Approved Assets in excess of the LTF/ TR (Rs. Mn)	1,233	1,671	1,633	1,648
Approved Assets as a % of LTF/TR	106	110	153	161
Required Ratio %	100	100	100	100



Life Insurance

Total Available Capital increased by 24% during the year with the growth in retained earnings, adjustments for liability valuation differences on market valuation and reduction in inadmissible assets, while RCR increased at a much higher pace due to increase in the market risk charge due to the 400 basis point increase in risk-free rates by 31st December 2021. It must be noted that asset and liability cashflow mismatch widened in 2021 due to the Company's conscious decision to overweight short term investments to capitalise on future interest rate increases. This also contributed to the increase in the RCR. Consequently, the CAR reduced to 277% at the end of 2021 (2020 - 338%). However, the CAR is well above the regulatory intervention level of 160%.



General Insurance

CAR improved by 4% during the year with the improvement in Total Available Capital by 3% (2020 - 255%). This was due to the profitability of the business.

SLFRS 17 and Preparedness

The new Accounting Standard, SLFRS 17 – Insurance Contracts, will be effective from 1st January 2023. HNBA Group initiated a road map in 2021 to implement SLFRS 17 after successfully completing the initial Gap Assessment.

A professionally qualified internal team has set for the execution of implementation plan with the support of external accounting and actuarial consultants. The Group is working towards upgrading and identifying new requirements on current actuarial and accounting systems to be in line with the SLFRS 17 new requirements.

Considering the complexity of the standard and economic situation of the country, the Insurance Association of Sri Lanka has requested an extension until 2025 from CA Sri Lanka.

Financial Ratios

	2021	2020	Change	
Return of Equity (ROE)	15%	16%	(1%)	The Group recorded a Return on Equity of 15% (2020: 16%) despite the challenging times. The 1% decrease was due to the lower profitability in the General Insurance business in 2021. ROE of the Company increased to 14% compared to 10% in 2020 with the improved profitability.
Return on Assets	4%	4%	0%	Was maintained at 4% at Group and Company level (2020:4%).
Net Assets Per Share	Rs. 54.15	Rs. 54.63	(1%)	Net Assets per Share decreased marginally by 1% to Rs. 54.15 due to decrease in Available for Sale Reserves. This was due to the fair value gains recorded in 2020 primarily from the Group's treasury bond portfolio classified as Available For Sale reversing in 2021 with the increase in the interest rates. It must be noted that the AFS reserve movements arising from the bond portfolio are temporary and will get reversed over the tenor of the bonds.
Earnings Per Share	Rs. 8.16	Rs. 7.83	4%	This reflects the growth in profitability.
Dividend Per Share	Rs. 3.20	Rs. 2.80	14%	A first and final dividend of Rs. 3.20 was declared by the Board subject to the approval of the Shareholders at the forthcoming Annual General Meeting. Total dividend payout will be Rs. 480 Million.

Enhancing Manufactured Capital

Our Manufactured Capital consists of Office Equipment, Motor Vehicles, Furniture and Fixtures and Right of Use Assets (ROU). ROU assets mainly comprised of leased office premises for our Head Office and branch network. As at 31st December 2021, Group's Manufactured Capital amounted to Rs. 546.2 Million (2020: Rs. 477.1 Million) of which 28% is owned by the Group while the balance 72% is accounted under leased assets.

Expanding Customer Reach

Expansion of customer reach through our branch network is a key priority for us in enhancing our Manufactured Capital. During 2021 we opened one new physical branch in Baddegama and relocated four branches to ensure more convenient customer access.

The key initiative undertaken in 2021 is the opening of virtual branches a concept introduced to promote sustainability of our operations. We opened five virtual branches during the year in the areas of Gampola, Peradeniya, Chunnakam, Muththur and Mannar.

We also introduced a branch ranking model in 2021 based on which the resource allocation would take place. This model was introduced as a cost optimisation measure and to increase the efficiency of resource usage.

Investment in Land

For the first time in history we invested in our own land during 2021 at a cost of Rs. 68.6 Million. This investment was made to establish a salvage yard for HNB General Insurance Limited with the aim of enhancing the efficiency of salvage collection and storage process and reducing the cost involved in salvage storage.

Capital Trade-Offs



Positive Impact on Capitals



Enhancement of Skills and Knowledge of employees

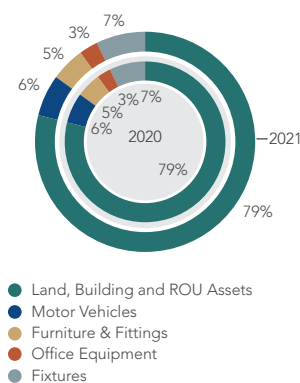


Process efficiencies and increase in brand value



Enhanced relationships with customer and business partners

Composition of PPE and Right of Use Assets



Negative Impact on Capitals

There are no negative impacts created on other capitals.



HUMAN CAPITAL

GRI 102-7 > 102-8 > 102-11 > 404-1 > 404-3

A holistic employee value proposition allows us to attract, retain and develop the talent we need to drive our growth. Consistent investments in our people enabled us to move to a new growth paradigm and realise the investment in digitalisation. HNBA continues to benchmark best practices in managing our Human Capital as recognised by the awards won over the years.


Management Approach

At HNB Assurance PLC we believe that our employees create the competitive edge for us. We constantly focuses on attracting, recruiting and retaining the best employees to drive growth and performance as employees help us translate our strategy into outcomes, adding value to our stakeholders. We continuously take measures to make our work place a 'Great Place to Work' promoting work-life balance and employee satisfaction.

Performance Indicators


	Unit	2021	2020	Change
GWP per Employee	Mn	10.39	9.08	14%
Profit per Employee	Mn	1.01	1.03	(2%)
Number of Trainings		114	62	84%
Total Training Hours		8,615	12,683	(32%)
Training Hours per Employee		7.08	11.08	(36%)
Employee Turnover		17%	13%	(4%)
Investment in Employees	Mn	1,677	1,498	12%


Number of Employees
2021: 1,217
2020: 1,145


Gender Mix
Male: 62%
Female: 38%


Performance appraisal process was fully digitalised


100% of employees receiving performance reviews


Revised Assistance Scheme for Exam Reimbursements

SDG Focus Areas under Human Capital



4. Quality Education

- Investment of Rs. 3.7 Million in training and development and shifting towards online platforms of learnings to facilitate distance learning.
- Provision of study leave, exam fee assistance, honorarium payments and promoting professional and academic development.



5. Gender Equality

- 38% female representation in the workforce and 41% female representation in new recruits



8. Decent Work and Economic Growth

- 1,217 direct employment opportunities created
- Work from home arrangements and COVID-19 preventive measures to ensure health and safety of employees



10. Reduced Inequalities

- We are an equal opportunity provider and do not tolerate any type of discrimination



Plans for 2022

- Develop an employer brand recognised by all
- Align internal processes to support the employer brand
- Creating a learning organisation with expanded flexible learning solutions

Awards



HR Governance

All HR strategies and policies are approved by the Board who are assisted by the Board Human Resources and Remunerations Committee (HRRC). Accordingly, the HRRC provides recommendations to the Board on human resource related insights and monitors the Group's compliance with regulatory requirements. The CEO bears the responsibility for implementing strategy within the approved framework and is supported by a team of HR professionals led by the Chief Human Resources Officer.

HNBA Policies and Procedures are designed to provide structure, control, consistency, transparency and fairness in managing our Human Capital. These policies enable us to create an inspired and dedicated team that is aligned to HNBA's corporate values and philosophy. Collectively, the team, policies and structures contribute to shaping a unique corporate culture that is key to delivering growth and performance.



The Board



Human Resources and Remunerations Committee



CEO



Chief Human Resources Officer



HR Division

Human Resources Management Policies

A Telecommuting Policy was developed and implemented in the previous year to ensure business continuity and health and safety of our team during the challenging working environment created by the pandemic. During 2021 HNBA had to calibrate and give more focus to implementing the policy as Sri Lanka was affected by another wave of the pandemic, lockdowns and restrictions were imposed across the country on several instances. The procedures and guidelines to facilitate work from home were finetuned while resources were allocated to facilitate remote working and ensuring the health and safety of our employees. Majority of operations transitioned to digital platforms supporting telecommuting.



HR Policies

Total Rewards Policy

- » Performance management
- » Talent calibration
- » Remuneration and benefits
- » Vehicle and emergency loan procedure

Telecommuting Policy

- » Pandemic preparedness
- » Health and safety
- » Procedures and guidelines for working remotely

Training Policy

- » Education reimbursement procedure
- » Overseas training procedure

Transfer Policy

- » Self and management-initiated transfers

Integrity Reporting and Code of Conduct

- » Grievance handling procedure
- » Disciplinary procedure
- » Recruitment procedure

Effective implementation of the Telecommuting Policy enabled HNBA to safeguard our team from infection and providing a safe work environment with uninterrupted operations.

The importance of work-life balance was highlighted during the pandemic as employees were compelled to work from home and we expect this arrangement to go beyond the pandemic. Consequently, progressive policies such as Telecommuting Policy will offer long term solutions in this regard as it goes beyond managing the pandemic by giving employees the flexibility to work from home under specified circumstances with the prior approval of the business heads.

Our Team

Our team of 1,217 employees as shown in the table in page 78 is a reflection of our diverse and inclusive culture, and the employee loyalty gained by offering a holistic value proposition. Further, HNBA does not have any unions reflecting high levels of engagement and employee satisfaction.

Talent Acquisition

In 2021, 280 new employees were recruited reinforcing the strength, skills and expertise of our team. Our recruitment process is designed to ensure transparency and objectivity with a series of assessments and interviews to select the best possible candidates. Career progression is facilitated within HNBA by offering opportunities to existing employees and external recruitment is done only when sufficient skills are not available internally or in instances where a new perspective is required.

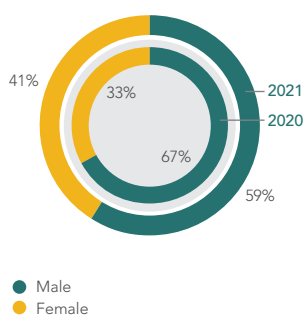
HUMAN CAPITAL

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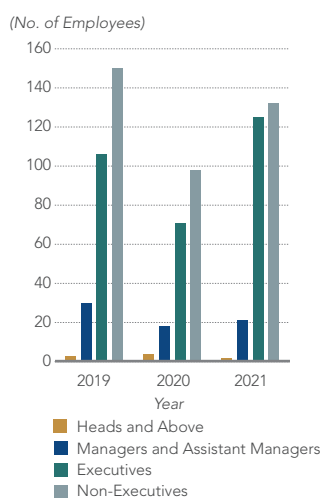
Our Team

Category	Male			Female			Total		
	No. 2021	2021	2020	No.2021	2021	2020	No.2021	2021	2020
By Contract									
Permanent	742	62%	62%	455	38%	38%	1,197	98%	98%
Fixed-Term Contract	10	50%	47%	10	50%	53%	20	2%	2%
By Staff Category									
Heads and Above	26	90%	89%	3	10%	11%	29	2%	2%
Managers and Asst. Managers	186	84%	87%	35	16%	13%	221	18%	18%
Executives	366	61%	60%	236	39%	40%	602	49%	49%
Non - Executives	174	48%	46%	191	52%	54%	365	31%	31%
By Years of Service									
< 2 years	331	65%	65%	177	35%	35%	508	42%	42%
2 - 4 years	123	63%	61%	71	37%	39%	194	16%	18%
4 - 6 Years	78	56%	57%	62	44%	43%	140	11%	10%
6 - 8 Years	61	63%	63%	36	37%	37%	97	8%	8%
Above 8 Years	159	57%	56%	119	43%	44%	278	23%	22%
By Region									
Western Province	428	58%	58%	311	42%	42%	739	61%	61%
Other	324	68%	66%	154	32%	34%	478	39%	39%
Total	752	62%	61%	465	38%	39%	1,217	100%	100%

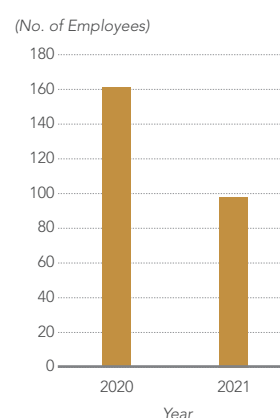
New Recruits by Gender



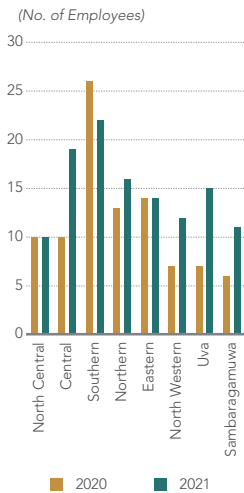
New Recruits by Staff Category



New Recruits in Western Province



New Recruits in Other Provinces

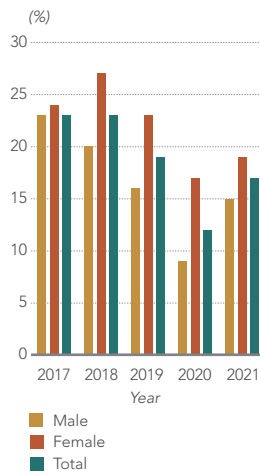


Talent Retention

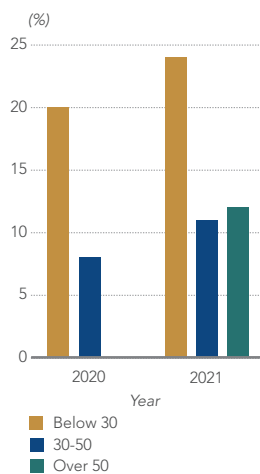
HNBA has healthy levels of employee retention with 23% of our employees completing over eight years of service, reflecting the employee loyalty and the comprehensive employee value proposition in place. It is also a predominantly young team who are encouraged by a mentoring culture supporting alignment of personal and career goals. The ability to retain and develop our team has been a key contributor to the shift in performance to a new trajectory as a comprehensive training and development programme enabled increased productivity, skills and specialisation, reinforcing our competitive edge.

HNBA took various initiatives to improve employee engagement via virtual programs to maintain the team spirit and camaraderie built over the years as this was the downside risk of telecommuting. However, the retention rate declined to 83% compared to the 89% recorded previous year driven by higher attrition of fixed term contract employees. Consequently, our attrition rate increased to 17% (2020:12%) including fixed term contracts and 14% (2020:13%) excluding fixed term contracts.

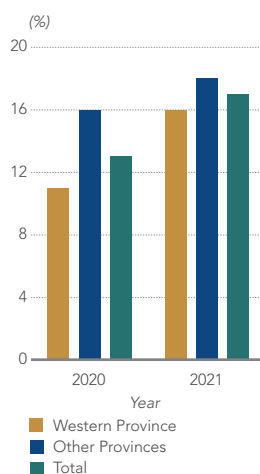
Employee Turnover By Gender



Employee Turnover By Age



Employee Turnover By Location



Employee Mobility

Expanding our reach across the island to increase our market penetration requires periodic transfers of employees. A formal Transfer Policy is in place to ensure that due process is followed to ensure equitable treatment of employees. Our Transfer Policy accommodates transfers between departments, branches, HNBA or HNBGI. Transfers are made based on the job vacancies or at the request of the employee and all transfers are made with full consent of the employee.

Employee Succession

Upward mobility of employees is supported by internal advertisement of vacancies for which employees are encouraged to apply. During the year 130 (2020:186) employees were promoted based on their performance and business requirements. The succession plan in place is reviewed and revised according to the business needs and the available talent pool.

Outsourced Staff

Outsourced staff are contracted through reputed labour agencies and our contracts include clauses to ensure that employees working on HNBA projects and premises are remunerated in accordance with the regulatory requirements. In 2021 we worked with 163 (2020:198) outsourced personnel.

Grievance Handling

Employees are encouraged to raise any concerns or issues related to their jobs to their line managers, the HR Division or the Chief Human Resources Officer (CHRO) who are responsible for resolving or escalating the same to the Senior Leadership Team and, when necessary, to the Board. A formal Grievance handling procedure provides a framework for handling all complaints and is clearly communicated among all employees. Minor grievances raised are addressed and resolved by the Heads of Department while others are considered carefully for appropriate action with necessary approvals.



Attractive Rewards

As much as we recognise the importance of extrinsic compensation through schemes which are over and above basic compensation, we pay much attention to the intrinsic compensation. Employee’s psychological well-being, sense of belongingness and achievement within a team is important to us as an organisation. The fixed pay includes basic salary, allowances, statutory pensions contributions while variable component consists of both monetary and non-monetary benefits such as,

- Production incentives and bonuses
- Recreation facilities
- Loan facilities at concessionary rates
- Donations on death of employees and their immediate family members
- Welfare events
- Non-monetary awards such as foreign tours
- Life and Medical Insurance
- Exam leave and exam fee reimbursements
- Accredited training partner for CA Sri Lanka

Despite the prolonged challenges created by the pandemic, we continued to uphold our employee value proposition by providing job security and safeguarding remuneration of all employees.



Recognition

We strive to maintain high levels of morale in employees by aligning their personal career goals along with organisational goals. Our performance management system ensures a balanced assessment of employee performance by setting up clear financial and value driven objectives. Achievements are rewarded with variable pay schemes and progression opportunities. Succession planning is a key component in employee recognition, and this is conducted by considering both sustained and potential performance of employees measured using the Nine-Box Matrix and Assurance Behavioural Framework.

Outstanding performers are recognised with Chairman’s Excellence Awards and the Best Sales Personnel at the Annual Sales Convention to set new benchmarks for performance and to motivate employees to reach higher performance levels.



Learning Opportunities

Training and development programs are designed to align with both organisational and individual goals through a training needs assessment which is carried out together with the performance appraisals.

Majority of the training programs continued virtually due to the prolonged lockdowns. Total investment in training and development for the year amounted to Rs. 3.7 Million (2020: Rs. 3.7 Mn). The programs conducted during the year covered areas such as IT security, compliance, new products introduced, Bancassurance sales and product information, customer service excellence and motivation.

Type of Training Programmes	No. of programmes	
	2021	2020
Internal	48	31
External	66	31
Total	114	62



Engagement

We maintain an open-door policy to support effective engagement and to encourage collaboration and inclusivity. Consequently, employees' input is considered when formulating our corporate strategy.

Further, annual welfare and social events are held to encourage networking while effective use of social media platforms are used for engagement.

Our engagement mechanisms are,

- Social media: Our official Facebook page "Connect" is used as a platform to connect not only employees but also their families.
- Meetings
- Email and SMS
- Intranet
- Staff conference and other Company events
- Notices and banners



COVID-19 Responses

All COVID-19 related health and safety practices were streamlined and more strictly imposed as the pandemic prolonged with multiple waves. Swift action was taken when dealing with the infected and all necessary actions were taken to contain the spread and ensure the health and safety of all employees and customers. The following measures were continued to ensure the safety of employees and customers,

- Strict adherence to practices such as hand washing and temperature checking when entering office premises
- Allowing staff to work from home
- Frequent disinfecting of office premises
- Maintaining social distance at all times
- Upgrading infrastructure to facilitate remote working
- Reinforcing good hygiene practices through regular communications
- Employees who tested positive for COVID-19 were given the opportunity to receive the care needed for a safe and speedy recovery at private care centres and it was coordinated by the COVID-19 Response Team and the HR Division



Health and Safety

Ensuring employee Health and Safety is of utmost importance to us. As such health and safety practices carried out and health related benefits include,

- Comprehensive medical insurance scheme covering both in-house medical treatment and reimbursement of outpatient medical costs to permanent employees
- Maintenance of first-aid boxes in each department
- Maintenance of a 'sick-room' in head office premises

HUMAN CAPITAL

GRI 102-8 > 401-3 > 405-1 > 405-2

Diversity and Inclusion

Diversity and inclusivity are the foundation of our organisational culture which is based on principles of equal opportunity. A workforce that is diverse in many ways including skills, view points, gender, sexual orientation, age, race and religion, enhances our resilience and creates a vibrant culture of varied perspectives serving as a fertile ground for ideation.

A transparent Human Resource Management Policy is in place to create a non-discriminative workplace where all employees can work in harmony and dignity. HNBA maintains a zero-tolerance policy for racism, and this is reflected in all functions of Human Resource Management. Prompt handling of grievances, an Integrity Reporting Policy and Open-Door Policy encourages employees to come forward to report discrimination.

Employee Volunteerism

At HNB Assurance PLC we encourage our employees to engage in volunteering activities as we believe it enhances the engagement levels and gives them a sense of satisfaction contributing to higher levels of

productivity. During the year as a part of COVID-19 relief initiatives taken by the Company, the employees of both HNBA and HNBGI contributed Rs. 2.1 Million as voluntary donations from their salary. This donation was collected by employees contributing their wage of one day.

Gender Parity

Gender parity has been a key focus at HNBA for several years and our policies and practices reflect this. Regulatory maternal benefits are complemented by the Telecommuting Policy encouraging women to remain in employment. The effectiveness is apparent as all 12 employees who obtained maternity leave are in employment even 12 months after returning. Our efforts in maintaining gender parity were recognised this year as HNBA was placed among the 'Top 10 Women Friendly Workplaces' in Sri Lanka by the Chartered Institute of Management Accountants, UK.

Maternal Leave	2021
Employees entitled to maternity leave	465
Employees on maternal leave	10
Employees who returned after maternal leave	12
Employees still in employment 12 months after rerunning on maternal leave	12

Capital Trade-Offs

 **Positive Impact on Capitals**

-  Increased brand image and value
-  Cost efficiencies
-  Enhanced customer service and satisfaction levels

 **Negative Impact on Capitals**

-  Investment made on employees including training and development

Gender Parity Reporting

Parity Enablers

- Strategies and Goals for Gender Parity
- Diversity and Inclusion Policies
- Gender Pay Equity Policy
- Grievance Handling Mechanism for Sexual Harassment
- Work Place Practices to Promote Gender Parity

Our Practices

- The Company's strategy embraces diversity and inclusiveness
- Our corporate culture promotes diversity and inclusiveness
- Total Rewards Policy in place to ensure recognition of talent and contribution
- Telecommuting Policy and a conducive work environment to promote flexible working
- Comprehensive Grievance Handling Policy to address any harassment related complaints
- Female representation in Top Management
- Equal opportunity talent acquisition



Female Representation in Top Management

HNBA BOD

25%

HNBGI BOD

43%

Group Executive Committee

17%



SOCIAL AND RELATIONSHIP CAPITAL

GRI 102-7 > 102-11

Our success is largely determined by our relationship with external stakeholders such as customers, regulators, value chain partners and the community. This allows us to function together as a whole through trust and shared identity, norms, values and mutual relationships. A structured relationship management with these stakeholders is vital for long-term value creation for the Group and for our stakeholders.

Management Approach



We at HNB Assurance believe that the success of our business is dependent on the mutually beneficial relationships built with our customers, business partners and the community at large that build long term trust and confidence. We take every measure to strengthen the long term trust and confidence in the relationships created and have inbuilt this into our corporate strategy as well.

Performance Indicators

	Unit	2021	2020	Change
Business partners				
Number of Advisors		3,108	2,473	26%
Commissions Paid	Mn	1,291	1,087	19%
Number of Brokers		85	60	42%
Number of Assessors		73	91	(20%)
Acquisition cost as a % of GWP	%	12%	12%	-
Customers				
Claims and Benefits	Mn	4,223	3,559	19%
% of Customer Complaints Settled	%	98%	97%	1%
Number of Policies		334,904	316,511	6%
Bonus for Policyholders	Mn	83	88	(6%)
Rate of Dividend for Non-Participatory Policyholders	%	7.0%	7.25%	(0.25%)
Community				
Number of Micro Insurance Policies		3,160	1,874	69%
Number of School Water Projects Completed (Total)		66	66	-



Record Breaking

164
Qualifiers



Premium Persistency
87.2%



Spent on CSR
Rs. 3.0 Mn



Claims and Benefits to Customers
Rs. 4.2 Bn



Plans for 2022

- Developing new products and upgrading the existing product suite to enhance customer satisfaction.
- Invest in further digitisation of processes to increase efficiencies and enhance customer experience.
- Focus on producing more than 175 MDRT winners.
- Continue investment on CSR activities with the aim of uplifting the lives of the underprivileged.

Awards



SOCIAL AND RELATIONSHIP CAPITAL

SDG Focus Areas under Social and Relationship Capital



01. No Poverty

- Empowering low income earning customer segments by providing protection through Micro Insurance products.



03. Good Health and Well-Being

- Collaborating with College of Community Physicians of Sri Lanka to carry out a campaign promoting the importance of COVID-19 vaccinations.
- Investment in health care facility development to ensure access to medical treatments during the pandemic.



04. Quality Education

- Providing the sales force with training and development opportunities to enhance their skills and knowledge.



06. Clean Water and Sanitation

- Continuously improve access to clean drinking water in rural areas of the country through our water stewardship programmes.



08. Decent Work and Economic Growth

- Providing 3,108 indirect employment opportunities and helping them improve living standards.
- Settlement of 4.2 Billion claims and helping our customers to continue with their livelihoods.



11. Sustainable Cities and Communities

- Contributing to development of agriculture through Crop Insurance Levy.
- Empowering regional development through provision of Micro Insurance.

Fostering Customer Relationships

Sustainability of our business depends on our ability to create and sustain strong relationships with customers and the wider community. A graphical illustration of our value proposition to customers reflecting unique traits of our business values and intrinsic value of our insurance products that are offered to customers.

Financial Stability

Financial stability of insurers is a critical factor for customers, and this is monitored by the regulator who specifies requirements for regulatory reporting which includes a minimum Capital Adequacy Ratio (CAR) of 120%.

A long-term view, a prudent risk appetite and an effective Corporate Governance structure strengthens our financial position. The CARs of HNBA and HNBGI stood at 277% and 260% respectively, well above the regulatory requirements. Additionally, the upgrading in the ratings of both companies to A+ (Ika) with a stable outlook by Fitch Lanka Limited affirms the commitment to our stability.

Ethical Conduct

Ethical conduct is a key component of our customer value proposition which is underpinned by the Employee Code of Conduct and Advisor Code of Conduct. Maintaining transparent, honest and open relationships with our customers is vital for the sustainability of our business.

Customers are encouraged to voice any concerns regarding an unethical conduct to us via our call center. In 2021 we received only minor complaints on unethical practices and they were addressed and resolved immediately during the year.

Customer Privacy

Customer privacy and data protection are of paramount importance to the industry given the sensitivity of the information gathered. Consequently, managing cyber risks in a way that we safeguard customer data is a crucial area of the Group's Risk Management Framework. (Page 137) Further, all employees are given adequate training on Cyber Risk management and customer privacy. A comprehensive review of the entire IT infrastructure was carried out by an independent third party in 2021 to assess safeguards in place, to minimise cyber threats and recommendations are being implemented to further strengthen information security.

Fit for Purpose Products

As illustrated on pages 10 and 11, we have a wide suite of products serving a variety of customer requirements. This enables us to manage the insurable risks and uncertainties of our customers, provide relief in certain events and manage their wealth by hedging against certain risks and uncertainties. Further, we offer custom-made policies designed around specific needs or circumstances as required by customers.

Fair Pricing

All our products and services are priced using fair and transparent practices, ensuring that fair prices are set for the insurance products. This process is supported by good underwriting and actuarial practices. Pricing certificates are filed with the Regulator before launch of new products.

Solutioning

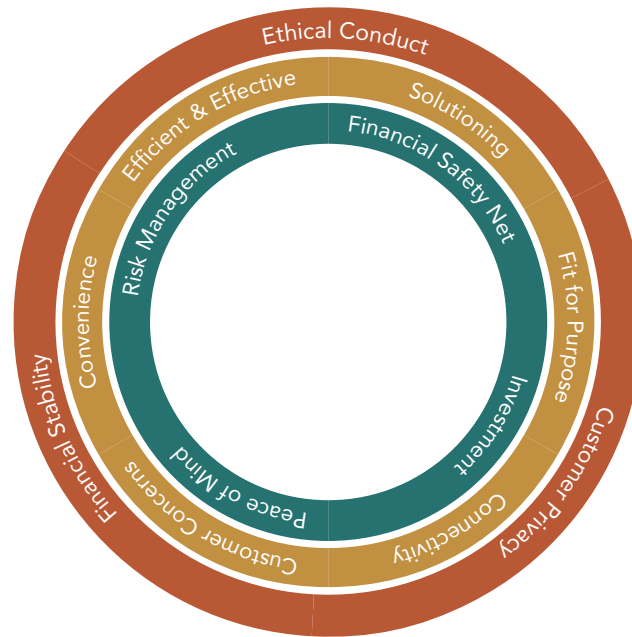
We adopt a solutioning approach in meeting insurance needs of our customers by understanding their circumstances and expectations. Our front-line staff are equipped with the right tools and training to support this process. We continue to empower our sales force and distribution channels by providing them with digital platforms to assess the customer needs and to provide them with the right solution, whether it's done face-to-face or remotely.

Product Information

All required information are clearly communicated in relevant brochures and our website, as it is our responsibility to provide accurate and relevant information to our customers keeping them well aware about the products. Further, all front office employees are required to explain our products clearly and this is reinforced during training.

Care After Purchase

We ensure that our policyholders receive utmost care throughout their journey with us. As claim settlement being one of the key services, our Life Insurance Claims Department is geared to settle 80% of the medical claims within one working day and all other claim requests within 3 working days. Our General Insurance Claims Department offers on-site settlement option for claims up to Rs. 50,000 and also settles customer claims within a minimal time-period. On the other hand, our customers are facilitated with opportunities for altering their policy benefits later at their convenience.



Enhancing Customer Experience

Customer experience is a critical factor in creating our competitive advantage and is closely monitored using indicators such as customer satisfaction scores, retention rates, turnaround times for policy issuance, claim settlement and net promoter score. In the post-pandemic era, process automation and digitalisation were key to increasing efficiency and effectiveness in our operations. Automation of several key functions such as auto underwriting, maturity claims processing, etc, had a great impact on creating a positive customer experience.



Rs. 4.2 Bn

Claims and Benefits

(2020 - Rs. 3.6 Bn)

+ 19%

KPI

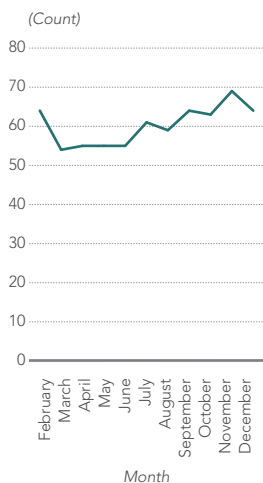
Life Insurance

Policy Issuance – Standard risk within 1 day	93.3%
Policy Issuance – Substandard risk within 2 days	99.1%
Policy Delivery within 3 days	88.9%
Non-Structured Claims Settlements within 3 days	90.3%
Structured Claims Settlements within 3 days	99.8%
Endorsement Issuance within 3 days	98.9%
MRP Cover Note Issuance within 3 hours	96.8%

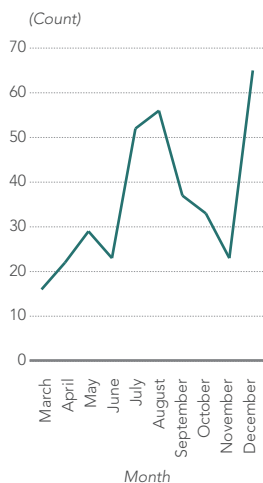
SOCIAL AND RELATIONSHIP CAPITAL

GRI 401-3 > 405-1 > 416-2 > 417-2 > 418-1

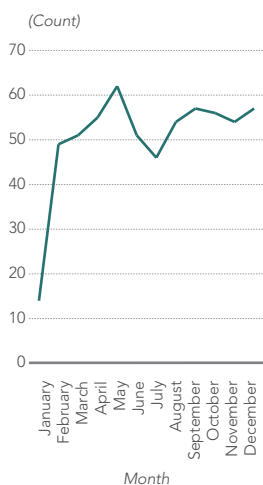
**Net Promoter Score-2021
Life-Policy Issuance**



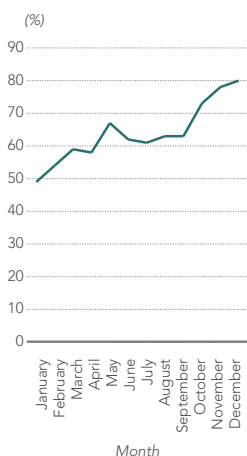
**Net Promoter Score-2021
Life Servicing Alterations**



**Net Promoter Score-2021
Life-Claim Settlement**



**Net Promoter Score - 2021
Motor & Non Motor - Claim Settlement**



Addressing Customer Concerns

Information regarding customer experiences is gathered at all contact points and necessary actions are taken immediately. The 24x7 call centres are in place to support customers with their issues. Our call centres were in operation even during the lockdowns. In 2021, we upgraded both Life and General call centres to include the latest technology to improve our customer service levels. We invest in training our staff to ensure that concerns are actioned in an appropriate manner. During the year 98% of the total Life Insurance related complaints were resolved and 96% Motor and Non-Motor related complaints were resolved and the remaining were resolved in the year 2022.



Complaints Resolved

98%⁺

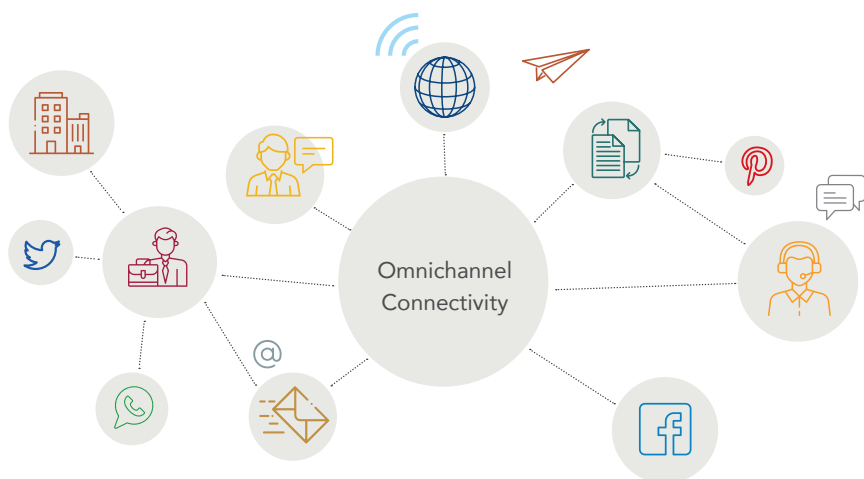
Life Insurance

96%⁺

General Insurance

Connectivity

As an insurer, it is imperative that we remain connected to our customers to address their concerns including information regarding potential claims which typically occur during times of stress for the customer. Accordingly, we have set in place multiple channels to enable customers to voice their concerns, report any incident and obtain information. We continue to invest in multiple platforms to develop an Omnichannel customer care network as illustrated.

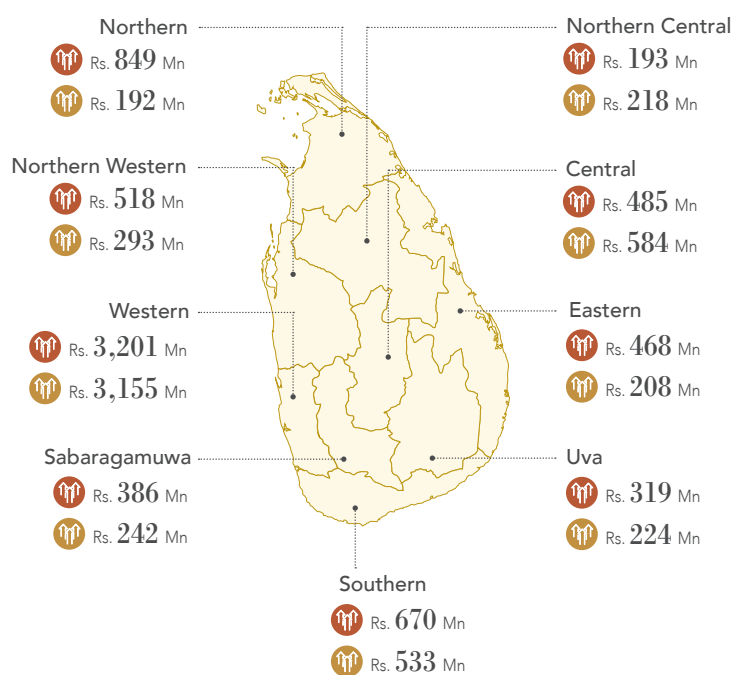


Our Branch Network

The island-wide branch network connects us to customers and enables us to cater to their needs and wants.

HNB Assurance PLC					HNB General Insurance Limited			
Province	No. of Branches	Employees	Bancassurance Officers	Advisors	No. of Branches	Employees	Bancassurance Officers	Advisors
Northern	7	48	21	331	6	29	3	24
North Central	4	16	10	119	3	23	6	25
North Western	4	27	15	223	4	21	8	14
Central	6	34	24	243	6	37	10	34
Eastern	5	40	24	216	4	29	9	17
Uva	4	21	11	108	4	22	5	17
Sabaragamuwa	4	22	13	251	4	23	4	20
Southern	8	41	22	358	7	45	12	76
Western	20	378	104	913	19	361	28	119
Total	62	627	244	2,762	57	590	85	346

Our Distribution network



 GWP - HNB Assurance PLC

 GWP - HNB General Insurance Limited

Convenience

In the new normal, customer convenience is key in retaining our clientele as well as in acquiring new customers. During the year we implemented the following initiatives to give customers convenient access.



- State-of-the-Art Call Center solution.
- Increasing and encouraging digital payment options.
- E-platform for HNBA users to access their policy related documentations.
- Initiating customer correspondence portal.
- Issuance of digital policies to customers.
- Implementing online assessment of garage and accident inspection using mobile phones.
- Opportunity to withdraw payments through HNB ATMs through pay on ID.


SOCIAL AND RELATIONSHIP CAPITAL

Engaging with our Business Partners

We engage with several business partners who are crucial to our business journey. We strive to make these relationships mutually beneficial by fostering a culture of building relationships on trust and confidence.

The following table illustrates how we manage relationships with our business partners,

		Advisors We have a diverse Advisor force of 3,108 spread across the country to service our valuable customer base. In 2021 we strengthened this network by recruiting 635 Advisors to our Group.	
Value Derived	GWP Rs. 4,790 Mn	Growth of 11%	Contribution of 38%
Value Delivered	Compensation <ul style="list-style-type: none"> Competitive benefits package with performance-based incentives and benefits such as loan facilities and terminal benefit scheme is offered. It must be especially noted that during the year all performance-based remuneration was paid on time despite the difficulties caused by the pandemic Continuation of the Terminal Benefit Scheme to strengthen the sustainability of Advisors Attractive retainer scheme was introduced by the subsidiary in 2021 adding more benefits to Advisors Training and development <ul style="list-style-type: none"> 603 special training programmes covering areas such as selling skills, motivation, technical skills, leadership, MDRT grooming, digital selling, etc. Use of Online platforms (MS Teams) by HNBGI for the first time in 2021 to carryout Advisor trainings. Technical competency trainings and other sales trainings were conducted through the digital platform Digital Empowerment <ul style="list-style-type: none"> During the year digital selling platforms were established to enable the Advisor force to carry out sales uninterrupted Further development of e-buddy Advisor management system enabling convenience in operations with e-quotations, e-proposals and auto underwriting features 		
Engagement	<ul style="list-style-type: none"> Payment of special advance to compensate the loss of income during COVID-19 lockdown period Conducted the annual MDRT day programmes as a fully virtual event 		
Recognition	<ul style="list-style-type: none"> 72 MDRT winners recognised for 2020 achievement All foreign tour winners were awarded with cash rewards given the travel restriction prevailing around the world Mid-Year and Annual sales convention to recognise the performance of Advisors 		
		Brokers A network of 62 Brokers are partnered with us to cater to our customers. To maintain our credibility and trust, we only engage with the Insurance Brokers registered with the Insurance Regulatory Commission of Sri Lanka.	
Value Derived	GWP Rs. 1,998 Mn	Growth of 13%	Contribution of 16%
Value Delivered	Compensation <ul style="list-style-type: none"> Competitive and attractive commission rates to strengthen our relationship and we were able to maintain high service standards with the solid relationship built with them Training and Development <ul style="list-style-type: none"> Online training programmes on our product portfolio and developments 		
Engagement	<ul style="list-style-type: none"> Fellowship and entertainment events to enhance engagement. 		

Recognition	<ul style="list-style-type: none"> In 2021 Life Insurance segment launched sales competitions and recognised high performing Brokers General Insurance recognised key persons in the Broker network by giving a special token of appreciation for the service rendered by them
	HNB Group <ul style="list-style-type: none"> At present we have 244 Life Insurance and 85 General Insurance Bancassurance Officers based in HNB branches covering the entire country
Value Derived	GWP Rs. 4,333 Mn Growth of 31% Contribution of 34%
Value Delivered	Compensation <ul style="list-style-type: none"> Attractive fee income based on the business directed to us Training and Development <ul style="list-style-type: none"> Insurance awareness building training programmes for HNB branch managers
Engagement	<ul style="list-style-type: none"> Regular branch visits Sponsorships for HNB events, especially sports clubs Digital business launches
Recognition	<ul style="list-style-type: none"> Recognition of the contribution made by HNB branch management

Reinsurers

Reinsurers play a vital role in our risk management structure and ultimate customer value proposition by bearing a part of our risk exposure and providing us with business stability over the past 20 years. Favourable relationships with reinsurers enable us to pass on the benefit to our customers, consequently, all reinsurance partners are with strong financial and claim paying ability. The ratings and details of reinsurers are given on pages 225 to 228.

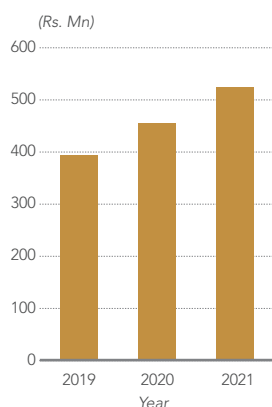
Financial Institutions

We engage with many financial institutions such as Banks, Finance Companies and Primary Dealers in order to manage our investment portfolios, execute payments, selling of MRP policies through the Bancassurance channel, etc. We comply with all the Regulatory requirements set by the Insurance Regulatory Commission of Sri Lanka (IRCSL) and Group Internal Investment Policy when carrying our business dealings with these institutions.

Government

Through IRCSL, the Government acts as the ultimate regulator of the insurance industry in the country. We also contribute to government revenue in the form of direct and indirect taxes. HNBA complies with all the regulatory requirements of the IRCSL and works towards the growth and stability of the industry.

Total Taxes - Group



Actuaries

A qualified professional Actuarial Partner plays a vital role in both life and general insurance businesses as they provide valuable insights into the product development, pricing and valuation

aspects of the business. In the year 2021 both HNB Assurance PLC and HNB General Insurance limited commenced work with the world renowned actuarial firm Messrs. Willis Towers Watson as the appointed actuary of the two companies.

Other Vendors and Service Providers

We work with more than 712 registered vendors and service providers in our business operations and they also play a vital role in the smooth operation of our value creation process. As such we always take measures to maintain a healthy relationship with our vendors and service providers. To ensure a relationship built on trust and confidence we require all our vendors and service providers to comply with local regulations and meet our expected level of service standards. The procurement process in place has well established guidelines, procedures and committees to further strengthen relationships built with our vendors and service providers. When the Company establishes a relationship with a new vendor or a service provider, we review both their technical and financial stability before entering into an agreement.

SOCIAL AND RELATIONSHIP CAPITAL

GRI 203-1

Community Development

We at HNB Assurance PLC strongly believe in giving back to the community and during the year following initiatives were carried out to benefit the community at large. Our community development focus covers areas such as health and wellbeing, arts and culture, education, environment and religious harmony. However, in 2021, we decided to deviate from this as an exception, considering the need to support the country in COVID-19 prevention endeavours. Accordingly, we invested Rs. 2.2 Million in healthcare facility development projects in different districts of the country. It must be noted that our employees also voluntarily contributed from their salary thereby adding a further Rs. 2.1 Million to the cause.

	Project Description	Positive Impact
Kethumathi Hospital	Providing of a Video Laryngoscope Portable monitor and a Machintosh Laryngoscope Blade at a value of Rs. 1.8 Million.	Helping intubation of patients with difficult airways.
Chilaw Hospital	Providing a Non-Invasive Ventilator at a value of Rs. 1.26 Million.	Helping to treat patients with chronic or acute respiratory failure.
Kegalle Hospital	Providing a High Flow Nasal Oxygen Machine at a value of Rs. 1.3 Million.	Helping to treat patients with acute respiratory failure through all age groups.
Central Colombo MOH and Kollupitiya PHI	Handing over equipment necessary to treat COVID-19 patients at a value of Rs. 0.2 Million.	Helping the locality combat COVID-19 successfully.
College of Community Physicians of Sri Lanka (CCPSL)	We tied up with CCPSL to develop a series of videos to create awareness and importance of COVID-19 vaccines.	Helping the locality combat COVID-19 successfully.



Capital Trade-Offs



Positive Impact on Capitals



Process efficiencies
Increased brand value



Sustainable sourcing of
resources



Increased revenue



Negative Impact on Capitals



Payment to intermediaries
investment in CSR



INTELLECTUAL CAPITAL

GRI 102-7 > 102-11

Intangible assets are those assets that enable continuous and sustainable value creation such as our Governance framework, HNBA's unique culture, systems and processes, brand value and knowledge and experience of our team. These elements give us the competitive advantage and ability to stay ahead of our competition.

Management Approach



We at HNB Assurance PLC believe that Intellectual Capital is one of the key drivers of growth, profitability and productivity. Hence, we always take measures to enhance all elements of Intellectual Capital of the organisation to achieve competitive advantage and to become market leaders in Life and General Insurance industries.

Performance Indicators

	Unit	2021	2020	Change
Brand Value - HNBA	Mn	701	633	11%
Brand Value - HNBGI	Mn	608	562	8%
No. of New Products		1	3	-



The Group produced **12 Black Belt** and **31 Green Belt** holders under the Lean Six Sigma programme.



Strength of our Parent. Ranked among the **top 10 brands in Sri Lanka**



HNB Assurance PLC and HNB General Insurance Limited won Multiple Awards at **National Industries Achiever Awards 2021** and **Insurance Asia Awards 2021**

SDG Focus Areas under Intellectual Capital



08. Decent Work and Economic Growth

- Work towards a digital transformation drive with the aim of promoting data and analytic driven decision making.



09. Industry, Innovation and Infrastructure

- Continue to grow the Intellectual Capital of the Group by introducing new technology and improving the skills and knowledge of our Human Capital.



17. Partnerships for Goals

- The Group does not tolerate any form of discrimination and is an employer promoting equal opportunity.



Plans for 2022

- Introduction of new innovative products to cater to customer needs.
- Further enhance business processes through Lean Six Sigma principles.
- Implementation of a new Life Core Insurance System and complete General Core System implementation.

INTELLECTUAL CAPITAL

A Legacy of 20 Years

We, the HNB Assurance PLC Group has a proud legacy of 20 years in the Sri Lankan insurance industry. We were incorporated as HNB Assurance Limited on 23rd August 2001 and obtained license from the Insurance Board of Sri Lanka on 30th August 2001 under the Regulation of Insurance Industry Act, No. 43 of 2000 to transact both Life and General Insurance business. The Company commenced General Insurance business on 22nd November 2001 and undertook Life Insurance business from 1st January 2002.

In this journey of 20 years, today we have become the sixth largest Life Insurance provider and the seventh largest General Insurance provider in Sri Lanka with over 5.5% market share in each of the segments. This legacy of 20 years and the brand built along the journey is the greatest Intellectual Capital asset we hold today.

A Trusted Brand

HNB Assurance and HNB General Insurance are synonymous with trust which is an integral aspect of our brand derived from a heritage of over a 150 years from our parent Hatton National Bank PLC. Our brands which are 'A' rated by Brand Finance with values of Rs. 701 Million and Rs. 608 Million respectively for HNB Assurance PLC and HNB General Insurance Limited augurs well for the dynamism, energy and resilience of the brands.

Brand Value



Rs. 701 Mn



Rs. 608 Mn

We employ a multi-channel strategy to talk to and engage with the target market focusing at all times to add value by way of providing information to allow the general public to make an educated decision on how best they would want to secure their life, their health, assets and businesses.

Our communications focus on being ethical, truthful, and relevant and we employ ethical marketing strategies and tactics.

Innovative Solutions

The market today tells us the importance of introducing innovative insurance solutions to our customers. With the onset of the pandemic, our aim was to ensure that our customers had access to the products and services offered by us uninterrupted. In 2021, to ensure continuous access to us, we embarked on a fast tracked digital journey. Following are some of the digital initiatives undertaken during the year;

- Digital policy issuance.
- Improving digital payment platforms.
- Claim assessment via mobile communication platforms.
- Implementation of two comprehensive call centre solutions for the two businesses.

Furthermore, adding to our comprehensive product suite, we introduced the product 'Study Guard' during the year addressing the needs of higher education of children.



Tacit Knowledge

Operating in a service industry, knowledge and skills of our employees and our sales force plays a critical role as these create the differentiation in the minds of the customers.



Chief Human Resources Officer among the Top 20 most Influential HR Leaders in Sri Lanka by PeopleHum, the next generation people engagement platform.

Hence, continuous effort is put in place to enhance and upgrade the knowledge and skill levels of our employees and sales force through solid training and development programmes. It is noteworthy to mention that this year amidst the external environmental challenges, we conducted many training and development programmes on digital platforms as we believe it is of utmost importance to continuously enhance the knowledge and skills of our human resources.

Our Board of Directors and the Top Management comprises of highly experienced and reputed professionals with a wide range of industry expertise adding value to the businesses.

Systems and Processes

Systems and processes in place to cater to our stakeholder needs form a vital part of our Intellectual Capital. Digitisation of operations was continued at a more intense pace with the aim of enhancing customer experience, driving operational efficiencies and to adapt to the new business environment with restricted movement and virtual engagement. Process automation was the key focus area in system and process development during the year 2021 for HNB Assurance PLC Group. During the year we also renewed the ISO 9001 2015 certification, validating our efforts in maintaining systems and processes that are in line with international best practices.

Lean Six Sigma Programme

The Lean Six Sigma programme was initiated in the year 2020 with the aim of streamlining business processes and increasing process efficiencies. In the year 2021 we were able to produce 12 Black Belt holders and 31 Green Belt holders under this initiative. Different process re-engineering and improvement projects undertaken by these individuals have saved around Rs. 31 Million to the Group.

Process Automations and Improvements in 2021

- Service Desk System and Workflow Management System.
- E-platform for customers to access their policy related documentations
- Issuance of digital policies to customers.
- Smart Advisor Platform a platform enabling Advisors to issue quotation and proposals, auto underwriting of policies and finance need analysis.

- Pay on ID giving the General Insurance customers to withdraw claim payments through HNB ATMs.
- HNBGI Accident Assessment Platform facilitating sending of a link to Assessors as well as customers to capture accident images.

Group Synergy

Strength and stability provided by our parent Hatton National Bank is one of our biggest advantages when competing with rest of the industry. Ranked among the top 10 brands of Sri Lanka by Brand Finance Sri Lanka, HNB has gained the trust and reputation for stability and as one of the digitally advanced banks in the country. We strive to leverage on the bank's island wide branch network by aggressively perusing growth in our Bancassurance channel. During the year captive business from the Group amounted to 34% of our GWP.

Awards and Accolades

Awards and Accolades won by the Group plays a key role in our Intellectual Capital and the brand we have built in this journey of 20 years. Please refer page 12 to read more about our special achievements in 2021.

Capital Trade-Offs



Positive Impact on Capitals



Improve customer satisfaction levels



Increase in revenue through strengthening of the market position



Empowered employees through skill and knowledge enhancements



Negative Impact on Capitals



Investments made in brand and process improvements has an effect on profitability in the short run



NATURAL CAPITAL

GRI 102-7 > 102-11 > 302-1 > 304-2

We strive to minimise the use of natural resources by embracing modern technology and by driving efficiency. As an environmentally conscious organisation we implement initiatives to preserve natural resources and encourage our stakeholders to practice similar values.

Management Approach



HNB Assurance PLC is a responsible corporate citizen that takes every measure to minimise the negative impact created by us on the external natural environment and maximise the positive impact made. We engage in responsible consumption of natural resources adopting sustainable measures of resource conservation and increasing the efficiency of our business operations.

Performance Indicators

	Unit	2021	2020	Change
Electricity Consumption	Units	1,427,769	1,502,348	5%
Water Consumption	Liters	11,071,801	12,406,912	11%
Paper Recycled	Kg	10,346	3,666	182%

Our Savings



Trees
177



31m³
of Land



10,436 kg
of Co² Emission



331,656 Liters
of Water



18,315 Liters
of Oil



41,744 kWh
of Electricity

SDG Focus Areas under Natural Capital



7. Affordable and Clean Energy

- Adopting the 3R concept in energy utilisation and taking steps to save energy and reduce our carbon footprint
- Use of solar power and rainwater harvesting in Head Office premises to meet part of the demand



12. Responsible Consumption and Production

- Through recycling of paper used in business operations saved 18,315 liters of oil, 41,744 Kwh of electricity, 331,656 litres of water, 177 trees, 31 m³ of landfill and 10,436 kg of greenhouse gas emissions



13. Climate Action

- Work towards increasing the efficiency of energy resources used and increase the dependency on renewal energy sources
- During the year we reduced electricity consumptions by 5% and water consumption by 10%



15. Life on Land

- Continuing to be a member of 'Bio Diversity Sri Lanka' with the pledge of protecting the environment



Plans for 2022

- Expansion of Go Green project with the aspiration of becoming a paperless office
- Continue to decrease carbon footprint with Group wide initiatives and embark on a journey of being a carbon neutral company
- Concentrate on increasing the use of renewable energy sources

Our Efforts to Preserve Natural Resources

Careful use of Resources

- Gradually moving towards a paperless office
- Initiating various energy saving mechanisms
- Staff education of sustainable use of natural resources
- Innovate environmentally responsible products

Supporting Life on Land

- Practicing responsible waste management
- Waste recycling
- Engaging in environmental protection programmes

Emission Control

- Use of solar generated electricity
- Reduction in paper usage resulting in reduction in waste

Controlling Energy Consumption

Energy sources used for business purposes include fuel and electricity. Electricity is purchased from the national grid while part of the consumption at Head office is catered to by solar power. During the year, digitisation initiatives carried out within the organisation had a positive impact on our energy consumption.

As an environmentally conscious organisation we take all possible measures to minimise negative impacts on the environment and our natural resources. These efforts include:

- Issuance of digital policies, use of customer app and portal, and opting for communication via digital mechanisms to reduce business travel of sales force
- Encouraging telecommuting which helps reduce energy consumption
- Use of virtual platforms to conduct staff training and other meetings to reduce fuel and energy usage
- Switching to energy efficient appliances in all office premises
- Using common working areas when working after office hours
- Strict monitoring of energy usage both in Head Office and Branch network



1,427,769 kWh

Total electricity Consumed

(2020 - 1,502,348 kWh)

+ 5%

1,173 kWh

Electricity Consumption per Employee

(2020 - 1,312 kWh)

+ 11%

- Monitoring and effective use of air condition operating hours and setting the temperature at a range of 25 – 28 degrees to reduce energy consumption
- Hot-desking for efficient use of space and energy

Water Usage

Water usage is mainly for sanitary and drinking purposes. Head Office water is sourced from the National Water supply and Drainage Board while the drinking water for the branches is supplied by an outsourced company where water is sourced from tube wells. The following initiatives are taken to reduce the water consumption across the organisation.



633,975 Litres

Total Fuel Consumption

(2020 - 572,459 Litres)

- 11%



11,071,801 Litres

Total Water Consumption

(2020 - 12,406,912 Litres)

+ 11%

- Use of a special water filter system in Head Office and 7 branches in replacement of the purified water purchased.
- Having sensor operated taps to reduce the wastage of water.
- Use of rainwater harvesting to meet part of the demand in Head Office.
- Regular maintenance of water lines and taps to reduce wastage from leakages
- Educating staff on the importance of water conservation.

NATURAL CAPITAL

GRI 302-1 > 303-3 > 304-2 > 305-2 > 305-4 > 305-5 > 307-1

Branches with the new water filter system



- Ampara
- Ambalanthota
- Embilipitiya
- Gampola
- Kandy
- Kiribathgoda
- Piliyandala

Paper Consumption

Paper is used in many parts of our operations. However, our efforts in digitisation has resulted in a significant decline of paper usage. Initiatives taken under the Go-Green project have taken us closer to a paperless environment. These initiatives are,

- Opting for digital communication rather than the traditional paper based exchange both with employees as well as external parties such as suppliers.
- Issuing of digital policies and e-proposals where paper use is eliminated other than for the policy booklet.
- WhatsApp and Viber portals to submit digital claim applications.
- Enhancing digital payment platforms for which receipts are issued digitally
- Process automation and shifting to workflows.
- Optimal use of e-buddy system and HRIS to access Advisor and employee information.
- Re-use of paper for internal printing activities.
- Central management of stationery issuance to monitor the usage and reduce wastage.
- Monitoring the use of printers based on the paper and toner consumed and calling for explanations for excessive use.
- Printing limited copies of the Annual Report and using digital platforms to distribute the Annual Report to Shareholders.

- Not printing Interim Financial Statements and other communication documents such as Circulars to Shareholders and providing them on digital platforms.

Sustainable Business Expansion

We expand and grow our business every year by increasing our presence around the country. However, when we carry out expansion activities we are mindful of the impact created on the environment and following steps are taken to minimise the negative impact created while conserving our natural resources.

- Establishment of virtual branches over brick and mortar branches.
- Re-use of furniture and fittings in good conditions among branches rather than purchasing new furniture and fittings.
- Use of energy efficient Air conditioners and LED lights.
- Use of natural lighting whenever possible over electricity.
- Use of white paint both in Head Office and the branch network to reduce the artificial lighting requirement.

Our Carbon Footprint

Various energy saving initiatives and digitalisation projects implemented by us have resulted in the gradual reduction of Greenhouse Gas emissions over the past few years. Use of solar generated power at the Head Office and our

Capital Trade-Offs



Positive Impact on Capitals



Increased brand image and value



Cost efficiencies



Enhanced relationships with business partners



10,436 kg

Reduction in Green House Gas emissions

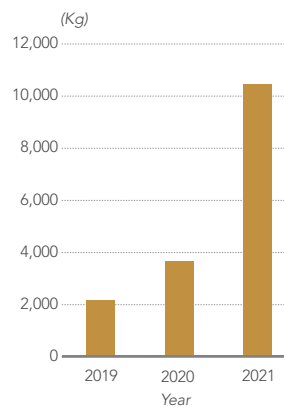
(2020 - 3,666 kg)

+ 185%

efforts to move towards a paperless environment have had a positive impact on our carbon footprint.

HNBA complies with all environmental laws and regulations and during the year there were no incidents of non-compliance.

Reduction in Green House Gas Emissions



Negative Impact on Capitals

There are no negative impacts created on other capitals.




DIGITAL CAPITAL

GRI 102-7 > 102-11 > 303-1 > 306-2

Technological innovations have revolutionised our business model to a great extent and have played an incisive role in everyday business operations and ultimately in our value creation process.

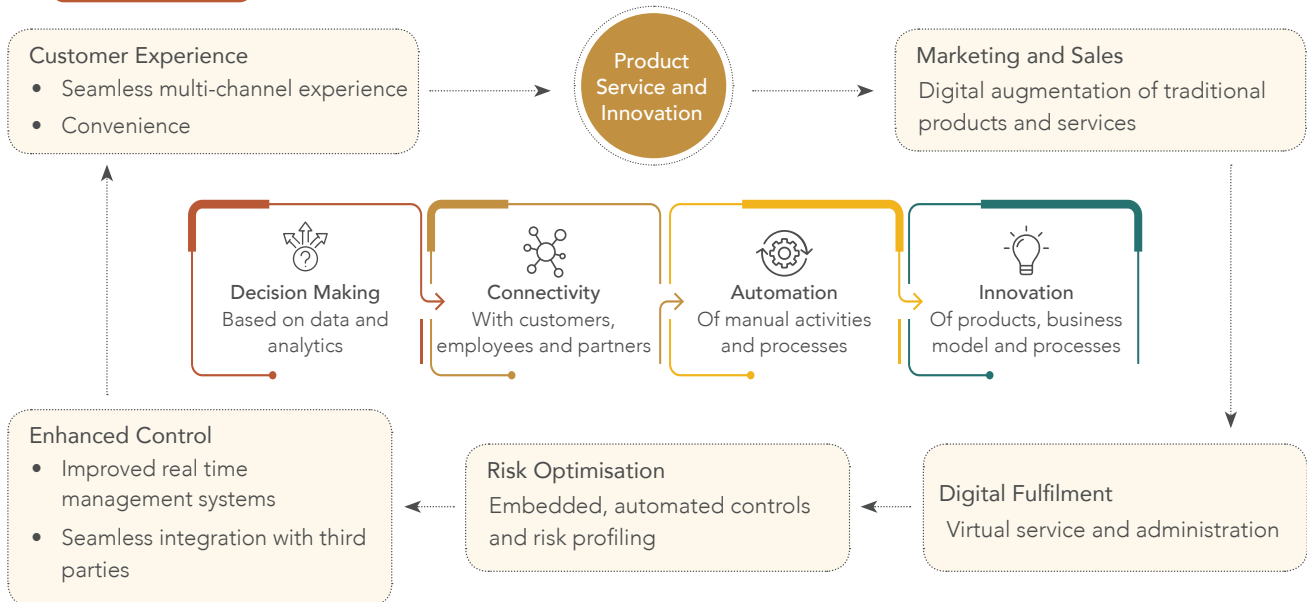
Management Approach

 At HNB Assurance PLC we believe that investing in Digital Capital is the way forward in achieving competitive advantage in the industry. Hence, we take all measures to invest in the required Information Technology which will increase the efficiency of our processes and enhance our customer experience enabling the achievement of the corporate strategy.

Value Delivered

- Enhanced customer experience through faster settlement of claims, auto underwriting, digital payment platforms, etc.
- Enhanced stakeholder engagement.
- Cost efficiencies.
- More informed decision making.
- Improved control.

Our Strategy



SDG Focus Areas under Digital Capital



12. Responsible Consumption and Production

- Digitisation of business processes to increase efficiency to ensure responsible consumption of resources



Plans for 2022

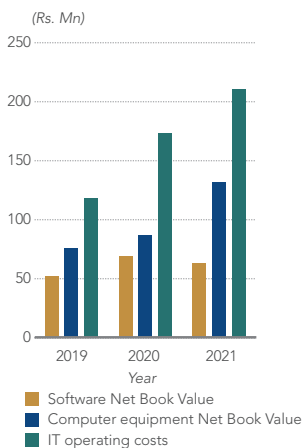
- Core Systems upgrades for both Life and General Insurance.
- Robotic Process Automation, Artificial Intelligence and e-commerce platform to empower customers.
- Learning management system to give remote learning capability to employees and Advisors. Enhance trainer capacity to conduct trainings online.
- Lead management and campaign management system to enable the Advisor force to increase their sales.
- Anti-Money Laundering System to improve customer due diligence.
- CX Portal to maintain internal and external customer experience.

DIGITAL CAPITAL

Right across the insurance industry, even globally, we are seeing unprecedented progress in the digitalisation journey impacting the entire value chain. The COVID-19 pandemic forced the industry that was lagging behind other financial services sectors to speed up the digital agenda. Driving operations efficiency, enhancing customer experience and data management are the key expectations of the digitalisation strategy.

HNBA has defined Digital Capital as a separate capital due to its strategic nature and to reflect the dependency between the hardware and software. It comprises the Computer Equipment which is included in Manufactured Capital and the software component of Intangibles together with the costs of operating licence which are expensed during the year.

Investment in Digital Capital

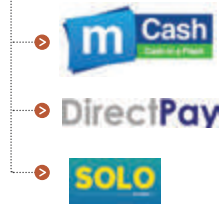


During the year we made a total investment of Rs. 211 Million to enhance our digital capabilities by on-boarding new technology to augment customer experience and ultimately to transform our operating model.

Enhancing Customer Experience

The new reality is that customers, policy holders, employees and entities are becoming increasingly digital and better informed due to technology and social media. We responded to this

Digital payment Platforms



challenge by meeting new customer expectations with digital interactions and by offering an improved experience. Higher customer satisfaction is driven by improved service and faster processing times that digitisation delivers while scalability has a favourable impact on operational costs. Our initiatives in this regard include,

- Expanding digital payment platforms - Due to travel restrictions during the pandemic and in response to the increasing preference for digital payments we took initiatives to increase our payment platforms through partnerships with third parties, facilitating payments via HNB ATM network and strengthening our customer portal and corporate website to facilitate online payments.
- Introducing auto underwriting
- Issuance of digital policies
- Online assessment of motor accidents if the customer is inaccessible

Enhancing Connectivity

Engagement with stakeholders is key to growth and sustainability. However, mobility restrictions, lockdowns and need for social distancing caused by the pandemic disrupted traditional channels of engagement not only with our customer base but also with our employees. We took the initiative to facilitate engagement through virtual and digital platforms maintaining communication with all stakeholders during the challenging times. This strategy included the following actions:

- Revamping the call centres with a complete solution.
- Enhancing customer mobile app.
- Implement the SMART Advisor platform to enhance engagement with sales team.
- Use of virtual platforms to conduct employee training.
- Connecting with potential customers through webinars.

Automation

Operating efficiencies are a strategic competitive advantage in the insurance industry. Previously, we depended largely on routine back office operations and manual work. With the gradual shift towards automated operations, we have been successful in achieving cost efficiencies and improving our service standards.

Claim Processing

- Claim intake
- Assessment
- Claim settlement

Policy Management

- Digital policy Issuance
- Updates
- Policy management

Regulatory Compliance

- Compliance checking
- Data security

Underwriting

- Policy checking
- Credit worthiness
- Auto underwriting

Upgrading our Core Systems

We embarked on the Core Systems modernisation project in 2020 with the ultimate aim of having a single comprehensive integrated system to replace several smaller systems. We have already commenced the implementation of the General Insurance core system with Informatics International Limited and go live is set for 2022. The Core system upgradation is done with the intention of enhancing customer experience and increasing the ease of connecting the Core system with third party systems and applications.

Capital Trade-Offs



Positive Impact on Capitals



- Enhanced processes and efficiencies through digitalisation
- Enhanced brand value through higher customer satisfaction



Cost efficiencies



Enhanced relationships with customer and business partners



Negative Impact on Capitals



Investments made on digitalisation impacts the short term profitability

DESIGNED FOR STABILITY

20 Years 

OF RESPONSIBLE STEWARDSHIP

Governance



CORPORATE GOVERNANCE

CHAIRPERSON'S MESSAGE



Dear Shareholder,

As the prolonged duration of the COVID-19 pandemic deepened the socioeconomic stresses across the world, it quickly became apparent that the focus of leadership needed to remain focused on building resilience in every aspect of business. Strong governance structures that enabled effective performance oversight and risk management were critical to achieving this goal as it enabled us to identify potential issues and recalibrate strategy in a timely manner. Accordingly, the Board maintained a high level of vigilance and probity during the year to discharge its duties effectively amidst growing concern about the economy and its impact on business.

Strengthening Leadership

HNBA Group now has two separate Chief Executive Officers for HNBA and HNB GI to comply with Direction #5 of 2021. The Chief Executive Officer of HNBA will serve as the Group Chief Executive Officer as well. Accordingly, Mr. Lasitha Wimalaratne was appointed as the Chief Executive Officer of HNB Assurance PLC, the parent company of the HNBA Group and Mr. Sithumina Jayasundara as Chief Executive Officer of HNB General Insurance Limited with effect from 1st January 2022. We bid farewell to Mr. Prasantha Fernando who served as the CEO of HNBA Group as he retired from service on 31st December 2021 after successfully leading the Group through a challenging period. The appointment of Mr. Nalin Subasinghe as Chief Actuarial Officer enhanced the collective skills and experience of the Group's Senior Executive Leadership.

We bid farewell to Mr. Mahendra Jayasekera who served as and Independent Director and retired in December 2021. Dr. Sivakumar Selliah was appointed as the Senior Independent Director of the Board with effect from January 2022. The composition of the Board remains a key strength with all directors participating effectively in deliberations of the Board, contributing their expertise to navigate a difficult year with foresight and agile strategy.

Strengthening Processes

The digital transformation of the Group continued to gather momentum as business disruptions became a norm. The scope of the transformation is broad encompassing customer connectivity and empowerment as well as the core systems for both Life and General Insurance. Consequently, digitalisation was a regular agenda item during the year to monitor progress and alignment of outcomes to overall strategy.

Customer experience was another key area of focus and we strengthened processes to measure and monitor this vital metric to differentiate HNBA. The impact of this has been positive as it supported identification of pain points and addressing them in a systematic manner. These included a decrease in turnaround times for settlement of claims and policy servicing which have contributed to customer satisfaction as well as overall operational efficiency of the Group.

Continuity of business operations in 2021 is testimony to the adaptability and resilience of the Group, which maintained the rigour of its safety protocols throughout the year to provide a safe working environment.

Regulatory compliance continues to be a priority for the Board which included ensuring timely reporting, filing of returns and making regulatory payments to the relevant regulators. The Board reviewed new developments in the regulatory environment such as the directions issued by IRCSL and the recently enacted SEC Act No.19 of 2021 and will facilitate compliance within the transition period, ensuring compliance.

Declaration

On behalf of HNB Assurance PLC Board of Directors, I declare that the principles of good Corporate Governance are applied consistently across the Group and that the Corporate Governance Report themed Effective Leadership provides a fair account of Corporate Governance practices within the Group. I am also pleased to report that the Group complies with the relevant provisions of the Code of Best Practice of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

In accordance with requirements of the same, I affirm that HNBA has a Code of Conduct and Ethics which is applicable for all employees of HNBA and its subsidiary HNBGI which is communicated during orientation of all new employees and available on the intranet and accessible by all employees. Individual employees performance appraisal mechanism includes pre-determined objectives which include upholding the corporate values and abiding by the Code of Conduct and Ethics which are addressed by the line manager when conducting the appraisal. There are no violations of the provisions of the Code of Business Conduct and Ethics to the best of my knowledge.

Conclusion

This was a period of ensuring that our value propositions for stakeholders were relevant and recalibrating them where necessary. HNBA successfully engaged with our stakeholders and grown together as we succoured and motivated them to drive growth in the right direction. As we look to another year, girding up for the challenges it may bring, we are committed to seeking holistic solutions that balance the people, planet and profits.

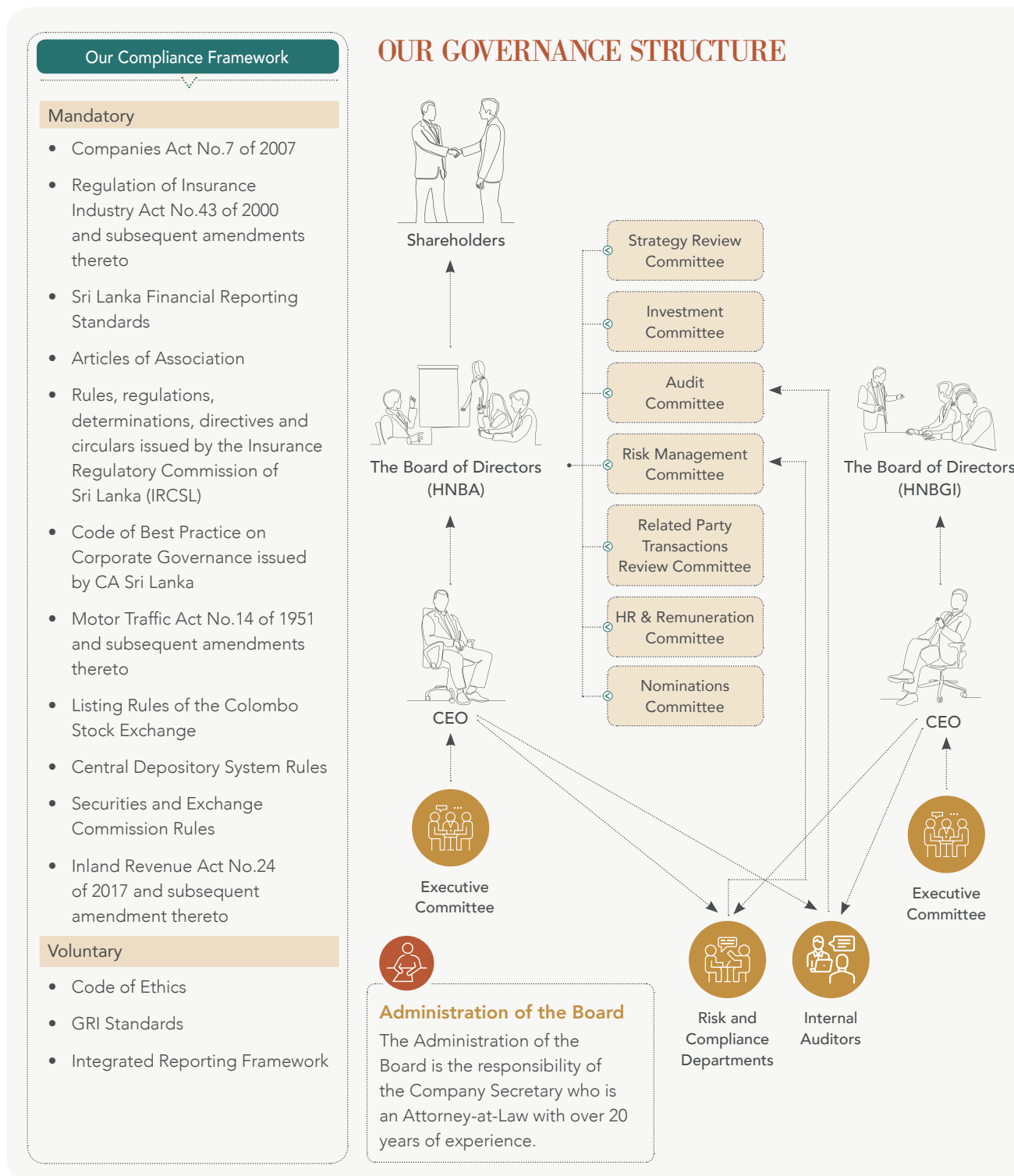
A handwritten signature in black ink, appearing to read 'Rose Cooray'.

Rose Cooray
Chairperson

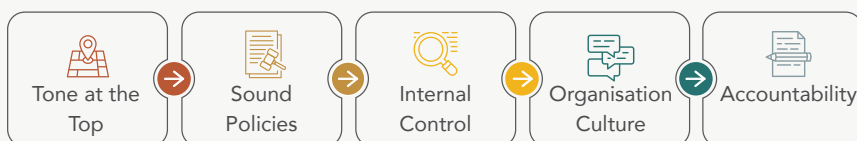
18th February 2022

Effective Leadership

As the prolonged duration of the COVID-19 pandemic wrought about socioeconomic stresses globally and locally, effective governance and leadership, balancing stakeholder interests became the need of the hour. HNBA Group governance withstood the multifaceted tests throughout three difficult years for the country, carefully navigating the maelstrom with foresight, objective decision making and agile strategy. Market share growth, value delivered to stakeholders, improved ratings and the successful steering of the Group to a position of greater resilience is testimony to effective leadership and governance of HNBA.



This report has been structured along the following governance priorities.



Composition: HNBA

Chairperson	
Senior Independent Non-Executive Directors	
Independent Non-Executive Directors	
Non Independent, Non-Executive Directors	

Composition: HNBGI

Chairperson	
Independent Non-Executive Directors	
Non Independent, Non-Executive Directors	

HNB General Insurance

HNBGI functions separately in accordance with regulations and has its own Board. Two directors from HNBA's Board including the Chairperson serve on the Board of HNBGI which also has 2 Independent Non-Executive Directors facilitating board balance.

HNBA Board Sub-Committees have oversight of the relevant functions of HNBGI in accordance with the provisions in the CSE Continued Listing Rules.

HNBGI has a separate CEO who is also the Principal Officer of the Company. Dedicated KMP are responsible for matters specific to HNBGI. Supporting functions such as Finance, Marketing, Actuarial, HR, Legal, Investment, Risk and Compliance, Internal Audit are common to both entities.

Statement of Compliance

HNB Assurance PLC complies fully with the Corporate Governance requirements of Rule No.7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) refer pages 126 to 128.

Further, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued by CA Sri Lanka refer pages 113 to 125 compliant with the Corporate Governance Framework for Insurers requirements of Direction No.17 and Direction No. 2 of 2022 (Revised) issued by IRCSL refer pages 129 and 130.

CORPORATE GOVERNANCE



Board Highlights 2021

- Appointment of separate Chief Executive Officers for HNB Assurance PLC and HNB General Insurance Limited in compliance with Direction No.5 of 2021
 - Appointed Mr. Lasitha Wimalaratne as Chief Executive Officer of HNB Assurance PLC, the parent company of the HNBA Group with effect from 1st January 2022
 - Appointed Mr. Sithumina Jayasundara as Chief Executive Officer of HNB General Insurance Limited with effect from 1st January 2022
- Appointment of Mr. Ashoka Goonesekere as an Independent Non-Executive Director with effect from 31st December 2021
- Retirement of Chief Executive Officer Mr. Prasantha Fernando with effect from 31st December 2021
- Retirement of Mr. Mahendra Jayasekera who served as an Independent Non-Executive Director with effect from 3rd December 2021
- Appointment of Dr. Sivakumar Selliah as the Senior Independent Non-Executive Director with effect from 21st January 2022
- Measures implemented to facilitate compliance with directions and circulars issued by IRCSL

Tone at the Top

The Board of Directors at the Annual General Meeting have ultimate responsibility for the affairs of HNBA and are accountable to Shareholders and relevant regulators for effective discharge of their duties. The primary function of the Board is to create long-term sustainable value to stakeholders while upholding high standards of Corporate Governance and ensuring compliance with the legal and regulatory requirements and the Group's own policy framework.

The Board takes on a key role in determining the overall strategic direction, goals, policy frameworks, internal controls and reporting mechanisms enabling effective oversight of the affairs of the HNBA Group. Importantly, they set the tone at the top through effective oversight of executive functions and reinforcement of corporate values in their deliberations and guidance provided to Management. A board that is conscious about walking the talk is key to shaping an authentic organisation culture that is conducive to performance with integrity. These matters are clearly articulated in the

“HNB Assurance has adopted a Code of Conduct for Directors clearly stating the Board’s expectations of Directors. The Code clearly sets out the expected behaviours of directors in instances where there are potential conflicts of interest and addresses matters such as confidentiality, use of company resources, dealing with third parties and compliance. It also draws attention to the need for directors to promote ethical behaviour and a culture of compliance, setting the tone at the top which is reinforced with provisions for enforcement of the Code for all directors.”

Board Charter which defines the role of the Board with clear responsibility for setting the tone at the top.







Composition of the Board



Composition of the Board is key to setting the tone at the top. The HNBA Board comprises reputed Directors who collectively have the diverse skill set required to manage the performance of the HNBA Group as depicted alongside. The composition also ensures a balance of power by the presence of 8 Non-Executive Directors of whom 3 are independent. The Nominations Committee plays a key role in the


appointment of Directors as it is their responsibility to determine the skills and experience required by the Board as a whole to function effectively and to define the profiles of Directors required for vacancies or requirements that arise. The selection process is also carried out by the Nominations Committee who ensure the right fit of potential candidates for the Board to ensure that the make up of the Board meets the business needs and aspirations of the Group.




Board Composition, Skills & Experience




HNB Assurance PLC (Parent Company)

Skills	
Insurance	
Accounting & Finance	
Banking	
Legal	
Economics/Investment	
Information Technology	
<i>Inclusive of Alternate Director</i>	






Experience (Years)	
15 - 20	
20 - 25	
25 - 30	
> 30	



Gender	
Male (75%)	
Female (25%)	

Tenure (Year)	
< 1	
1 - 4	
4 - 8	




Age	
< 40	
40 - 50	
50 - 60	
60 - 70	
> 70	





HNB General Insurance Limited (Subsidiary)

Skills	
Insurance	
Accounting & Finance	
Banking	
Economics/Investment	
Information Technology	
<i>Inclusive of Alternate Director</i>	

Experience (Years)	
15 - 20	
20 - 25	
25 - 30	
> 30	

Gender	
Male (57%)	
Female (43%)	

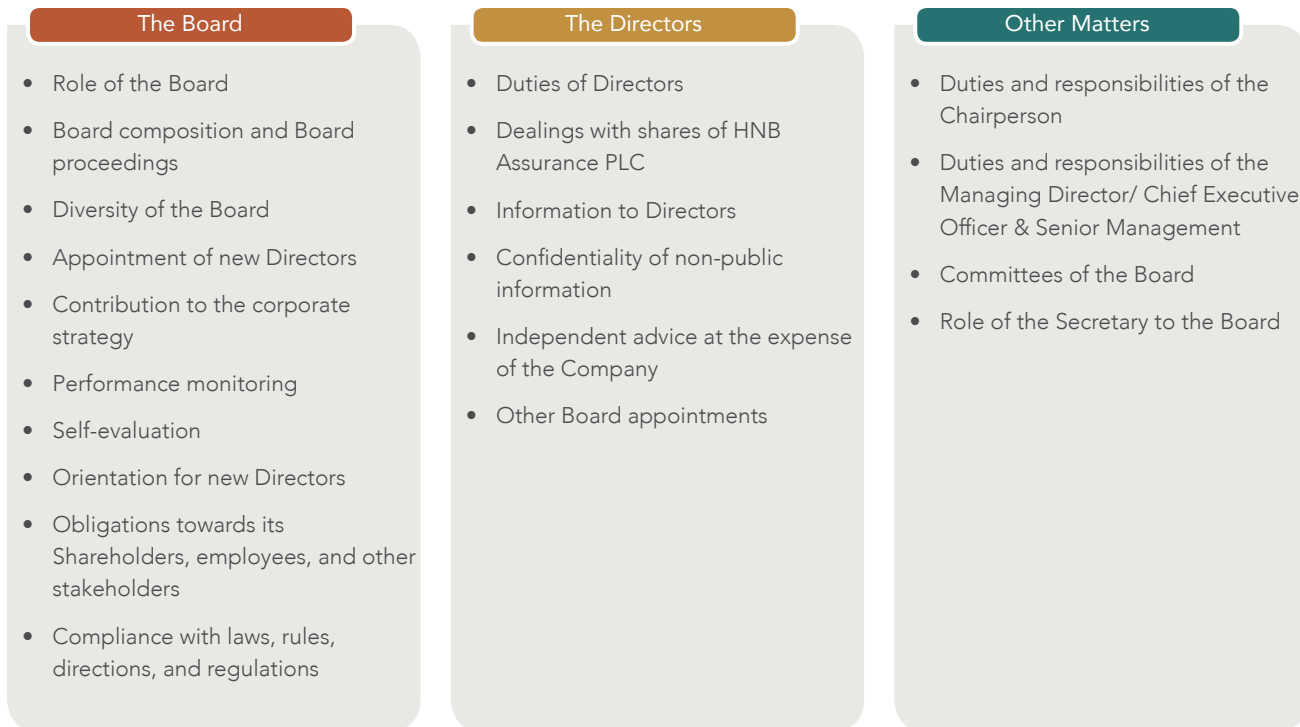
Tenure (Year)	
< 1	
1 - 4	
4 - 8	

Age	
< 40	
40 - 50	
50 - 60	
60 - 70	
> 70	

CORPORATE GOVERNANCE

Board Charter

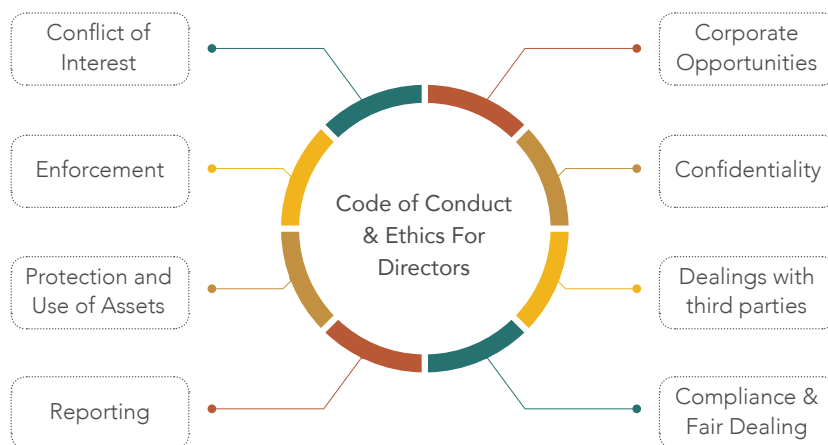
The functions and main responsibilities of the Board are set out in the Board Charter, as summarized below:



Code of Conduct and Ethics for Directors

Directors are required to comply with the HNBA Group Code of Conduct and Ethics for Directors which is summarized below. They are also required to comply with the Share Dealing Policy and Code applicable to all Directors, Senior Management, and other specified persons who may have access to price-sensitive information.

The requirements of the Code of Conduct and Ethics for Directors of the HNBA Group are summarized below:



Conflict of Interest - Directors should avoid conflicts of interest. Examples of conflicts of interest are given in the Code.

Corporate Opportunities - Directors are prohibited from taking for themselves or their own Company or other companies which with they have a fiduciary

relationship, any opportunities arising as a result of the Director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested Director and approved by the disinterested Directors.

Confidentiality - Directors must maintain the confidentiality of non-public proprietary information entrusted to them by the Company or its customers

or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written, or electronic.

Dealings with Third Parties - Only the persons named in the Code are authorised to deal with third parties on behalf of the Company. Compliance with Laws and Regulations and Fair Dealing - Directors are expected to carry out their responsibilities in compliance with all laws, rules, and regulations applicable to the Company and with the highest standards of business ethics.

Compliance and Fair Dealing - Directors are expected to carry out their responsibilities in compliance with all laws, rules, and regulations applicable to the Company and with the highest standards of business ethics.

Reporting - Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules, and regulations and report instances of illegal or unethical behaviour.

Protection and Use of Assets - All Directors must protect the Company's assets and ensure their efficient use for business needs of the Company.

Enforcement - The Board (or the members of the Board who are not conflicted) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.

Role of the Chairperson, CEO and Board Secretary

Roles of Chairperson and Chief Executive Officer are separated in line with best practice, establishing a balance of power and authority. Key aspects of their roles are summarized below.

Role of Chairperson	Role of CEO
<ul style="list-style-type: none"> Chairing the Board and the Shareholders' meetings Ensuring that the operations of the Board are managed effectively Ensuring that all key and relevant issues are discussed by the Board in a timely and constructive manner Taking appropriate steps to provide effective communication with Shareholders and to ensure that Shareholders' views are communicated to the Board as a whole Ensuring that good corporate practices are followed 	<ul style="list-style-type: none"> Developing, recommending, and implementing the Company's policies and strategies that reflect the long-term objectives and priorities approved by the Board Assuming full accountability to the Board for all aspects of the Company's operations and performance Maintaining a continuous dialogue with the Chairperson and other Directors Representing the Company and managing the Company's day-to-day business Monitoring operational and financial results closely following plans and budgets Establishing adequate operational, planning, and financial control systems

Role of the Board Secretary

The Board Secretary also plays a key role in ensuring the Board functions effectively.

Role of Company Secretary
<ul style="list-style-type: none"> Support the Chairperson, the Board, and the Sub-Committees by ensuring a proper flow of information Ensure that policies and procedures are followed Provide necessary advice and assistance to the Board and Directors in respect of their duties Facilitate the effective operation of the Board and Board Sub-Committees Maintain relationships between the Company, its Shareholders, and regulators, including assisting the Board in discharging its obligations to Shareholders.

Board Sub-Committees

The Board has appointed 7 Sub-Committees of the Board with clearly defined Charters for each Sub-Committee setting out the areas of oversight, powers and duties. Chairpersons of the Sub-Committees are responsible for managing the annual agenda and frequency of meetings of the Committees to ensure effective oversight of matters assigned to the Committees. Minutes of the sub-Committee meetings are tabled at the Board meeting immediately following the Sub-Committee meeting and Chairpersons of the Sub-Committees also provide an update and clarification on relevant matters at the Board meetings.

The Nominations Committee, Audit Committee, Related Party Transactions Review Committee, Human Resources and Remuneration Committee, and the Risk Management Committee carried out self-evaluations of their performance during the year. The composition of the Board Sub-Committees, meetings, and their roles and activities are given in the respective Committee Reports.

Mandatory		Voluntary	
Nominations Committee	Page 171	Investments Committee	Page 173
Audit Committee	Page 162	Risk Management Committee	Page 175
Human Resources and Remuneration Committee	Page 167	Strategy Review Committee	Page 177
Related Party Transactions Review Committee	Page 169		

Appointment, Re-election, and Resignation

Shareholders appoint Directors at the Annual General Meeting and separate resolutions for the election/re-election for each Director are included in the Notice of meeting included in the Annual Report. Section 27 of the Articles of Association of HNBA permits the Board to appoint any person as a Director to fill a casual vacancy arising from the resignation of a Director or to increase the size of the Board. Directors appointed in this manner hold office until the next Annual General Meeting where they can offer themselves for re-election.

Directors other than the Chairperson are required to retire by rotation and seek re-election at least once every three years. Accordingly, Mr. Darshan Ravi Abeyhuriya and Mr. Ashoka Goonesekere retire by rotation at the Annual General Meeting to be held on the 31st March 2022 as set out in the Notice of Meeting on page 360. Directors who wish to resign prior expiry of their period of appointment are required to give notice in writing for acceptance by the Board together with the reasons for doing so.

Appointments and resignations are promptly informed to the CSE by the Board Secretary for dissemination to the investing public.

The Nominations Committee assesses the collective skills and expertise of the Board and its committees to determine a suitable candidate profile. Potential candidates are then reviewed through a formal and transparent process. Recommendations are made to the Board for the appointment of Directors who consider the recommendations in making new appointments to the Board. All new appointments require approval by the IRCSL as per the Regulation of Insurance Industry Act and the Board confirms the appointment only on receipt of such approval.

Induction & Training

All Directors appointed for the first time are formally inducted with a one-day programme which includes a discussion with the Chairperson, an introduction to the Senior Management of the Group, to gain an overview of the industry regulations and strategy. They are also given an induction pack which comprises the Articles of Association, the Code of Ethics for the Board, Board Charter, Board Sub-Committee Charters, Share Dealing Policy and Code and the Regulation of Insurance Industry Act and other regulations.

Directors are updated on changes to regulations and industry trends by the Senior Management regularly. Opportunities are provided to all Directors for gaining knowledge and

insights on Corporate Governance and matters relating to directorship for which the cost is borne by the Company.

Board Meetings & Information

The Board meets monthly, while Sub-Committees meet according to agreed schedules. The Audit Committee and the Risk Management Committee meet quarterly while other Sub-Committees meet less frequently.

The agenda is prepared by the Board Secretary in consultation with the Chairperson for Board meetings and secretaries of Sub-Committees do the same with the respective Chairpersons. The agenda and board papers are made available to the Directors at least one week ahead enabling Directors to prepare for the Board meeting, facilitating informed deliberations and decision making by the Board. Directors also have access to Senior Management for clarification before or during the meeting as well.

Directors are kept up to date on key development by Key Management Personnel who make presentations on important issues that impact the business of HNBA.

Attendance of Board members at Board and Sub-Committee Meetings are given on page 183 of the Annual Report of the Board of Directors.

- 10 Board meetings were held online as scheduled using secure platforms with increased oversight on HNBA Group response to the COVID-19 pandemic.
- 3 Board meetings were held physically during the year.
- Sub-Committee meetings were held as follows:

Sub-Committee of the Board	Physical Meetings	Online meetings
Nominations Committee	-	1
Audit Committee	-	5
Human Resources and Remuneration Committee	1	3
Related Party Transactions Review Committee	-	4
Investments Committee	-	4
Risk Management Committee	-	6
Strategy Review Committee	-	6

Board Evaluation

The Board conducts an annual self-evaluation of its performance using wide-ranging criteria including, the composition of the Board, skills, and experience of the members, adequacy of Sub-Committees, proceedings of meetings, and quality of reports and materials submitted. Responses were compiled by the Board Secretary for discussion by the Board at its 18th February 2022 meeting to improve the effectiveness of the Board. Audit, Related Party Transactions Review and Risk Management Committees also conducted self-evaluations in a similar manner which were reviewed by the respective committees and the Board.

Performance Evaluation of CEO

The Board sets reasonable Financial and Non-Financial targets in line with the short, medium, and long-term objectives of the Company in consultation with the CEO which are the targets for the CEO. The performance of the CEO is evaluated by the Board at the end of each year, based on these agreed objectives and the variable component of the CEO's remuneration is determined based on the achievement of these set targets.

Remuneration

HNBA has a formal mechanism in place to determine remuneration which are clearly defines in the Group's remuneration policies. Remuneration policy is designed to shape the right behaviours, aligning remuneration and rewards with corporate values and strategic goals. The Chairperson of the Board is also a member of the Human Resources and Remuneration Committee and CEO attends meetings by invitation supporting alignment. The Charter of the Human Resources and Remuneration Committee is empowered to obtain professional advice from within and outside the Company as may be required to support fair remuneration, balancing stakeholder interests.

The Human Resources and Remuneration Committee and the Board are entrusted with ensuring that remuneration packages for CEOs and KMPs are sufficient to attract and retain skilled and experienced professionals. Accordingly, remuneration levels are benchmarked to market regularly and salary surveys are reviewed periodically to align to market, business needs and the HNB Group.


The performance-related elements of the remuneration package of the CEO and other Executive employees are linked to corporate and individual performance. Objectives for the CEO, are set at the beginning of the year to align his interests with those of the Company and these are cascaded to KMPs. Remuneration comprises are fixed component and a variable component which is linked to pre-determined performance targets. Performance-related remuneration schemes are not applied retrospectively and the HNBA Group does not have any long-term incentive schemes, including share option schemes.

Directors' Fees & Remuneration (Rs. Mn)

	HNBA		HNBGI	
	2021	2020	2021	2020
Directors' Fees	14.4	15.7	9.3	8.9

Remuneration of Non-Executive Directors

Remuneration of Non-Executive Directors is determined by the Human Resources and Remuneration Committee. They are not eligible for performance-based remuneration schemes and are paid on their attendance at meetings. Their remuneration takes account of the need to attract people of talent, integrity, and ability in line with market norms. However, Non-Executive Directors who are nominees of the Parent Company are paid a nominal fee for their services.

 Please refer to page 319 for the details on Directors' remuneration.

CORPORATE GOVERNANCE

Policy Framework

The Board has put in place a comprehensive policy framework to guide management in the routine operations of the Group. The policies articulate the expected conduct, processes, and procedures and provide thresholds and boundaries where deemed necessary. The policy framework is tabulated below.

Governance & Conduct	Specific Matters	Performance & Talent Management
<ul style="list-style-type: none"> Articles of Association Board Charters Board Sub-Committee Charters Code of Ethics for Directors Code of Business Conduct Integrity Reporting Policy Procedure Manuals Guidelines Circulars 	<ul style="list-style-type: none"> Shareholders' Communication Policy Share Dealing Policy Risk Management Policy Compliance Policy Investment Policy Financial Authority Manual Procurement Policy IT Security Policy Anti-Money Laundering Policy Credit Policy 	<ul style="list-style-type: none"> Total Reward Policy Performance Management Procedure Remuneration & Benefit Guideline Talent Calibration Guideline Education Reimbursement Procedure Overseas Training Procedure Telecommuting Policy

Internal Controls

Overview

The Board of Directors play a key role in monitoring and risk reviewing internal controls of the Group that supports the communication of reliable information, timely regulatory compliance and safeguarding assets and reputation of the Group. Accordingly, the Group has adopted the Three Lines of Defence Model to manage risk and control with clear segregation of roles in the three pillars which is discussed in more detail in the Risk Management Review. The third pillar which comprises Internal and External Audit assures the Audit Committee of the effective operation of the first and second pillars which are the key business functions and the risk management function respectively.

Further, the Board receives financial and operational compliance statements monthly from the CEO and relevant Key Management Personnel which serves as a checklist for regulatory and prudential matters.

Internal Audit

Internal Audit provides assurance that the policies, processes and internal controls are functioning effectively in compliance with the regulatory and

policy frameworks. The Audit Committee reviews the scope of the internal audit to ensure that it is sufficient to provide the assurance required by the Board. The Committee also reviews audit plans, findings, and progress reports at the quarterly meetings. Internal audit is outsourced to Messrs Ernst & Young Chartered Accountants to enhance the objectivity of the review. The Audit Committee meets the Internal Auditors without the presence of the Executives/ Senior Management at least once a year to provide an opportunity for the Internal Auditors to air any concerns they may have without reservation.

External Audit

The External Auditors are appointed by the Shareholders on the recommendation of the Board. The Audit Committee makes recommendations to the Board on the appointment of the External Auditors following the processes agreed with the Board for evaluating the effectiveness of the audit and the independence of the Auditors. External Auditors are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. Care is taken to ensure that tasks undertaken by the

External Auditors have no adverse effect on the independence of their audit work or the perception of such independence. Details regarding fees paid to External Auditors appear on page 319. The Audit Committee holds an "in camera" meeting with the External Auditors at least once each year.

Organisation Culture

The organisation culture is an integral part of Corporate Governance as behaviours of the employees is a key determinant of the successful achievement of strategic goals. Several factors combine to shape a positive culture including corporate values, tone at the top, pressure for performance, structures of remuneration schemes, work environment etc. The Board seeks to set the right tone at the top upholding high standards of conduct and ensuring that policies, codes and controls are relevant and fit for purpose. The effective functioning of performance management systems, training and development, whistle blowing and grievance mechanisms, open communication lines, prudent risk appetites, and internal control reinforce the organisation culture.

Accountability

The Board is accountable to Shareholders for the performance of the Company and has a duty to uphold their rights. The Board seeks to address the following concerns of this key stakeholder:

- Provide a reasonable return on investment to Shareholders
- Provide a satisfactory distribution of dividends out of the profits earned
- Timely communication with Shareholders regarding affairs of the Company

The 'Shareholders' Communication Policy' in place enshrines the concept of timely dissemination of information about the financial performance, strategic goals and plans, material developments, governance and risk profile of the Company to Shareholders, enabling them to make informed decisions. The Group has multiple channels for communicating with Shareholders including timely filings with the CSE, website, press releases, quarterly and annual reports, and other printed and electronic media. Price sensitive information is promptly notified to the CSE for dissemination to the investing public through their website as well.

The Annual Report

The Annual Report is a key communication to Shareholders and we go well beyond mere legal requirements to ensure that it provides a comprehensive review of our performance during the reporting year. We benchmark international best practices in corporate reporting and have been at the forefront of the ESG (Environment, Social & Governance) Reporting evolution as early adopters of the Integrated Reporting Framework and the GRI Standards. Accordingly, we have embraced a more extensive reporting agenda to communicate a plethora of variables that impact our delivery of value to stakeholders in a structured manner.

Submission of Quarterly Returns

Quarterly returns were submitted to CSE as given below:

Quarter Ending	Date of Submission to CSE
31st December 2020	23rd February 2021
31st March 2021	5th May 2021
30th June 2021	4th August 2021
30th September 2021	29th October 2021

IT Governance

IT Governance Policies

The Board adopted an Information Security Policy to provide the direction to the Management in handling the risks relating to information and cyber security in line with the HNB Group information security policy. The HNBA Group also developed policies on super user access management, usage of internet and work from home further strengthening the information security environment.

IT Governance Structure

The Board has overall responsibility for IT Governance and are assisted in this by the Risk Management Committee. The Group Chief Information Officer reports to the Group CEO and is also part of the IT Steering Committee and the Executive Committee who are responsible for the implementation of agreed IT projects and the smooth running of digital platforms.

The Company has appointed an IT Security Administrator who reports to the Chief Information Officer to identify any non-compliances or risks from within the IT Department.

Further, an Officer qualified in Information Technology has been appointed from the Risk and Compliance Department to review the IT security activities independently from the Operations Management.

IT Governance Monitoring

The Company reviewed its processes to identify risks relating to information and cyber security and has included these in the Company's risk register with

the existing and proposed actions to mitigate them. The implementation of relevant control measures is monitored by the Risk and Compliance Department.

The Information Security and System Compliance Officer monitored compliance with the Information Security policy and submitted Compliance Reports to the Board Risk Management Committee meetings during 2021.

The Board also carried out a review of the Companies' information security environment through an external firm specialized in IT security audits.

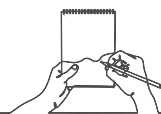
The Board and the Board Sub-Committees have reviewed the reports relating to information security during the year, and has discussed the IT road map to address IT security matters.



CORPORATE GOVERNANCE

Annual General Meeting

The Annual General Meeting is the most important Shareholder engagement event on the calendar and high levels of Shareholder participation is encouraged through advanced communication of date and the availability of comprehensive information presented according to international best practice. Notice of the Meetings is circulated 15 days in line with the statutory requirements while the date is notified through the CSE 19 weeks prior to the date of the meeting. The Chairperson ensures the availability of all Chairpersons of Board Sub-Committees at the meeting to provide clarification of matters relating to their areas of oversight. Additionally, the External Auditors are also present to provide clarifications that may be required.



Summarised Minutes of the 19th AGM held on 31st March 2021

➤ Matters Discussed at the AGM

During the AGM, Chairperson replied to the queries raised by the Shareholders. The questions/concerns so raised and the comprehensive answers for the same are given below for the benefit of all Shareholders and particularly for those Shareholders who were unable to participate at the AGM.

One of the Shareholders expressed his gratification towards the excellent performance amidst the challenges and emphasized that the Company has been identified as a best workplace among the best forty great workplaces in Sri Lanka. Moreover, he stated that the Company has demonstrated a progressive growth despite Covid 19 disruptions, however raised his concerns on the current dividend rate when compared to the last year.

➤ Response

Responding to the concerns raised by the Member, the Chairperson stated that the Group has recorded a profit of Rs. 1.2 Billion, which is 16 % growth when compared to the last year and detailed that the Company has conducted 'share split' and has progressively enhanced the dividend rates during the past five years. Further she clarified that in year 2015, company paid Rs. 100 Million as dividends and this year the Company has paid Rs. 420 Million as dividends and stressed that the Company has increased the dividend rate by 5% when compared to the previous year.

One of the Shareholders whilst congratulating for the outstanding business achievement, inquired on the future strategies of increasing the market share.

➤ Response

Responding to the said query, the Chairperson stated that the Management is mindful of the importance of growing the market share and currently the Company is in the process of developing the relevant strategies for same.


Moreover, the aforesaid Member questioned on the operation of cloud platform during the pandemic situation and stated that customer confidential information is largely involved in the insurance business and inquired the possibility of having a cloud platform with the participation of other insurers.

➤ Response

Responding to the said queries, CEO, Mr. Prashantha Fernando stated that the Company has started the implementation of core systems for both operations and in the first phase, company has sought options for system in respect of General business whilst considering cost effectiveness and sustainability. He also stated that the attention has been drawn in relation to cloud platform therein and ensured that the Company would take all the precautions to maintain the customer privacy. In addition, Dr Prasad Samarasinghe, Director declared that HNBA is already using the cloud and requirements of the customers are being delivered efficiently and there is no requirement for insurers to work together in this regard.

Compliance with the Code of Best Practice on Corporate Governance

The table below summarises HNBA Group's compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
 Section 1 - The Company			
A Directors			
A.1 The Board			
A.1.1	Board Meetings	The Board meets monthly to discharge its responsibilities as described on page 108. Attendance at Board meetings and Board Committee meetings are given on page 183 of the Annual Report of the Board of Directors, Board meetings and information.	<input checked="" type="checkbox"/>
A.1.2	Role of the Board	Refer Tone at the Top on page 104.	<input checked="" type="checkbox"/>
A.1.3	Compliance with laws and access to independent professional advice	The Board has set in place a sound organisation structure, policy framework, and internal controls to facilitate regulatory compliance and also ensure that decisions taken by the Board are compliant with regulatory requirements. The Board Charter provides for Directors to seek independent professional advice from external parties when necessary at the Company's expense.	<input checked="" type="checkbox"/>
A.1.4	Access to advice from the Company Secretary Indemnifying the Board, Directors, and key Management Personnel	The Directors have access to the advice and services of the Company Secretary who plays a key role in facilitating the conduct of Board and General Meetings and ensuring that requirements of the Companies Act No.7 of 2007 and the Listing Rules of the CSE are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board. As a subsidiary of HNB Group, HNBA and HNBGI Board Directors and Key Management Personnel are covered under Directors and Officers Liability Cover obtained by HNB.	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
A.1.5	Independent judgment of the Directors	Directors of HNBA exercise independent judgement on all matters set before the Board without bias.	<input checked="" type="checkbox"/>
A.1.6	Dedicating adequate time and effort	Directors devote sufficient time to the affairs of the Company to discharge their duties effectively. Board papers are circulated at least one week before the meeting providing sufficient time for familiarization with matters included in the agenda and to call for any further information.	<input checked="" type="checkbox"/>
A.1.7	Calls for resolutions	One-third of the Directors may call for a resolution to be presented to the Board in the best interests of the Company.	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A.1.8	Training of Directors	On appointment, Directors receive a Letter of Appointment outlining the terms of appointment, duties, and responsibilities, and expected time commitments. Additionally, a formal induction programme is arranged for newly appointed Directors as soon as practicable which is co-ordinated by the Chairperson, CEO, and the Company Secretary.	☑
A.2 Chairman & the Chief Executive Officer			
A.2.1	The decision to combine the posts of Chairman and CEO	There is a clear division of responsibilities at HNBA with separation of the roles of the Chairman and CEO. See Role of the Chairperson and CEO on page 107.	☑
A.3	Chairman's Role	Please refer to the Role of Chairperson on page 107 in the Corporate Governance Report.	☑
A.4	Financial Acumen	As HNBA is a financial services company, financial acumen is a prerequisite for all Directors. All Directors have a sound knowledge of finance ensuring sufficiency of financial acumen as given in their Board profiles while five are members of professional Finance or Accounting Organisations.	☑
A.5 Board Balance			
A.5.1	Include Non-Executive Directors of sufficient calibre and number	All Directors are Non-Executive. The composition is given on page 103.	☑
A.5.2	Three or two-third of Non-Executive Directors appointed to the Board, whichever is higher should be 'Independent Non-Executive Directors'	The Company has three Independent Non-Executive Directors, which constitute one-third of the total Non-Executive Directors of the Company. The Company maintains the composition of Directors in accordance with Section 7.10 of the Listing rules and the requirements of the Company's Articles of Association.	☒
A.5.3	Independence criteria	All three Independent Directors are independent of management and free of any business or other relationship which could or be perceived to materially interfere with the exercise of their unfettered and independent judgement.	☑
A.5.4	Annual Declaration by Non-Executive Directors	Each Non-Executive Director submits a signed declaration annually concerning his independence/non-independence against specified criteria which is in line with Schedule K of the Code.	☑
A. 5.5	Annual determination of independence of Directors by the Board	The Board has reviewed the declarations referred to in A.5.4 above and ascertained that three Directors are independent following the criteria set out in section 5.5 of the Code.	☑
A.5.6	Alternate Director to a Non-Executive Director	Dr. Prasad Samarasinghe was appointed as an Alternate director to Mr. Damien Fernando who is a Non-Independent Non-Executive Director. Dr. Prasad Samarasinghe is also a Non-Independent Non-Executive Director.	☑

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A.5.7	Appoint a Senior Independent Director if Chairman and CEO are the same or the Chairman is not an Independent Director or the Chairman is the immediately preceding CEO	As the Chairperson of the Board is a Non-Independent Non-Executive Director the Company has appointed a Senior Independent Director. Additionally, roles of Chairperson and the CEO are segregated and Chairperson is not the immediately preceding CEO.	☑
A.5.8	Senior Independent Director to be available for confidential discussions with Directors	Dr. Sivakumar Selliah was appointed as the Senior Independent Director in January 2022.	☑
A.5.9	Chairman meeting with the Non-Executive Directors	The Chairperson holds a meeting with only Non-Executive Directors present without CEO present at least once a year.	☑
A.5.10	Recording concerns	Where applicable, any conflict/concerns that cannot be unanimously resolved are recorded in the Board Minutes.	☑
A.6 Supply of Information			
A.6.1	The obligation of the Management to provide appropriate and timely information	All Board members receive information regarding the operations and performance of the Group monthly basis.	☑
A.6.2	Board papers to be provided 7 days before Board Meeting and minutes provided after the meeting	Board papers are provided one week before the Board meeting.	☑
A.7 Appointments to the Board			
A.7.1	Establish a Nomination Committee	The Board has established a Nomination Committee and their report is given on page 171.	☑
A.7.2	Nominations Committee to assess the composition of Board annually	The Nomination Committee assesses the composition of the Board annually and makes recommendations to the Board on necessary changes. The Board was expanded in line with the same as set out on Changes to Board Composition on page 104.	☑
A.7.3	Disclosure of Appointment of a New Director	Upon the appointment of a new Director to the Board, the Company informs the CSE with a brief resume of the Director.	☑
A.8 Re-Election			
A.8.1	Non-Executive Directors should be appointed for a specified term and subject to re-election and their appointment is not automatic	Directors other than the Chairperson and the Nominee Directors, are required to retire by rotation and seek re-election at least once every three years. Accordingly, Mr. Darshan Ravindra Abeyseriya retire by rotation at the Annual General Meeting to be held on the 31st March 2022 as set out in the Notice of Meeting on page 360. Additionally, appointments of Directors appointed after the AGM are valid only until the next AGM at which they can offer themselves for re-election.	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A.8.2	Re-election	All Directors who are retiring by rotation in terms of the Articles of Association of the Company submit themselves for re-election /re-appointment by the Shareholders of the Company at the forthcoming Annual General Meeting of the Company. One Director retire this year and his resume is given on page 29.	☑
A.8.3	Resignation	Director resigning from his or her position as a Director is expected to provide a written communication to the Board formally along with reasons for such resignation. Upon acceptance of the resignation by the Board, the CSE is informed promptly of the resignation and the reason. This procedure was followed during the year for the resignations of Mr. Mahendra Jayasekara.	☑
A.9 Appraisal of Board Performance			
A.9.1	Have in place a formal process for reviewing the performance of the Board and its Sub-committees	The Board conducted a self-evaluation of its performance, using a checklist which covered a range of areas including, but not limited to the composition of the Board, skills, and experience of the members, adequacy of Sub-Committees, proceedings of meetings, and quality of reports and materials submitted. Responses were compiled by the Board Secretary for discussion by the Board. The objective of this evaluation is to improve the performance of the Board to enable the achievement of the Company's objectives.	☑
A.9.2	Appraisals of the Board and the Sub-Committees		☑
A.9.3	Have a process to review the participation, contribution, and engagement of each Director	The Nominations Committee reviews the participation, contribution, and engagement of each Director before recommending for re-election.	☑
A.9.4	State the evaluation process in the Annual Report	Complied with above disclosures and information on page 109.	☑
A.10 Disclosure of information in respect of Directors			
A.10.1	Profiles of the Board of Directors and other related information	The names of the Directors of the Board and their profiles are given on pages 28 to 31.	☑
A.11 Appraisal of CEO			
A.11.1	The setting of the annual targets and the appraisal of the CEO	The performance evaluation of the Chief Executive Officer carried out by the Chairperson, in line with the financial and non-financial objectives set out in consultation with the Board at the commencement of each financial year.	☑
A.11.2	The performance of the CEO should be evaluated by the Board		☑
B. Directors' Remuneration			
B.1 Remuneration Procedure			
B.1.1	Establishment of the Remuneration Committee	The Board has established an HR and Remuneration Committee with an agreed Terms of Reference which includes matters covered in Schedule C of the Code including remuneration of Executive Directors.	☑

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
B.1.2	Composition of Remuneration Committee	The HR and Remuneration Committee comprises Non-Executive Directors of whom the majority are independent. The Chairman is Dr. Sivakumar Selliah who is an Independent Director.	☑
B.1.3	Names of Directors to be given in the Annual Report	Names of the members of the HR and Remuneration Committee are given in the Report of the HR and Remuneration Committee on page 167.	☑
B.1.4	Determination of the remuneration of the Non-Executive Directors	The Board determines the fees and expenses payable to Non-Executive Directors as per the Articles of Association of the Company. Directors' fees comprise a fixed fee and exclude any variable component.	☑
B.1.5	Consultation with the Chairman and the CEO	The HR and Remuneration Committee determines the CEO's remuneration. The Committee consults the CEO on proposals regarding Executive remuneration. No Director is involved in determining his/her own remuneration.	☑
B.2	The Level & Makeup of Remuneration		
B.2.1	The level and makeup of the remuneration should be sufficient to attract, motivate and retain executive directors of the required quality	The HR and Remuneration Committee is responsible for determining remuneration policy including that of the CEO and the Key Management Personnel. Remuneration packages are structured to attract, retain, and motivate them taking into consideration their roles and responsibilities, skills, experience, attributes.	☑
B.2.2	Executive Directors' compensation should be designed in the long-term success of the Company	Currently there are no Executive Directors on the Board.	☑
B.2.3	Remuneration Committee to judge where to position remuneration relative to other companies	The HR and Remuneration Committee compares the remuneration levels of the company with those of comparable companies in the industry and is sensitive to changes in the remuneration levels. It reviews reports of salary surveys periodically to get an indication of comparable industry standards.	☑
B.2.4	Remuneration Committee to be sensitive to employment and remuneration conditions within the Group	The HR and Remuneration Committee considers the remuneration levels of the HNB Group when deciding on remuneration levels for the HNBA Group.	☑
B.2.5	Performance based remuneration	Performance based remuneration of employees, including the CEO, is directly linked to the achievement of agreed targets and goals by the Company and the individual.	☑
B.2.6	Executive share options	The Company has no share option available to its Directors.	N/A
B.2.7	Designing schemes of performance-based remuneration	Refer to the Report of the HR and Remuneration Committee on page 167.	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
B.2.8 & B.2.9	Early Termination of Directors	<p>As the Board comprises solely of Non-Executive Directors, there are no provisions for compensation for early termination of contracts.</p> <p>The Remuneration Committee will determine the remuneration of the CEO in the event of early termination regarding the contract of employment.</p>	☑
B.2.10	Levels of remuneration for Non-Executive Directors	<p>All Non- Executive Directors other than Nominee Directors who are employees of HNB are remunerated in line with market practices.</p> <p>HNB employed nominee Directors are paid a nominal fee only on their attendance at meetings.</p>	☑
B.3 Disclosure of Remuneration			
B.3.1	Disclosure of Remuneration	<p>Report of the HR and Remuneration Committee on page 167.</p> <p>Note 42 in the Financial Statements on page 319 provide information on the remuneration of the Board as a whole.</p>	☑
C Relations with Shareholders			
C.1 Constructive use of the AGM and Conduct of General Meetings			
C.1.1	Dispatch of Notice of AGM and related papers to Shareholders	<p>Notice of Meeting, the Agenda for the Annual General Meeting, and the Annual Report are circulated to Shareholders within the stipulated time in the Articles of Association and the Code.</p>	☑
C.1.2	Separate resolution for substantially separate issues	<p>Separate resolutions are proposed for substantially separate issues to provide Shareholders the opportunity to deal with each significant matter separately. The proxy form reflects this.</p>	☑
C.1.3	Accurate recording and counting valid proxy appointments received for a General Meeting	<p>All proxy appointments received are duly recorded and counted in respect of each resolution, where a vote has been taken by a show of hands.</p> <p>In the event the appropriate number of Shareholders give their intimation in writing and request for a poll, the procedure involved in voting would be circulated. In the absence of such intimation, all issues at the AGM will be passed by a show of hands.</p>	☑
C.1.4	Availability of Chairman of Board Committees at the Annual General Meeting	<p>The Chairmen of the Board Committees are present to answer any queries of the Shareholders directed to them by the Chairperson of the Company.</p>	☑
C.1.5	Summary of Notice of General Meetings and procedures governing voting at General Meetings	<p>The procedures involved in voting will be circulated if the appropriate number of Shareholders give their intimation in writing and request for a poll. In the absence of such intimation, all issues at the General Meeting will be passed by a show of hands.</p>	☑

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
C.2 Communication with Shareholders			
C.2.1	Channel to reach all Shareholders for timely dissemination of information	HNBA has multiple channels of communication to Shareholders which include the following: <ul style="list-style-type: none"> • Notifying CSE promptly for price-sensitive information which is disseminated to the investing public including Shareholders. • Press releases. • Website. 	☑
C.2.2	Disclose policy and methodology for communication with Shareholders	A 'Shareholders' Communication Policy' is adopted by the Company with the determination of ensuring that ready, equal, and timely access to balanced and understandable information about the Company's financial performance, strategic goals and plans, material developments, governance, and risk profile, etc., are Company's Shareholders and the investment community at large. The objective is to enable Shareholders to exercise their rights in an informed manner and to allow Shareholders and the investment community to engage actively with the Company.	☑
C.2.3	Disclose how the policy is implemented	The CEO is responsible for administering the policy and obtains the support of the Company Secretary in the implementation of the same. Accordingly, 25 notices were sent to the CSE for prompt disclosure of relevant matters which included appointment and resignation of Directors, dividends, Quarterly Financial Statements, etc., were also submitted promptly to the CSE.	☑
C.2.4 & C.2.6	Contact person for Shareholder communications	The Company Secretary is the designated person for Shareholder communication and the contact information is provided on page 4.	☑
C.2.5	The process to make Directors aware of Shareholder concerns	Matters raised by Shareholders at the Annual General Meeting are minuted and the Company Secretary communicates Shareholders concerns raised during the year to the Board.	☑
C.2.7	Formulate and disclose the process for responding to Shareholder matters	The Company encourages effective communication with the Shareholders and answers queries and concerns of Shareholders through the Company Secretary who will handle them, escalating concerns to the Board as may be deemed necessary.	☑
C.3 Major & Material Transactions			
C.3.1 & C.3.2	Disclosure of Major Transactions	During the financial year, there were no major transactions, which materially altered the Company's net asset base or the consolidated Group's net assets base. <p>In the unlikely event that the net assets of the Company fall below half of the Shareholders' funds, the Shareholders of the Company would be notified and an Extraordinary General Meeting would be called to propose the way forward in terms of the necessary statutory and regulatory requirements.</p>	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D. Accountability & Audit			
D.1	Financial & Business Reporting		
D.1.1	Present a fair and balanced Annual Report prepared following the laws and regulations with an explanation of deviations	HNBA continues to strive for high standards of corporate reporting, going beyond compliance with regulatory requirements to adopt international best practices in reporting.	<input checked="" type="checkbox"/>
D.1.2	Board responsibility for fair reporting extends to interim and price-sensitive report, regulatory reporting, and statutory information	The Board is assisted in the discharge of this duty by the Audit Committee who reviews the Interim Financial Statements and routine regulatory reporting. The Board reviews other price-sensitive communications before release to ensure it presents a balanced view of the relevant matter.	<input checked="" type="checkbox"/>
D.1.3	Board to obtain declarations from CEO and CFO regarding Financial Statements, financial records, effective operation of systems of internal controls, and risk management	The Audit Committee and Board obtain declarations from the CEO and CFO on the proper maintenance of financial records, the true and fair view of the Financial Statements, and the effective operation of systems of internal control and risk management.	<input checked="" type="checkbox"/>
D.1.4	Declarations by Directors	<p>The following information has been declared in the Annual Report of the Board of Directors from pages 180 to 187.</p> <p>Declaration that the Company has not engaged in any activity which contravenes laws and regulations is given on page 185.</p> <p>Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 184.</p> <p>Declaration that the Company has made all endeavours to ensure the equitable treatment of Shareholders is given on page 185.</p> <p>Directors have complied with the best practices of Corporate Governance is given on page 186.</p> <p>Property, Plant and Equipment are reflected at fair value and, where they differ from fair value, adequate disclosures are made as given on page 182.</p> <p>Declaration that the Directors have conducted a review of the internal controls covering financial, operational, and compliance controls and risk management is given on page 186.</p> <p>Declaration that the business is a going concern is given on page 181.</p>	<input checked="" type="checkbox"/>
D.1.5	Statements by Directors and Auditors	<p>Pages 189 and 190 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements.</p> <p>The Auditor's Report is provided on pages 194 to 197.</p>	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.1.6	Annual Report should include Management Discussion & Analysis	<p>The Management Discussion & Analysis is given on pages 43 to 99 of this Annual Report covering the Disclosure requirements under this code.</p> <p>Business Model – pages 18 and 19.</p> <p>Industry Structure and Developments – page 54 to 61.</p> <p>Opportunities and Threats – page 15.</p> <p>Risk Management – pages 134 to 147.</p> <p>Internal Control Systems and their Adequacy – pages 178 and 179.</p> <p>Governance – pages 101 to 133.</p> <p>Stakeholder Relationships - pages 44 to 99.</p> <p>Social and Environmental Protection Activities Carried Out by the Company – pages 83 to 96.</p> <p>Financial Performance – pages 62 to 75.</p> <p>Investment in Physical and Intellectual Capital - pages 91 to 93.</p> <p>Human Resource/Industrial Relations Activities Carried Out by the Company – pages 76 to 82.</p> <p>Prospects for the Future – page 97 to 99.</p>	☑
D.1.7	Summon EGM if net assets value fall below 50% of Shareholders' funds	As Capital Adequacy is well above the regulatory requirements, the issue does not arise. Provision to call for an EGM in the event net assets fall below 50% is embedded in the Articles of Association.	☑
D.1.8	Adequate and accurate disclosure of related party transactions	<p>HNBA has in place the following mechanisms to facilitate disclosures of related party transactions:</p> <p>A Related Party Transactions Committee to review the related party transactions every quarter.</p> <p>Each related party submits a signed and dated declaration quarterly to provide information on related party transactions.</p> <p>The Company Secretary maintains a record of related party transactions which is summarized and presented to the Related Party Transactions Review Committee each quarter.</p> <p>Note 48 of the financial statements on page 328 sets out the information on Related Party Transactions.</p>	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.2 Risk Management & Internal Control			
D.2.1	The Board should monitor risk management and internal control systems and carry out a review of their effectiveness and report on the same in the Annual Report	<p>The Board is assisted in this duty by the Audit Committee and the Risk Management Committee whose reports are given on pages 162 and 175. They are supported by the Internal Auditors and the Risk and Compliance Department respectively who carry out their functions under the guidance of these two committees, reporting directly to them. The Committee are provided regular reports on related matters to facilitate the assessment of the effectiveness of the internal controls and risk management systems.</p> <p>The Board Statement of Internal Control on pages 178 and 179 provides further information in this regard.</p>	☑
D.2.2	Directors to confirm the assessment of principal risks and provide information on the same	This is provided in the Risk Management Committee Report. (Refer to pages 175 and 176 for further details)	☑
D.2.3	Internal Audit function	<p>The Company's internal audit function is outsourced to Messrs Ernst & Young. Further, Risk and Compliance Department carry out periodic verifications.</p> <p>(Refer to Board Statement of internal control on pages 178 and 179 for further details)</p>	☑
D.2.4	Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls	<p>The Audit Committee is responsible for ensuring that the Company has an effective internal control system. It reviews the effectiveness of the internal control system through the Internal Auditors and</p> <p>the Risk and Compliance Department. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review since the Audit Committee carries the responsibility for the Company's Risk Management practices.</p> <p>Minutes of both the Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review.</p> <p>Extended disclosure on the internal control Process of the Company internal controls at HNBA</p> <p>(Refer Report of the Audit Committee on page 162 to 166 for further details)</p>	☑
D.2.5	Statement of internal control	The Board's Statement on internal control is given on pages 178 and 179.	☑
D.3 Audit Committee			
D.3.1	Establish an Audit Committee of at least three Non-Executive Directors	The Audit Committee comprises three Non-Executive Directors of whom two are independent. Two members of the Audit Committee are professional accountants with recent and relevant experience in financial reporting and control.	☑

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.3.2	Terms of Reference for Audit Committee	The Board has approved the Terms of Reference for the Audit Committee which is in line with that specimen set out in Schedule F of the Code. The Audit Committee Report on pages 162 to 166 provides further information regarding the same.	☑
D.3.3	Disclosures	The Audit Committee Report on pages 162 to 166 provides the information required.	☑
D.4 Related Party Transactions Review Committee			
D.4.1	Definition	Related party transactions are defined in accordance with LKAS 24.	☑
D.4.2	Establish a Related Party Transactions Review Committee	The Board has established a Related Party Transactions Review Committee comprising three Non-Executive Directors of whom two are Independent. The Chairman, Dr. Sivakumar Selliah, is a Non-Executive Senior Independent Director.	☑
D.4.3	Terms of Reference	The Related Party Transactions Review Committee Terms of Reference has been approved by the Board and addresses the matters set out in the Code. Refer to the Annual Report of the Board of Directors on page 180 and the Report of the Related Party Transactions Review Committee on pages 169 and 170 for further information.	☑
D.5 Code of Business Conduct & Ethics			
D.5.1	Board declaration for compliance with Code	HNB Assurance employs a Code of Business Conduct and Ethics for Directors to provide guidance in maintaining an ethical business practice and conduct at all times. Further, the Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without exception. The Code of Business Conduct and Ethics is intended to encourage accountability and openness and is in line with Schedule J of the Code.	☑
D.5.2	Price sensitive information	Material and price-sensitive information is promptly disclosed to the CSE by the Company Secretaries.	☑
D.5.3	Monitor Share purchase by Directors/ KMPs	Refer to the Related Party Transactions Committee Report on page 169.	☑
D.5.4	Chairman's statement	Refer to the Chairperson's Message on Corporate Governance on page 101 and the Annual Report of the Board of Directors on the affairs of Company on pages 180 to 187.	☑
D.6 Corporate Governance disclosures			
D.6.1	Corporate Governance disclosures	The Corporate Governance Report on pages 102 to 125 comply with this requirement.	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
 Section 2 Shareholders			
E Institutional Investors			
E.1.1	Shareholder voting	HNBA conducts regular discussions with Institutional Investors. The Annual Report provides a balanced review of the Group's performance supporting analysis and objective decision making. Shareholders are provided an opportunity to comment, discuss, and seek clarifications on any relevant issue with the Chairperson and Board at the AGM, on conclusion on formal proceedings or by prior appointment.	<input checked="" type="checkbox"/>
E.2	Evaluation of Governance Disclosures	Institutional investors are provided sufficient information to deliberate on matters related to the structure and composition of the Board, facilitating the evaluation of the same.	<input checked="" type="checkbox"/>
F Other Investors			
F.1	Investing and divesting decision	HNBA provides sufficient relevant and material financial and non-financial material in its Annual Report to facilitate meaningful analysis and obtaining independent annual advice regarding their investment.	<input checked="" type="checkbox"/>
F.2	Encouraging shareholder participation and exercise their voting right	Refer Annual General Meeting section on page 112.	<input checked="" type="checkbox"/>
G Internet of things and cybersecurity			
G.1	Internet of things and cybersecurity	Refer IT Governance on page 111.	<input checked="" type="checkbox"/>
G.2	Appoint a Chief Information Security Officer	A qualified Information Technology professional within the Risk and Compliance Departments carries out the functions of the Chief Information Security Officer as envisaged by the Code. He is responsible for the implementation of the Cybersecurity Policy and the Data Classification Policy of the Group which have been adopted by the Board and are in line with that of the requirements of the parent Company. Additionally, the IT Department has a dedicated IT Security Administrator who reports to the Chief Information Officer on matters related to the security of the Group's information assets.	<input checked="" type="checkbox"/>
G.3	Cyber risk management to be a regular item on the Board agenda	The Board reviews cyber risk regularly and they are assisted in this by the Board Risk Management Committee.	<input checked="" type="checkbox"/>
G.4	Independent periodic review and assurance	The Board also reviewed the Company's information security environment through an external firm specialising in IT security audits. During the year, the Board and the Board Sub-Committees have reviewed the reports relating to information security and has discussed the IT road map to address the IT security matters.	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
G.5	The process to identify and manage cybersecurity risks	Refer IT Governance on page 111.	<input checked="" type="checkbox"/>
H Environment, Society & Governance (ESG)			
H.1	Environment, Society and Governance (ESG) Reporting	<p>This report has been prepared following the GRI Standards, the Integrated Reporting Framework, and the Code of Best Practice on Corporate Governance which facilitates voluntary reporting of ESG matters.</p> <p>The following reports provide further information:</p> <p>Environmental Reporting Natural Capital Report on page 94</p> <p>Social Reporting Human Capital Report on page 76 Social & Relationship Capital Report on page 83</p> <p>Governance Corporate Governance Report on page 102 Annual Report of the Board of Directors on page 180</p>	<input checked="" type="checkbox"/>

Complied Not Complied N/A Not Applicable

CORPORATE GOVERNANCE

COMPLIANCE WITH LISTING RULES SECTION 7.10

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

The Company is fully compliant with the Corporate Governance Rules as per Section 7.10 of the Listing Rules. The following table has been published in accordance with the requirement to disclose the level of compliance with such rules.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10 (a) (b) (c)	Statement of Compliance	Publish a statement of compliance with Corporate Governance Rules (Section 7.10 of the Listing Rules) in the Annual Report	Compliant	Please refer page 103 for the statement of compliance
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors	Compliant	All Directors are Non-Executive Directors
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be independent	Compliant	Three out of eight Non-Executive Directors are independent
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence or non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted declarations during 2021
7.10.3 (a)	Disclosures Relating to Directors	The Board shall disclose the names of the Independent Directors in the Annual Report	Compliant	Please refer page 183 of the Annual Report of the Board of Directors for the names of Independent Directors
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, the Board shall specify the basis for that determination in the Annual Report	Not Applicable	No such situation has arisen During the year
7.10.3 (c)		The Board shall publish a brief resume of Directors in the Annual Report, including their experience in relevant areas	Compliant	Please refer the profiles of Directors on pages 26 to 31.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Colombo Stock Exchange (CSE) for dissemination to the public	Compliant	Appointments of Mr. Ashoka Goonesekere as an Non Executive / Independent Director was informed to the CSE on 31st December 2021, including his brief resume

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Details of the Human Resources and Remuneration Committee is given on pages 167 and 168
7.10.5 (a)		The Remuneration Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent	Compliant	The Human Resources and Remuneration Committee comprises Three Non-Executive Directors, of whom Two are Independent Non-Executive Directors
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors	Compliant	Dr. S Selliah (Senior Independent Non-Executive Director) functions as the Chairman of the Human Resources and Remuneration Committee
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer	Compliant	Please refer the functions of the Human Resources and Remuneration Committee on page 167
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer page 167 for the composition of the Human Resources and Remuneration Committee
		Statement of Remuneration Policy	Compliant	Please refer the Human Resources and Remuneration Committee Report on pages 167 and 168
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer Note 42 on page 319

CORPORATE GOVERNANCE

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6	Audit Committee	A listed entity shall have an Audit Committee	Compliant	Details of the Audit Committee are given on pages 162 to 166
7.10.6 (a)		The Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	The Audit Committee comprises Three Non-Executive Directors, Two of whom are independent
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors	Compliant	Mr. Ashoka Goonesekere (Independent Non-Executive Director) functions as the Chairman of the Committee
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings	Compliant	Both the CEO and the CFO attend the meetings by invitation
		Chairman or one member of the Committee should be a member of a recognized professional accounting body	Compliant	Please refer pages 28 to 31 for qualifications of the members of the Audit Committee The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL)
7.10.6 (b)		The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules	Compliant	Please refer page 162 for the Report of the Audit Committee
7.10.6 (c)		The Annual Report should set out: - Names of the Directors serving in the Audit Committee	Compliant	Please refer page 162 for the composition of the Audit Committee
		The Committee's determination of the independence of the Auditors and the basis for such determination	Compliant	Please refer page 162 for the Report of the Audit Committee
		A Report by the Audit Committee setting out the manner of compliance with the requirements set out in Section 7.10 of the Listing Rules	Compliant	Please refer page 162 for the Report of the Audit Committee

COMPLIANCE WITH THE CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS

In year 2018, Insurance Regulatory Commission of Sri Lanka issued the Direction number 17 introducing a Corporate Governance framework for insurers. These rules came into effect (extended effective date) from 01st July 2019 and IRCSL amended the Direction number 17 during the years of 2020 and 2022. latest new amendment Direction number 2 of 2022 (Revised) came into effect from 25th February 2022 onwards. Compliance of HNB Assurance PLC with these regulations is given in the table below:

Compliance status of HNB Assurance PLC with Corporate Governance Framework for Insurers

Section	Requirement	Compliance Status	How we Comply
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	Compliant	The Company's status of compliance with the relevant Corporate Governance Code is given from pages 113 to 125.
B	Insurers are required to comply with the following:		
(1)	The Board of an insurer must be comprised of a minimum of two Directors who are citizens and residents of Sri Lanka.	Compliant	All Directors of the Company are citizens and residents of Sri Lanka.
(2)	The total period of service of a Director of an insurer, other than Executive Director, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director.	Compliant	As at the date of this report no Director has served on the Board for more than nine years.
(2) (i)	Above 9 year rule shall not be applicable to major Shareholder Director representing a major corporate Shareholder and /or Corporate groups with majority shareholding i.e. more than 50% shares of the insurer directly or an individual Shareholder Director holding more than 50% could hold the directorship of the insurer for more than 9 years and upon reaching 75 years she/he could nominate his/her representation to the Board.	Not Applicable	No such situation has arisen during the year.
(2) (ii)	Above 9 year rule shall not be applicable to Technical Director, such Director be allowed to remain in office till the age of 75 provided such person is an Associate or above the Chartered Insurance Institute and having 10 years' experience in an insurance company at senior managerial level.	Not Applicable	No such situation has arisen during the year
(3) (i)	The age of a person who serves as a Director shall not exceed 75 years.	Compliant	No Directors have exceeded the age of 75 years.
(3) (ii)	Notwithstanding above, Person who serves as a director and is over 75 years of age or above as at 01st July 2019, such director may continue to serve as a director only until June 30, 2022, and shall be deemed to have vacated office on June 30, 2022.	Not Applicable	No Such Situation has arisen during the year
4	The Board of an insurer must adhere to Section 7.10 of the Listing Rules of the CSE.	Compliant	The Company's compliance status with rule number 7.10 is given on pages 126 to 128.

CORPORATE GOVERNANCE

Section	Requirement	Compliance Status	How we Comply
5	A person shall not hold offices as a Director of more than 20 companies/entities/institutions including of subsidiaries or associate companies of the insurer, in not more than 10 specified business entities in terms of the Sri Lanka Accounting Standards Act, No.15 of 1995.	Compliant	As at the date of this report, no Director holds directorship in more than 20 companies/entities/institutions and not more than 10 specified business entities.
6	The Company is required to demonstrate compliance with this Direction by way of disclosure in the Annual Report, including the disclosure requirements stated in 7.10 of the Listing Rules of the CSE. If the Company is unable to confirm compliance, disclose the reasons for its non-compliance and the action that will be taken rectifying the said non-compliance within the period. The Annual Report of the Company should be accessible to the IRCSL and the general public via the website of the Company within five months after the Balance Sheet date of the Company.	Compliant	The Company has disclosed the Compliance status with Section 7.10 of the Listing Rules in Pages 126 to 128 of the Annual Report and it is published on the Company and CSE websites within the given time period.
7	The Insurer shall rectify its non-compliance in respect of B 1 to 6 above within three months from the date of Non-Compliance of same and inform the IRCSL immediately after three months.	Not Applicable	No such situation has arisen during the year.
8 (a)	The Insurer should provide a certification from the company secretary to the IRCSL, that continuation of the relevant Director/s beyond the age of 70 years, has been approved by passing the resolution at the general meeting. close relatives of the Director concerned and common Directors holding an ownership stake of the company concerned shall be omitted from voting on the resolution. In respect of each further year extension up to age of 75 years, a fresh resolution shall be passed with the certification from company secretary shall be submitted to the IRCSL.	Not Applicable	Not applicable for year 2021.
8 (b)	The Insurer shall provide a written confirmation from the Company Secretary to the IRCSL, that the continuation of a Director, beyond the age of 70 years, is not prohibited by the Articles of Association of relevant insurer and that such insurer complies with the provision of the companies Act.	Not Applicable	Not applicable for year 2021.

CORPORATE GOVERNANCE AT HNB GENERAL INSURANCE LIMITED

HNBGI uses best practices as given in the Corporate Governance Codes issued by the CA Sri Lanka as guidance to its Corporate Governance framework. Corporate Governance Rules as per the Listing Rules of CSE also shape its Corporate Governance Framework. Further details regarding the governance framework of the company included below.

Corporate Governance at HNB General Insurance Limited

HNB General Insurance Limited (HNBI) is a fully owned subsidiary of HNB Assurance PLC. HNBI was formed in 2015, by transferring the General Insurance business which was under HNB Assurance PLC. IRCSL has issued Corporate Governance framework applicable to all Insurers with effect from 1st July 2019 IRCSL amended the Direction number 17 during the years of 2020 and 2022. The latest new amendment came into effect from 25th February 2022 and the HNB General Insurance Limited shall comply with the said Direction and relevant disclosure regarding same stated in the table given on page 132.

Further, HNBI followed the Corporate Governance rules applicable, as per Listing Rules and the best practices, as given in the Corporate Governance Codes issued by the CA Sri Lanka to shape its Corporate Governance Framework. The Corporate Governance environment of HNB General Insurance Limited is discussed below:

The Board and the Directors of HNB General Insurance Limited

As at 31st December 2021, HNBI comprises of Seven Non-Executive Directors, two of whom are Independent. Details on the Board of Directors appear in the section 5 of Annual Report of the Board of Directors on the affairs of HNB Assurance PLC for the year ended 31st December 2021 on page 183.

Compliance with Corporate Governance Codes

Non-Executive Directors

As at 31st December 2021, all Directors of HNBI were Non-Executive.

Therefore, the requirement on the minimum number of Non-Executive Directors as per Corporate Governance Codes is satisfied.

Independent Non-Executive Directors
out of seven Non-Executive Directors, HNBI had two Independent Directors during the year 2021.

Roles of the Chairperson and the CEO of HNBI

The functions of the Chairperson and the CEO are separated, to ensure balance of power and authority. Mrs. Rose Cooray and Mr. Prasantha Fernando held the positions of Chairperson and the CEO, respectively. (Mr. Prasantha Fernando was retired from his position with effect from 31st December 2021 and Mr. Sithumina Jayasundara has been appointed as the Chief Executive Officer of HNB General Insurance Limited with effect from 01st January 2022.)

Board Functions

The Charter of the Board of Directors of HNB Assurance PLC also applies to the Board of Directors of HNBI as well.

Board Meetings

13 Board meetings were held during the 2021 and the attendance of each Director at such Board meetings is given in the page 183 of the HNBA Annual Report 2021.

Board Sub-Committees of HNBI

Board Sub-Committees of HNB Assurance PLC review the operations of HNBI which fall under their purview.

Accordingly, the following Board Sub-Committees of HNB Assurance PLC review the operations of HNBI as well.

Audit Committee / Human Resources and Remuneration Committee / Nomination Committee /

Related Party Transactions Review Committee / Risk Management Committee / Investment Committee / Strategy Review Committee

All the above Committees have representatives of the Board of HNBI to ensure that the interests of HNBI also considered during the meetings.

External Audit

HNBI's external audit is carried out by Messrs. KPMG Chartered Accountants, who are the External Auditors of its parent company HNB Assurance PLC, as well as of the ultimate parent company Hatton National Bank PLC.

Internal Audit

Messrs. Ernst & Young, the Internal Auditors of the parent company, also function as the Internal Auditors of HNBI. Accordingly, in their audit plan, the Internal Auditors cover the operations of HNBI as well. The audit plan is prepared in consultation with the Audit Committee and adequate steps are taken to ensure that it covers the high risk areas of HNBI's operations.

Risk Management and Compliance of HNBI

The Risk Management function of HNBI is handled by the Risk and Compliance Department of HNB Assurance PLC. Considering the nature of the business, a separate Risk Register, Risk Appetite statement and Key Risk Indicators, are being maintained for HNBI.

A compliance checklist, confirming compliance with applicable laws and regulations, is also prepared on a monthly basis for HNBI. Relevant Operational Managers who are responsible for compliance with relevant rules and regulations sign off the said checklist. These checklists, together with a confirmation from the Compliance Officer, are tabled at the Audit Committee meetings, Risk Management Committee meetings and Board meetings.

Please refer the Risk Management Report of HNBA Group on page 134.

Codes and Policies

All policies applicable for HNB Assurance PLC are also applicable for HNBI as well, Therefore, the Board Sub-Committees and the Internal Auditors monitors whether HNBI also comply with the applicable policies, when carrying out its operations.

CORPORATE GOVERNANCE AT HNB GENERAL INSURANCE LIMITED

COMPLIANCE WITH THE CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS

In year 2018, Insurance Regulatory Commission of Sri Lanka issued the Direction number 17 introducing a Corporate Governance framework for insurers. These rules came into effect (extended effective date) from 01st July 2019 and IRCSL amended the Direction number 17 during the years of 2020 and 2022. latest new amendment Direction number 2 of 2022 (Revised) came into effect from 25th February 2022 onwards. Compliance of HNB General Insurance Limited with these regulations is given in the table below:

Compliance status of HNB General Insurance Limited with Corporate Governance Framework for Insurers.

Section	Requirement	Compliance Status	How we Comply
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	Compliant	HNBG I is not a listed entity, however its Parent Company's (HNBA) status of compliance with the relevant Corporate Governance Code is given from pages 113 to 125.
B	Insurers are required to comply with the following:		
(1)	The Board of an insurer must be comprised of a minimum of two Directors who are citizens and residents of Sri Lanka.	Compliant	All Directors of the Company are citizens and residents of Sri Lanka.
(2)	The total period of service of a Director of an insurer, other than Executive Directors, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director.	Compliant	As at the date of this report no Director has served on the Board for more than nine years.
(2) (i)	Above 9 year rule shall not be applicable to major Shareholder Director representing a major corporate Shareholder and /or Corporate groups with majority shareholding i.e. more than 50% shares of the insurer directly or an individual Shareholder Director holding more than 50% could hold the directorship of the insurer for more than 9 years and upon reaching 75 years she/he could nominate his/her representation to the Board.	Not Applicable	No such situation has arisen during the year.
(2) (ii)	Above 9 year rule shall not be applicable to Technical Director, such Director be allowed to remain in office till the age of 75 provided such person is an Associate or above the Chartered Insurance Institute and having 10 years' experience in an insurance company at senior managerial level.	Not Applicable	No such situation has arisen during the year.
(3) (i)	The age of a person who serves as a Director shall not exceed 75 years.	Compliant	No Directors have exceeded the age of 75 years.
(3) (ii)	Not withstanding above, person who serves as a director and is over 75 years of age or above as at 01st July 2019, such director may continue to serve as a director only until June 30, 2022, and shall be deemed to have vacated office on June 30, 2022.	Not Applicable	No such situation has arisen during the year.
4	The Board of an Insurer must adhere to Section 7.10 of the Listing Rules of the CSE.	Compliant	The Company's Parent Company (HNBA) compliance status with rule number 7.10 is given on pages 126 to 128.

Section	Requirement	Compliance Status	How we Comply
5	A person shall not hold offices as a Director of more than 20 companies/entities/institutions including of subsidiaries or associate companies of the Insurer, in not more than 10 specified business entities in terms of the Sri Lanka Accounting Standards Act, No.15 of 1995.	Compliant	As at the date of this report, no Director holds directorship in more than 20 companies/entities/institutions and not more than 10 specified business entities
6	The Company is required to demonstrate compliance with this Direction by way of disclosure in the Annual Report, including the disclosure requirements stated in 7.10 of the Listing Rules of the Colombo stock exchange. If the Company is unable to confirm compliance, disclose the reasons for its non-compliance and the action that will be taken rectifying the said non-compliance within the period. The Annual Report of the Company should be accessible to the IRCSL and the general public via the website of the Company within five months after the Balance Sheet date of the Company.	Compliant	The Company's Parent Company (HNBA) has disclosed the Compliance status with Section 7.10 of the Listing Rules in Pages 126 to 128 of the Annual Report and It is published on the Company and CSE websites within the given time period.
7	The Insurer shall rectify its non-compliance in respect of B 1 to 6 above within three months from the date of Non-Compliance of same and inform the IRCSL immediately after three months.	Not Applicable	No such situation has arisen during the year.
8 (a)	The Insurer should provide a certification from the company secretary to the IRCSL, that continuation of the relevant Director/s beyond the age of 70 years, has been approved by passing the resolution at the general meeting. Close relatives of the Director concerned and common Directors holding an ownership stake of the Company concerned shall be omitted from voting on the resolution. In respect of each further year extension up to age of 75 years, a fresh resolution shall be passed with the certification from company secretary shall be submitted to the IRCSL.	Not Applicable	Not applicable for year 2021.
8 (b)	The Insurer shall provide a written confirmation from the company secretary to the IRCSL, that the continuation of a Director, beyond the age of 70 years, is not prohibited by the Articles of Association of relevant insurer and that such insurer complies with the provision of the companies Act.	Not Applicable	Not applicable for year 2021.

RISK MANAGEMENT REVIEW

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A structured Risk Management process to identify, measure, monitor and manage risks and opportunities is critical to the Group's ability to create value to stakeholders and our financial stability. It has a direct impact on our prospects for growth as customers rely on credit ratings for financial resilience, particularly for Life Insurance which is a long term business. Accordingly, we continue to invest in enhancing the framework for risk management, tools and technology to enhance our capabilities, strengthening our ability to minimise downside risks and seize opportunities for growth. HNBA's strong balance sheet and stable risk profile has continued to be a strategic differentiator to building trust and confidence amongst our stakeholders.

Risk Governance

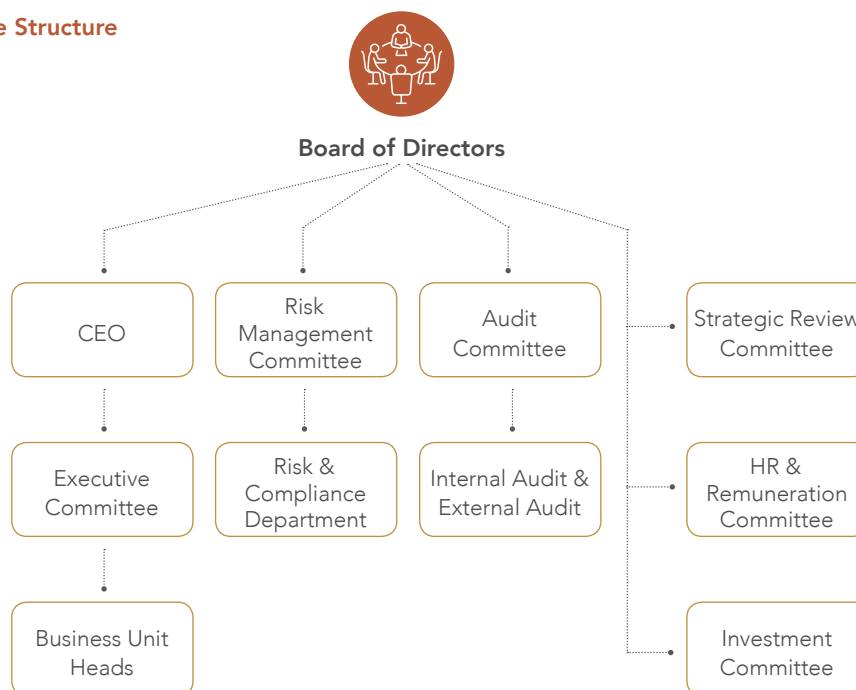


3 Lines of Defence

HNBA Group's risk management objectives are met through a systematic governance structure that is based on the three lines of defence model as set out below.



HNBA Risk Governance Structure



1st Line of Defence Executive Management	2nd Line of Defence Risk Oversight	3rd Line of Defence Independent Assurance
<ul style="list-style-type: none"> • Design suitable Risk Management Framework. • Identify and analyse risks in terms of the above framework. • Decide on the risk appetite of the Company, analysing controls in place and designing new controls required. • Implement actions/additional controls required to mitigate risks above the Group/Company acceptable level. • Monitor Performance of Risk Management Actions. 	<ul style="list-style-type: none"> • Follows up continuously on effective implementation of Risk Management strategies. • Coordinates with the Audit Committee, Risk Management Committee, Investment Committee and Internal and External Auditors and follows-up on their recommendations to improve the effectiveness of the Risk Management Process. • Makes continuous improvements to the Risk Management Framework where necessary, with the assistance of the Management and other relevant parties. 	<ul style="list-style-type: none"> • Reviews effectiveness of controls in place to manage/mitigate risks and reports any deviations. • Recommends improvements and corrective actions where necessary. • Follows up continuously on effective implementation of Risk Management Strategies.

 Refer Corporate Governance on page 102 for further details on Group Structure responsibilities

Risk Environment in 2021

Appointment of two CEO's

- » Appointment of CEO for Life Insurance and CEO for General Insurance

Cyber Security

- » Increased focus on cyber security due to increased digitalisation and onboarding of customers

Risk Dashboards

- » Enhancement of the Risk dashboards to provide better qualitative information for strategic decision making

Regulatory Changes

- » Changes in Government Regulations requiring a reassessment of HNBA/HNBGI's long-term strategies

With the COVID-19 Global Pandemic extending to the financial year 2021, the socioeconomic conditions continued to be straitened by extended boarder restrictions, lockdowns and business interruptions compelling governments and the businesses to change its long-term strategic decisions on an ongoing basis. Even though the vaccine roll-out for COVID-19 was introduced in the first quarter of 2021, new variants and waves continued to disrupt businesses.

Interruption of the global supply chain also extended to 2021 due to business disruptions. Cyber threats, privacy and identity threats and information security threats also remain at elevated levels.

In Sri Lanka the financial stability risk escalated with the severe shortages in inflow of foreign currency, compelling the central authorities to make strategic decisions impacting exchange rates, inflations and interest rates. Inflation increased from 4.2% in December 2020 to 12.1% in December 2021 with food inflation increasing from 9.2% to 22.1%. Interest rates also moved up with the indicative 364 day treasury bill rate moving from 5.05% to 8.24% during the year.

Key factors/drivers affecting the risk landscape for the Insurance industry are summarized below.



Macroeconomic Stress

Sri Lanka's looming debt repayments, devaluation of the rupee and downgrade of the sovereign rating are major concerns. Inflation, interest and exchange rates moved up during the year reflecting the economic stress as the country's foreign exchange inflows remained at low levels.



COVID-19 Pandemic

The pandemic continues to impact economic activities, amplifying downside risks to many sectors and straining resources at national, entity and individual levels to manage the prolonged effects of the pandemic.



Societal Changes

Dramatic changes to lifestyles and high levels of uncertainty have increased demand for life insurance as well as an increase in claims. Adapting to remote working and managing health and safety at the workplace added a new layer of complexity, mitigated to a large extent through remote working, technology adoption and vaccinations.



Technology

The pandemic triggered widespread adoption of technology to overcome constraints related to social distancing, enabling onboarding of stakeholders to digital platforms. At the same time concerns over data privacy and cybersecurity have also escalated.



Climate Change

While Sri Lanka was blessed with fair weather during the year, natural disasters and climate change continue to remain key concerns which offer both opportunities for product innovation and threats from related losses.



Regulation

The pace of regulation moderated during the year, changing direction to providing relief to customers. Implementation of IFRS 17 was deferred to January 2023 in recognition of the increased stress on people and institutions during the present crisis.

Managing Risk

Risk Management Framework

The Risk Management Framework is the authoritative document for managing risk which sets out the processes and responsibilities for identifying, measuring, managing, monitoring and reporting risk.

Risk Management Framework is sectioned as follows:

- » Risk Management Objectives
- » Risk Management and Internal Control
 - General Control Environment
 - Specific Internal Control Environment
- » Risk Assessment
- » Risk Management at HNB Assurance Group
 - Risk/Control Self-Assessment
 - Risk Grading
 - Monitoring Risk
 - Management and Internal Control Programme
 - Risk Management and Internal Control Responsibilities
- » Risk Appetite Levels



A **Risk Register** is maintained by the Risk Department which is tabled at the Executive Committee, the Board Risk Management Committee and the Board as a regular agenda item. It identifies the material risks faced by the Group/Company with regard to both core and supporting activities of the business. The Risk Register plays a critical role in our Risk Management Strategy, enabling conduct of qualitative and quantitative risk analysis, design of appropriate risk responses to monitor and manage the risks.

Risk Assessment - Identified risks are assessed for the potential impact and the likelihood of occurrence by risk owners through the Risk/Control Self-Assessment processes using the matrix given below. This is reviewed by the Risk & Compliance Department to ensure that ratings are consistently applied throughout the Group.

	Rating	Description
Impact		
Catastrophic	9-10	Impact more than 50% of the PBT
Critical	7-8	Impact between 33% to 50% of the PBT
Moderate	5-6	Impact between 5% to 33% of the PBT
Minor	3-4	Impact between 1% to 5% of the PBT
Negligible	1-2	Impact less than 1% of the PBT
Probability		
Frequent	9-10	Event likely to occur
Probable	7-8	Event could be experienced
Occasional	5-6	Some part of the event is likely to occur
Remote	3-4	Event is possible, but unlikely to occur during the year
Improbable	1-2	Very Unlikely

RISK MANAGEMENT REVIEW

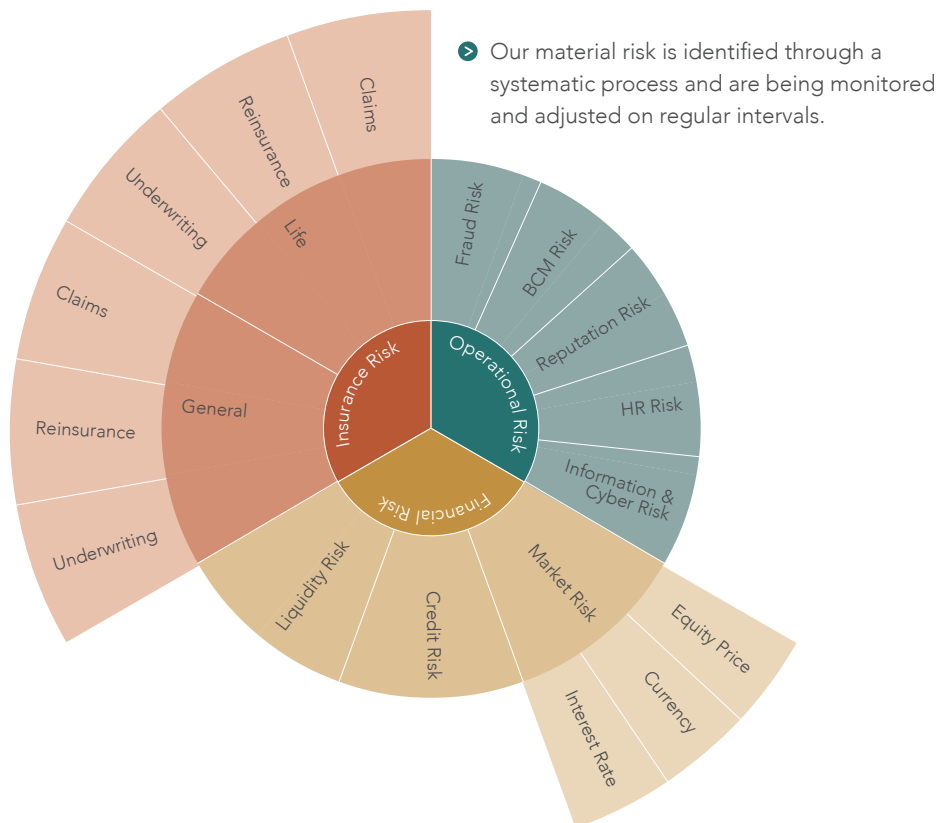
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Risk Appetite - HNBA's Risk Management Framework defines the Risk Appetite and the tolerance levels for types of key risk. The Board takes in to account the strategic business goals, the operating environment, stakeholder expectations, regulatory requirements and the risk profile of the Group in determining the risk thresholds.

The Board and the Risk Management Committee monitor compliance with the risk tolerance limits to ensure that the risk profile of the Group is maintained at an acceptable level. Additionally, quarterly risk reports are submitted to the parent company Hatton National Bank PLC along with the financial statements for monitoring purposes. Quarterly returns are also made to the industry regulator IRCSL on specified matters which include a Risk Assessment Summary which have been made within the stipulated time despite the disruptions to work.

Our Material Risks

Our material risks are identified through the Risk Management Framework and the following risks are considered to have the most significant impact



Risks in Life Insurance Sector

Insurance risk is the likelihood of a claim incident occurring as well as more general exposure relating to the acquisition and persistency of insurance business. Key risk drivers of Life Insurance business are mortality rates, longevity, lapse rates, discount rates, distribution expenses and management expenses.

Developments 2021	Risk Mitigation	Risk Indicators
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Underwriting Risk

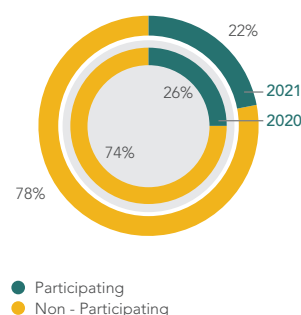
The risk of the premiums received from policyholders being insufficient to cover claims if the event or contingency insured against takes place. It can include underestimated liabilities arising from unpaid business written in previous years and underpriced policies in current use.

The COVID Pandemic extending to 2021 resulting in continuation of business interruptions and reduction in disposable income, further impacted the demand dynamics and claims patterns during the year necessitating changes in marketing strategies and reviews of product portfolios to assess gaps and heightened risks.

- Diversification across a large portfolio of insurance contracts and geographical areas
- Segregation of duties between underwriting and sales with underwriting centralized at Head Office.
- Underwriting limits are clearly defined in the Manual of Financial Authority
- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are priced in line with risks covered.
- Medical reports are obtained from registered laboratories which are regularly reviewed by the Management to monitor the quality of service.
- Carrying out underwriting as per the guidelines set by the reinsurers.
- Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors.
- A 'Customer Needs Analysis' Form is used to identify customer requirements and sell the most appropriate policy.

 Further details on Underwriting Risk Management are given in Note 4.3.2.1.2 on page 224.

Participating vs Non - Participating policies %




HNBA is gradually increasing the proportion of Non-Participating funds by selling more Non-Participating products such as "My Fund" and "Ranmaga".

Reinsurance Risk

Refers to retention of risks beyond the Company's net retention capacity without having adequate reinsurance and the inability of reinsurers to meet their commitments due to insufficient financial strength.

The world's largest reinsurers were moderately impacted by the COVID-19 pandemic in 2020 and with the vaccine roll-out in 2021, the mortality rate is expected to decline and to further improve the risk ratings.

- Restructuring of reinsurance agreements with reinsurers regularly
- A very close and professional relationship is maintained with all reinsurers.
- Only reinsurers with ratings above the regulatory requirements are used as reinsurers.
- Frequent review of the outstanding Reinsurance receivables.
- Changes to the ratings of reinsurance companies are continuously monitored.

 Further details on Reinsurance Risk Management are given in Note 4.3.2.1.3 on page 224.

Reinsurer	Country of Origin	Rating	Rating Agency
Munich-Re	Germany	AA-/Stable	Fitch
Hanover-Re	Germany	AA-/Stable	Standard & Poor
RGA	Ireland	AA-/Stable	Standard & Poor

RISK MANAGEMENT REVIEW

Developments 2021	Risk Mitigation	Risk Indicators
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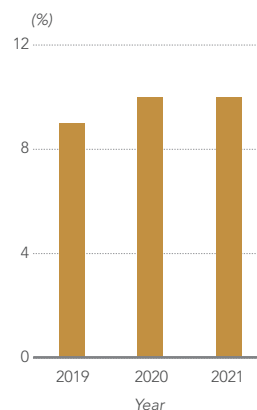
Claim Risk


Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.

With the vaccine rollout in 2021 expected a decline in number of death claims, however similar trend noted compared against 2020.

- An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.
- An in-house Actuarial Department headed by a qualified actuary monitors the Life Insurance business more closely and guide the Management to make more informed decisions.
- Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured.
- Service standards have been set on the time taken to process claims and these are monitored by the Management as well as by the Board Risk Management Committee.
- Independent investigators are used to investigate claims to ensure fraudulent claims are identified
- Financial authority limits are set based on the claim limits where the maximum limit is with the claims panel which is involved in making decisions with regard to significant/problematic claims and appeals made in respect of claims.

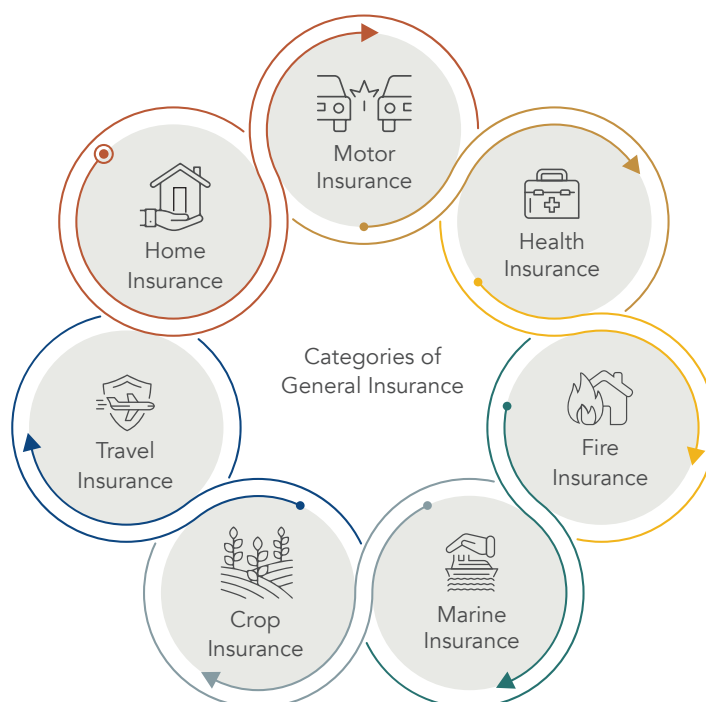
Claims Ratio without Maturities



 Further details on Claims Risk Management is given in Note 4.3.2.1.4 on page 225.

Risk in General Insurance

General Insurance risk includes increasing number of road accidents, natural disasters, terrorist activities, behavioural trends of people due to changing lifestyles, epidemics and medical science and technology advancement, steady escalation of costs related to automotive spares and healthcare.



Developments 2021 | Risk Mitigation | Risk Indicators


Underwriting Risk
 The risk of the premiums received from policyholders being insufficient to cover claims if the event or contingency insured against takes place. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change.

Restriction in vehicle imports and trade flows resulted in subdued demand for general insurance.

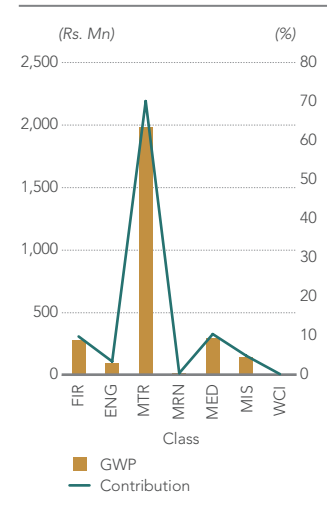
The reduction in disposable income also have impacted the demand.

Although there was increased interest in medical insurance, this was insufficient to counter the decline in demand from other products.

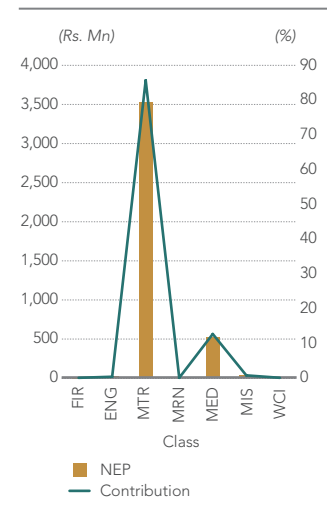
- Diversification across large portfolio of insurance contracts and geographical areas
- Segregation of duties between sales and underwriting. The underwriting function is centralized at Head Office for both Motor and Non-Motor.
- Training and development of underwriting staff and distribution network team with the establishment of the General Insurance Academy which seeks to improve the technical knowledge of these key teams.
- Careful selection and implementation of underwriting strategies to diversify risk by type and level of insured benefits.
- Maintenance of statistical databases on all customer profiles and regular review of loss making customers
- Strict control over issuance of cover notes and limiting these to the 60 day validity period.
- Manual of Financial Authority is available to give guidance on underwriting limits.
- Carrying out risk surveys and portfolio reviews.
- A risk based pricing mechanism has been introduced for motor underwriting.
- Minimum premium levels have been set for certain vehicle categories.
- Motor underwriting is carried out considering the limits set in the Risk Appetite Statement. Motor insurance performance against the Risk Appetite Statement is monitored at the Board Risk Management Committee meetings.
- Staff incentive schemes consider both turnover and profitability
- Average premium prices with that of the average claims cost and the claims frequency is monitored on a daily basis to identify any changes in the business on an ongoing basis.

 Further details on Underwriting Risk Management are given in Note 4.3.2.2.2 on page 227.

HNBGI GWP - Classwise



HNBGI NEP - Classwise



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Developments 2021	Risk Mitigation	Risk Indicators
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Re-insurance Risk

Refers to retention of risks beyond the Company's net retention capacity without having adequate reinsurance and the inability of reinsurers to meet their commitments due to insufficient financial strength.

- Frequent review of the outstanding Reinsurance receivables
- A very close and professional relationship is maintained with all reinsurers and reinsurance brokers.
- Confirmed reinsurance is in place prior to issue of cover except in the case of some selected classes which are written on a net basis.
- Only a globally trusted and stable portfolio of reinsurance companies is used.
- Changes to the ratings of reinsurance companies are continuously monitored.

 Further details on Reinsurance Risk Management are given in Note 4.3.2.2.3 on page 227.

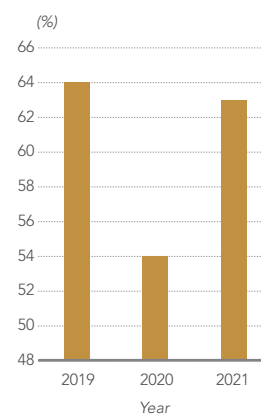
Reinsurer	Country of Origin	Rating	Rating Agency
General Insurance Corporation of India	India	bbb+	A M Best
Oman Reinsurance Company SAOC	Barbados	a-	A M Best
SCOR Reinsurance Asia-Pacific Pte Ltd	Singapore	aa-	A M Best
Santam Ltd	Switzerland	aa	A M Best
Trust International Insurance & Reinsurance Company B.S.C	Barbados	a-	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka (Government owned entity)		Fitch Rating
Saudi Reinsurance Company, Labuan Branch	Saudi Arabia	A3	Moody's
Lancashire Syndicates Limited (9329 at Lloyds)	UK	a+	A M Best
Antares Syndicate 1274 (AUL 1274 at Lloyds)	UK	a+	A M Best


Claim Risk

Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.

- Motor claims engineering and motor claims processing functions have been segregated to ensure proper segregation of duties.
- Average size of the claims outstanding and a trend analysis on the claims outstanding amount is carried out to check any unusual movements in claims reserving.
- The services of a qualified independent actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claims are separately reviewed with the support of the Legal Department.
- Closed file reviews are carried out periodically to identify any control lapses
- Independent investigators are used to investigate claims to ensure fraudulent claims are identified

HNBGI Claims Ratio



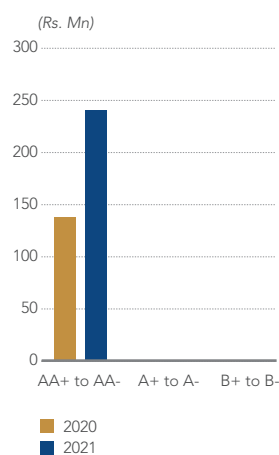
Developments 2021	Risk Mitigation	Risk Indicators
	<ul style="list-style-type: none"> Increase the number of on-site offers for low value motor claims to provide a better service and reduce the administration cost of the claims process. Financial authority limits are set based on the claim limits where the maximum limit is with the claims panel which is involved in making decisions with regard to significant/problematic claims and appeals made in respect of claims. 	
	<p> Further details on Claims Risk Management is given in Note 4.3.2.2.4 on page 228.</p>	

Financial Risks

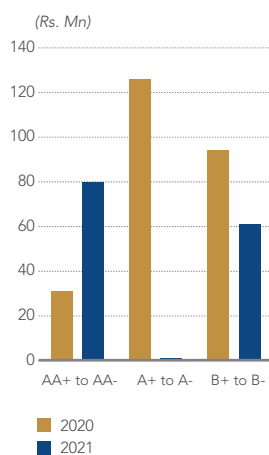
HNBA is exposed to financial risk from its portfolio of investments in financial instruments which are subject to credit risk, market risk and liquidity risk. Stability of economy, fiscal and monetary policy, stability of the financial system, and vibrancy of capital markets impact the risk ratings. Appropriate policies and procedures have been set in place to manage these financial risks.

Developments 2021	Risk Mitigation	Risk Indicators
Credit Risk (Insurance Receivable and RI Receivable)		
Uncertainty of the debtors' ability to meet obligations due to the Company		
Stressed economic conditions increased credit risks.	<ul style="list-style-type: none"> Meticulous follow ups for premium outstanding. Periodic review policy cancellation and check the status of outstanding premium before settling claims. Periodic review of the premium receivables (RI) to provide adequate impairment provisions. Assessment of credit worthiness of reinsurers in selection and periodic review of their ratings. Review of outstanding balances monthly and ensure that all dues are collected or set-off against payables 	

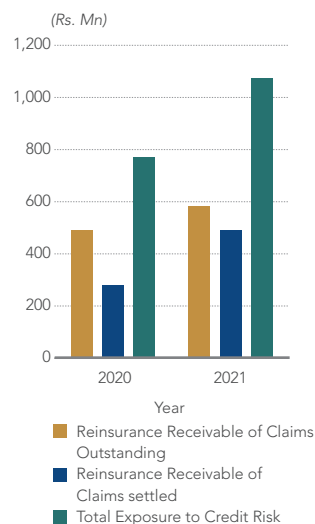
HNBA RI Receivables Based on Credit Rates (on Settled Claims)



HNBGI RI Receivables Based on Credit Rates (on Settled Claims)



Credit Risk - Reinsurance Receivables - Group



RISK MANAGEMENT REVIEW


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Developments 2021	Risk Mitigation	Risk Indicators
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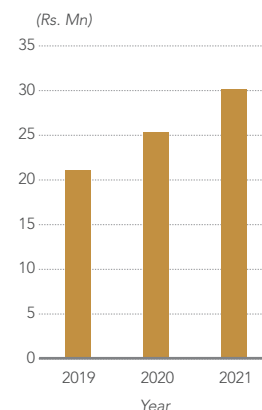
Credit Risk (Financial Instruments)

The risk of a loss due to counter party fails to meet its contractual obligations.

- Investments are only made with entities approved by the Investment Committee which, in the opinion of the Committee, carry minimal credit risk. Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Any investments in any other entity are carried out only with the explicit approval of the Investment Committee.
- All investments in Corporate Debt Instruments, whether rated or not, are done after a detailed evaluation carried out by the Investment Management Team, who will recommend investments for approval by the Chief Investment and Strategy Officer, CEO or the Investment Committee according to the Limits of Authority pertaining to investments.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels.
- Master Repo Agreements are signed with all primary dealers working with the Company in order to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy.
- Maintained a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd., (a joint venture of HNB and DFCC Bank) provides additional comfort.

 Please refer pages 230 to 237 (Financial Risk section) for further information.

Concentrations of Credit Risk - Financial Instruments



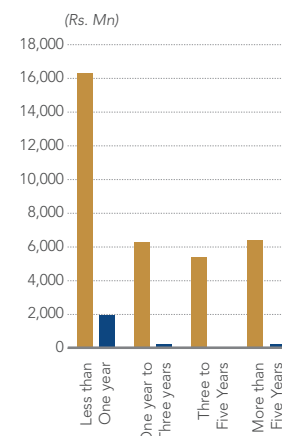
Liquidity Risk

The inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.

The Group has remained liquid throughout the year with CAR well above regulatory requirements. However, we have strengthened stress testing in the wake of the pandemic to review liquidity and capital management strategies.

- The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by the Investment Committee regularly.
- Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets in order to ensure sufficient funding is available to meet insurance and investment contract obligations.
- Reviewing the maturity mix of the investment portfolio by the Management and the Investment Committee on a regular basis.

Maturity Profile of Assets and Liabilities - Group



Developments 2021	Risk Mitigation	Risk Indicators
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Market Risk

The risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of Interest rate risk, equity price risk and currency risk. As exposure to currency risk is minimal, this has not been elaborated further, except for the sensitivity disclosed below

Rs.Mn.	Interest Rate Risk		Equity Price Risk		Currency Risk	
	2020	2021	2020	2021	2020	2021
Assets	29,748	34,264	151	218	317	474
Liabilities	1,947	2,486	-	-	-	-

Sensitivity (Rs.Mn)	2021							
	Yield Curve 100% bps		ASPI 10%		Exchange Rate 5%		Total	
	PBT	Equity	PBT	OCI	PBT	Equity	PBT	Equity
Increase/ Strengthening		(264)	14	8	(24)	(18)	(10)	(272)
Decrease/ Weakening		280	(14)	(8)	24	18	10	290

Increase in interest rates during the later part of 2021 has an improved outlook with higher earning capacities than in 2020. However, the continued depreciation of currency is expected to impact dollar denominated investments although exposure is minimal. Conversely, the improvement in the performance of the Colombo Stock Exchange will also have little impact on earnings due to minimal exposure to equity price risk.

Interest Rate Risk

The risk of fluctuations in the fair value or future cashflows of investments due to a change in market interest rates. This may result in under achievement of investment income, fall in fund value and inability to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.

- The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by the Investment Committee regularly.
- Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.
- Necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis.
- Investments are classified in to different as required by Standards (SLFRS/LKAS) considering both the intention and the ability of the Company to hold such investments.

Exposure – 2021				Rs.Mn
	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
Assets		29,410	4,854	34,264
Liabilities	230	534	1,723	2,487
Sensitivity				
(Rs. Mn)			Impact on PBT	Impact on Equity
100 bps Parallel Increase in All Yield Curves			-	(262)
100 bps Parallel Decrease in All Yield Curves			-	280

RISK MANAGEMENT REVIEW

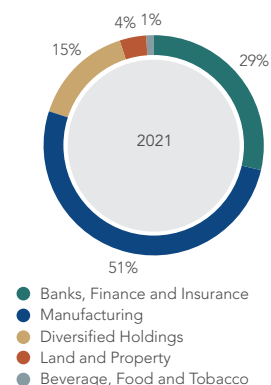
GRI 102-30

Developments 2021	Risk Mitigation	Risk Indicators
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Equity Risk		
The risk of fluctuations in equity investments due to change in equity market prices		

- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectoral equity limits.
- Investments are mostly made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team.
- Equity portfolios are reviewed quarterly by the Investment Committee on a quarterly basis.
- Impact from market movement is monitored on a daily basis and warnings sent to CEO and CFO of high impact volatilities.

Equity Portfolio Diversification



Operational Risk		
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Operational risk is the possibility of incurring losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes fraud, business interruptions, inaccurate processing of transactions, non-compliance regulations etc.

Developments in 2021	Continuation of Business interruptions, health and safety risks, cyber and information risks and overall financial stress increased operational risks for 2021, however, due to these risks extending from 2020 the risks were better managed in 2021 due to its familiarity and due to the proactive measures taken by management.
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Business Interruption Risk		
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Interruptions to continuous operations due to unpredictable outbreaks such as COVID-19 or damages to infrastructure such as fire or flood, or IT outage, which can occur through malicious or accidental means or because of failure to fulfil contractual obligations by a company to the suppliers, customers or service providers

- | | |
|-------------|---|
| Mitigations | <ul style="list-style-type: none"> • Implementing healthy and safety protocols in consultation with health authorities and building management to minimise risks at the workplace • Changing office layout to facilitate social distancing • Enabling employees to telecommute to minimise exposure • Working in two Teams to minimise exposure • Reinforcing health and hygiene practices through multiple channels including daily broadcasts of reminders at regular intervals • All employees were given BCP training with the assistance of a third party consultant to mitigate potential operational risks • Clear communications with third party providers and their staff on premises to mandate compliance with safety measures implemented by HNBA |
|-------------|---|

Information and Cyber Risk		
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Risk of financial loss, disruption or damage to the reputation of the Company from some form of compromise of information to unintended parties and unauthorized access to our core systems or data/information. It also arises from failure of the company's information technology systems

Operational Risk

- Mitigation
- Continuous monitoring of cyber risks and information system risks by a specially dedicated system administrator and an officer from the Risk and Compliance Department.
 - Documented processes in place such as Information Technology Policy and the policy has clearly defined roles, responsibilities and procedures.
 - KRI related to the IT risks are presenting to the Board Risk Committee on a continuous basis.
 - The Group has a business continuity plan and annual tests are carried out
 - Special IT training for employees prior to signing of WFH agreements which were put in place to manage information and cyber risks.

HR Risk

An HR risk is any people, culture or governance factor that causes uncertainty in the business environment that could adversely affect the Company's operations

- Mitigation
- Motivating employees through rewarding schemes and trainings.
 - Counselling employees as and when they need counselling.
 - Conduct exit interviews and periodically carrying out induction programs.
 - Analysis of staff turnover is reviewed by the Management and the Board.
 - Employee surveys are carried out on a periodic basis.
 - Regular Management meetings and Distribution Management meetings are conducted to convey the key decisions taken at the top Management level and to communicate what is happening in the Company to all members of the Management Team.
 - Salary surveys are conducted periodically to ensure competitive salaries are given to the staff.

Reputation Risk

Reputation risk is a top strategic business risk, being a key business challenge. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis

- Mitigation
- Internal audit reviews the internal controls of the Group through audits carried out and shares the findings with the Audit Committee. Corrective actions/implementation of recommendations are also monitored.
 - Employee Code of Business Conduct, Integrity Reporting Policy, Share Dealing Policy and Code are in place for the guidance of staff and streamline controls.
 - Reputational risk management process included in the Risk Management Policy to strengthen the controls.

Fraud Risk

Fraud risk commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion.

- Mitigation
- Internal audits are regularly carried out in the areas which are susceptible to fraud.
 - Risk and Compliance Department continuously monitoring the areas which are more vulnerable to the business.
 - Fraud risk register included in the Risk Management Policy to strengthen continuous monitoring.
 - Employee Code of Business Conduct, Integrity Reporting Policy, Share Dealing Policy and Code are in place for the guidance of staff and streamline controls.

INVESTOR INFORMATION

One of the prime objectives of HNBA is maintaining a strong relationship and creating maximum wealth to our existing and potential investors. Investor information outlines all information relevant for the performance of listed equity of the Company during the year that our investors would require to make informed decisions. We as a company with a sustainable and long-term view, commit ourselves to enhance Shareholder wealth in a sustainable manner and consider it as our duty to provide accurate and timely information to our investors by adhering to good governance practices.

Performance of the Stock Market for the year ended 31st December 2021

The Colombo Stock Exchange (CSE) surpassed several milestones in 2021; owing to the strong fundamentals of many counters, extraordinary investor interest in the stock market, and supported by negative real interest rates that prevailed. The benchmark All Share Price Index (ASPI) of CSE recorded a market return of 80.5%, which was the highest return recorded since 2010. The ASPI ended 2021 on 12,226.0 points. The S&P SL20 index which features the CSE's 20 largest and most liquid stocks also recorded a return of over 60.4%, which was the highest ever recorded in CSE's history, closing at 4,233.3 points at the end of 2021.

Rs. 5,489.17 Bn

Market Capitalisation

Rs. 4.89 Bn

Daily Average Turnover

Rs. 1,173.16 Bn

Total Turnover

Rs. 52.65 Bn

Net Foreign Outflow

During 2021, CSE introduced a number of initiatives. Proposed dollar listings/ multi-currency listings, REPO trading on debt securities, introduction of Delivery vs Payment (DVP) and the most significant development was the Digitalisation Drive of the stock market, initiated by the Securities and Exchange Commission of Sri Lanka (SEC) and the CSE.

Over Rs. 120 Billion worth of new capital was raised through the CSE in 2021, with 13 equity IPO listings; the highest ever capital raised via equity listings since 2011. Most of the retailers were active during 2021 and local investors have contributed to approximately 95% of the total market turnover in 2021 which is higher when compared to approximately 79% in 2020.

Stated Capital

The number of shares representing the Company's Stated Capital is given below.

Stated Capital	Number of Shares	Class of Shares	Voting Rights
Rs. 1,171,875,000	150,000,000	Ordinary Shares	One Vote per Ordinary Share

Movement in Share Capital

Year	Detail	Basis	No. of Shares (000')	Share Capital (Rs.000')
2002	Prior to Public Issue	-	25,000	250,000
2003	Public Issue	-	-	-
2007	Bonus Issue	1:2	12,500	125,000
2011	Capitalisation of Reserves	1:6	6,250	406,250
2011	Rights Issue	1:7	6,250	390,625
2020	Subdivision	1:3	100,000	-
	Total		150,000	1,171,875

STOCK EXCHANGE LISTING

Listed on the Main Board of CSE

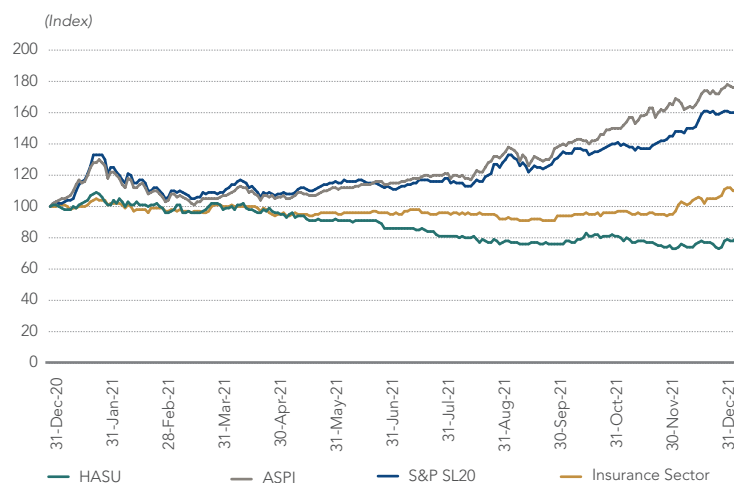
CSE Code:

HASU.N0000

Performance of HASU

During the year HASU operated as a very active stock with high market activity by trading in all 240 market trading days. The liquidity of the HASU increased with the increased activity level of the market and 20.2 Million shares were traded during year 2021, which was a 209.2% increase compared to previous year. Even though the share price decreased by 16.8%, total turnover of traded shares increased by 67.3% by recording Rs. 1,409.8 Million in 2021. Market capitalisation recorded as Rs. 7.3 Billion at the year ending 31st December 2021. During the year the share price reached a high of Rs. 64.00 (27th January) and low of Rs. 42.30 (1st December). HASU share price closed at Rs. 48.40 in 2021.

HASU Performance Vs Market

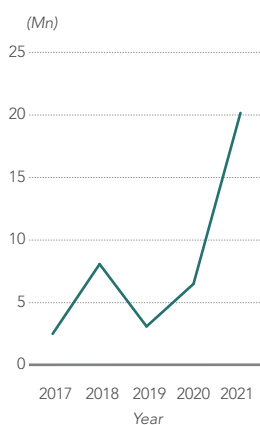


Share Performance

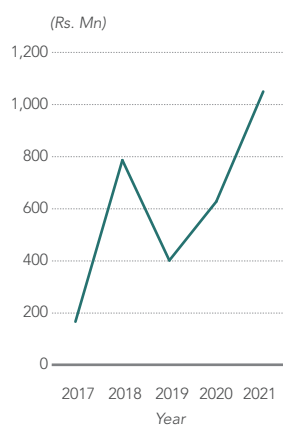
	2021	2020	2019	2018	2017
Market Capitalisation (Rs. Mn)					
HNB Assurance PLC	7,260	8,730	6,900	6,600	3,625
CSE	5,489,168	2,960,650	2,851,310	2,839,450	2,899,291
Market Price per share (Rs.) - Company					
Highest	64.00	178.00*	143.90	135.00	74.40
Lowest	42.30	55.10	98.60	72.60	52.00
Year end (VWA)	48.40	58.20	138.00	132.00	72.50

*The highest share price recorded is prior to the subdivision of shares, including share prices prior to 2020

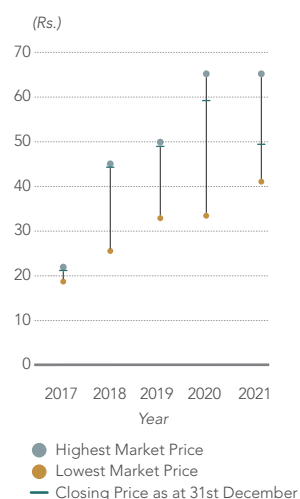
Number of Shares Traded



Value of Shares Traded



Share Price Movement



INVESTOR INFORMATION

Share Trading

	2021	2020	2019	2018	2017
Number of Transactions	14,186	7,760	3,535	6,024	2,433
Number of Shares Traded	20,157,342	6,502,845	3,100,694	8,076,234	2,507,543
Value of Shares Traded (Rs.)	1,049,843,639	627,625,766	401,941,061	786,616,771	167,015,024

Share Performance Related Ratios

	2021	2020	2019	2018	2017
Number of Shares	150,000,000	150,000,000	50,000,000	50,000,000	50,000,000
Dividend per share (Rs.)	3.20	2.80	8.00	7.00	6.00
Dividend Payment (Rs. Mn)	480	420	400	350	300
Dividend Pay-out (%)	48	58	48	14	41.38
Basic Earnings per share (Rs.) - Group	8.16	7.83	6.73*	54.11	18.20
Basic Earnings per share (Rs.) - Company	6.67	4.83	5.51*	49.50	14.50
Net Asset Value per share (Rs.) - Group	54.15	54.63	134.29	114.89	75.93
P/E Ratio (Times)	5.93	7.43	6.83	2.67	3.98

* Restated based on the post subdivision weighted average number of ordinary shares as at 31st December 2020

Basic Earnings per Share

Earnings per Share (EPS) indicates how much money a company makes for each share of its stock. HASU recorded healthy and steady EPS of Rs. 8.16 in year 2021 with a Year on Year increase of 4.2% (2020: Rs. 7.83) with the improved profitability of the Group.

Price Earnings Ratio

Price earnings ratio has decrease by 20.2% in 2021 against the previous year to 5.93 times from 7.43 times recorded in 2020, which shows the number of times to EPS required to cover the investment on HASU.

Shareholding

There were 4,450 registered Shareholders as at 31st December 2021(2020-4,075).

a) Distribution and Composition of Shareholding

Distribution and composition of Shareholders as at 31st December 2021

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of Shares	No. of Shareholders	No. of Shares	% on Total No. of Shares	No. of Shareholders	No. of Shares	% on Total No. of Shares
1 – 1,000 Shares	2,005	701,861	0.47	7	2,292	0.00	2,012	704,153	0.47
1,001 – 10,000 Shares	1,781	6,533,366	4.36	8	27,173	0.02	1,789	6,560,539	4.37
10,001 – 100,000 Shares	572	14,717,871	9.81	9	279,053	0.19	581	14,996,924	10.00
100,001 – 1,000,000 Shares	54	14,595,887	9.73	3	866,133	0.58	57	15,462,020	10.31
Over – 1,000,000 Shares	11	112,276,364	74.85	-	-	0.00	11	112,276,364	74.85
Total	4,423	148,825,349	99.22	27	1,174,651	0.78	4,450	150,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2021			31st December 2020		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	4,423	148,825,349	99.22	4,043	148,434,052	98.96
Non-Resident	27	1,174,651	0.78	32	1,565,948	1.04
Total	4,450	150,000,000	100.00	4,075	150,000,000	100.00

ii. Individual /Institutional

	31st December 2021			31st December 2020		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	4,282	32,017,271	21.34	3,928	37,653,773	25.10
Institutional	168	117,982,729	78.66	147	112,346,227	74.90
Total	4,450	150,000,000	100.00	4,075	150,000,000	100.00

Public Shareholding

The details of the public shareholding as at 31st December are given below.

	2021		2020	
	Shareholders	% on Total No. of Shareholders	Shareholders	% on Total No. of Shareholders
Number of Shareholders	4,437	99.71	4,062	99.68

	2021		2020	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	52,952,727	35.30	52,834,357	35.22
Float Adjusted Market Capitalisation* (Rs.)	2,562,911,987		3,074,959,577	

The Company complies the minimum public Shareholding requirement under option 4 of section 7.13.1 (a) of the Listing Rules.

*Float Adjusted Market Capitalisation = Market Capitalisation x Public Holding Percentage

INVESTOR INFORMATION

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Top 20 Shareholders

The 20 largest Shareholders as at 31st December 2021 together with their shareholding as at 31st December 2020 are given below.

Name of the Shareholder	2021		2020	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
1. Hatton National Bank PLC A/C No.1	89,979,000	59.99	89,979,000	59.99
2. The Ceylon Guardian Investment Trust PLC A/C No.2	6,945,224	4.63	5,678,400	3.79
3. Employees Trust Fund Board	3,942,964	2.63	905,649	0.60
4. Ceylon Investment PLC A/C # 02	1,712,174	1.14	*	*
5. Mr. Mohamed Faizer Hashim	1,530,000	1.02	1,530,000	1.02
6. Mrs. Abiramipillai Kailasapillai	1,500,000	1.00	1,500,000	1.00
7. Mrs. Arunthathi Selliah	1,500,000	1.00	1,500,000	1.00
8. Arunodhaya Investments (Pvt.) Ltd	1,350,000	0.90	1,350,000	0.90
9. Arunodhaya Industries (Pvt.) Ltd	1,350,000	0.90	1,350,000	0.90
10. Arunodhaya (Pvt.) Ltd	1,350,000	0.90	1,350,000	0.90
11. Seylan Bank PLC/Janashakthi Capital Ltd	1,117,002	0.74	*	*
12. Andysel Private Ltd	750,000	0.50	750,000	0.50
13. Corporate Holdings (Pvt.) Ltd A/C No.01	735,309	0.49	735,309	0.49
14. Mr. Vikas Sharda	609,000	0.41	609,000	0.41
15. Dr. Sivakumar Selliah	600,000	0.40	600,000	0.40
16. Corporate Holdings (Pvt.) Ltd A/C No.02	573,969	0.38	573,969	0.38
17. Mrs. M.R.P Balendra	554,196	0.37	554,196	0.37
18. Suktam Holdings (Pvt) Ltd.	543,302	0.36	508,302	0.34
19. Commercial Bank of Ceylon PLC/Janashakthi Capital Ltd	500,000	0.33	*	*
20. Mr. A.A.A. Rifkee	500,000	0.33	*	*
	117,642,140	78.42		

* Note: Not included in the top 20 Shareholder list in year 2020

Directors' and Chief Executive Officer's Shareholding

The details of the Directors' and Chief Executive Officer's shareholding at the beginning and at the end of the year are given below.

Name of the Director	No. of Shares as at 31st December 2021	No. of Shares as at 31st December 2020
Mrs. M A R C Cooray - Chairperson	94,235	69,105
Mr. D P N Rodrigo	540	540
Mrs. S N Wickramasinghe	67,500	37,500
Dr. S Selliah	600,000	600,000
Mr. D R Abeyseriya	5,000	5,000
Mr. L U D Fernando	Nil	498
Mr. S A Chapman	500	Nil
Mr. A Goonesekere (appointed w.e.f.31st December 2021)	Nil	N/A
Dr. T K D A P Samarasinghe Alternate Director to Mr. L U D Fernando w.e.f.24th January 2020)	Nil	Nil
Mr. J A P M Jayasekera (Retired w.e.f.3rd December 2021)	N/A	174,0000
Mr. P Fernando -Chief Executive officer (Retired w.e.f. 31st December 2021)	Nil	Nil

Compliance with Disclosure Requirements as per the Listing Rules issued by the Colombo Stock Exchange (CSE)

Submission of Financial Statements to the CSE

As required by the Listing Rules, the Audited Financial Statements for the year ended 31st December 2020 were submitted to the CSE on 9th March 2021. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2020, was submitted to the CSE on 23rd February 2021. The Audited Financial Statements for the year ended 31st December 2021 will be submitted to the CSE within three months of the reporting date in line with the requirements of the CSE.

Disclosures in the Annual Report as per Section 7.6 to the Listing Rules of the Colombo Stock Exchange

Rule Number	Requirement	Details	Status
7.6 (i)	Names of persons who during the financial year were directors of the Entity.	The names of persons who held the position of Directors during the financial year are given in the Annual Report of the Board of Directors on page 183.	Complied
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein.	The principal activities of the Company and its subsidiary during the year are given in the Annual Report of the Board of Directors and Note 1.3 in Accounting Policies on page 203 respectively.	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 as at 31st December 2021 together with their shareholding as at 31st December 2020 is given on page 152.	Complied
7.6 (iv)	The float adjusted market capitalisation, public holding percentage (%), number of public Shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	The details of the public shareholding and float adjusted market capitalisation as at 31st December 2021 are given on page 151.	Complied

INVESTOR INFORMATION

Rule Number	Requirement	Details	Status
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.	Shareholding of Directors and Chief Executive Officer is given on page 153.	Complied
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Information pertaining to material foreseeable risk factors is given on the Risk Management Report from pages 134 to 147.	Complied
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	The Company did not encounter any material issues pertaining to employees and industrial relations during the year.	Complied
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Our fully owned subsidiary HNB General Insurance owns a land which has a cost of Rs. 68.6 Million. Further details are given on Note 7.2 to the Financial Statements on page 264.	Complied
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Details on Company shares and share capital are given on page 148.	Complied
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the given categories.	Distribution schedule of the number of holders and percentage holding is given on page 150.	Complied
7.6 (xi)	Ratios and market price information.	Given on page 150.	Complied
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 7 to the Financial Statements on pages 260 to 266.	Complied
7.6 (xiii)	If during the financial year the Entity has raised funds through an Initial Public Offering and/or a further issue of Securities.	The Company did not raise funds to increase its Stated Capital during the year.	Complied
7.6 (xiv)	Employee Share Option Schemes and Employee Share Purchase Schemes.	There are no 'Employee Share Option Schemes' or 'Employee Share Purchase Schemes' in the Company.	Complied
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report on pages 126 to 128.	Complied
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower. Details of investments in a Related Party and/or amounts due from a Related Party to be set out separately.	There were no individual transactions exceeding the limit of 10% of the Equity or 5% of the total assets during the year with any related party of the Company. However, all related party transactions at aggregate level have been disclosed under Note 48 to the Financial Statements on pages 328 to 334.	Complied

Disclosures in the Annual Report as per Section 9.3.2 to the Listing Rules of the Colombo Stock Exchange

Rule Number	Requirement	Details	Status
9.3.2 (a)	In the case of Non-recurrent Related Party Transactions, if aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower, of the Listed Entity as per the latest Audited Financial Statements.	<p>There were no non-recurrent related party transactions exceeding the aggregate limit of 10% of the Equity or 5% of the Total Assets.</p> <p>All related party transactions at aggregate level have been disclosed under Note 48 to the Financial Statements on pages 328 to 334.</p>	Complied
9.3.2.(b)	In the case of Recurrent Related Party Transactions, if the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross revenue/income (or equivalent term in the Income Statement and in the case of group entity consolidated revenue) as per the latest Audited Financial Statements, the Listed Entity must disclose the aggregate value of recurrent Related Party Transactions entered into during the financial year.	<p>There were no recurrent related party transactions exceeding the aggregate limit of 10% of the Gross Written Premium.</p> <p>The Company carried out transactions with the Government of Sri Lanka and its related entities, where the aggregate amount of transactions have exceeded 10% of the Company's Gross Written Premium. Government of Sri Lanka has considered as a related entity of the Company considering the significant influence it has on the ultimate parent company, Hatton National Bank PLC. The terms and conditions of transactions carried out with the Government of Sri Lanka and its related entities were similar to those applicable to the general public. Details of transactions with the Government of Sri Lanka and its related entities are given on page 328 under Note 48 to the Financial Statements.</p>	Complied
9.3.2 (c)	Contain a report by the Related Party Transactions Review Committee, setting out.	Please refer the Related Party Transactions Review Committee Report on pages 169 and 170.	Complied
9.3.2 (d)	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions or a negative statement in the event the Entity has not entered into any Related Party Transaction/s.	Please refer page 185 for the confirmation by the Directors on compliance with the rules pertaining to Related Party Transactions.	Complied

COMPLIANCE SUMMARY

Annual Report Disclosure Requirements as per the Companies Act, No. 07 of 2007

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Relevant section in this Annual Report
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Please refer page 181
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Please refer page 181
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Please refer page 185
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Please refer page 181
Particulars of entries in the Interests Register of the Company during the accounting period	Section 168 (1) (e)	Please refer page 184
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Please refer page 185
Total amount of Donations made by the Company	Section 168 (1) (g)	Please refer page 187
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Please refer page 183
Amounts payable to the Auditor as audit fees and fees for other services rendered to the Company and its subsidiary during the accounting period as a separate disclosure	Section 168 (1) (i)	Please refer page 185
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Please refer page 185
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Please refer page 187

Disclosure Requirements as Per Schedule – I of The Code of Best Practice on Corporate Governance Issued by the Institute of Chartered Accountants of Sri Lanka

Subject		Reference	Relevant section in this Annual Report
Annual Report	Chairman and CEO	A.2.1 and A.5.7	Please refer pages 114 and 115
	Board Balance	A.5.5	Please refer page 114
	Nomination Committee	A.7.1	Please refer page 115
	Appointment of New Directors	A.7.3	Please refer page 115
	Appraisal of Board Performance	A.9.4	Please refer page 116
	Board Related Disclosures	A.10.1	Please refer page 116
	Disclosure of Remuneration	B.3 and B.3.1	Please refer page 118
	Major and Material Transactions	C.3 and C.3.1	Please refer page 119
	Audit Committee	D.3.3	Please refer page 123
	Code of Business Conduct and Ethics	D.5.1 and D.5.4	Please refer page 123
	Communication with Shareholders	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7	Please refer page 119
B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3	Please refer page 117
C. Directors' Report	Directors' Report	D.1.4	Please refer page 120
D. Financial Statements	Financial Statements	D.1.5	Please refer page 120
	Related Party Transactions	D.1.8	Please refer page 121
E. Management Report	Management Report	D.1.6	Please refer page 121
F. Corporate Governance Report	Corporate Governance Report	D.6.1	Please refer page 123
G. Audit Committee Report	Audit Committee Report	D.3.2	Please refer page 123
H. Related Party Transactions Review Committee Report	Related Party Transactions Review Committee Report	D.4.3	Please refer page 123
I. Statement on Internal Control	Statement on Internal Control	D.1.5 and D.2.4	Please refer pages 120 to 122
J. Internet of Things and Cyber security	Disclose the process to identify and manage cyber security risks	G.5	Please refer page 125
K. Sustainability Reporting	Sustainability Reporting	H.1.1 to H.1.4	Please refer page 125

COMPLIANCE SUMMARY

Regulatory Reports Submitted to IRCSL in 2021

Submissions to IRCSL	Date of Submission		Deadline set by IRCSL
	HNB Assurance PLC	HNB General Insurance Limited	
Annual Audited Financial Statement for the year ended 31st December 2020	16th March 2021	30th April 2021	30th April 2021
Annual Statutory Returns for the year ended 31st December 2020	30th April 2021	30th April 2021	30th April 2021
Circular 29 Auditor's Compliance Certificate	30th April 2021	30th April 2021	30th April 2021
Risk Assessment Report	30th April 2021	30th April 2021	30th April 2021
Quarterly Returns and Compliance Certifications			
31st December 2020 (4th Quarter)	15th February 2021	15th February 2021	15th February 2021
31st March 2021 (1st Quarter)	15th May 2021	15th May 2021	15th May 2021
30th June 2021 (2nd Quarter)	15th August 2021	15th August 2021	15th August 2021
30th September 2021 (3rd Quarter)	15th November 2021	15th November 2021	15th November 2021
Statement of Reinsurance Arrangements	29th January 2021	29th January 2021	31st January 2021
Certified Copies of all Cover Notes in respect of Reinsurance Treaties	29th January 2021	12th March 2021	15th March 2021
Actuarial Report and Abstracts	30th April 2021	30th April 2021	30th April 2021
Management Letter issued by the External Auditors for year ended 31st December 2020	30th April 2021	30th April 2021	30th April 2021
Information on Complaints handling and related performance (bi-annual basis submission)	29th January 2021 28th July 2021	25th January 2021 20th July 2021	30th January 2021 30th July 2021

Regulatory Returns Submission and Payments of the Company/Group

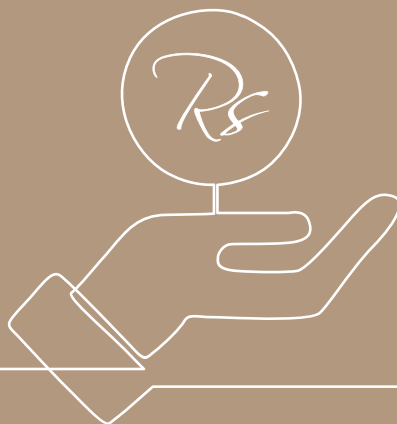
Information	Frequency of Submission	Compliance Status
Insurance Regulatory Commission of Sri Lanka (IRC SL)		
Annual Fee	Annually	Complied
CESS Payment	Quarterly	Complied
Colombo Stock Exchange (CSE)		
Listing Fee	Annually	Complied
Department of Inland Revenue		
Income Tax Payment	Quarterly	Complied
Income Tax Return	Annually	Complied
PAYE Tax Payment	Monthly	Complied
PAYE Tax Return	Annually	Complied
Value Added Tax (VAT) Payment	Monthly	Complied
Value Added Tax (VAT) Return	Quarterly	Complied
Stamp Duty Payment and Return	Quarterly	Complied
Central Bank of Sri Lanka (CBSL)		
EPF Payment and Return	Monthly	Complied
Employees' Trust Fund Board		
ETF Payment and Return	Monthly	Complied
Registrar General of Companies		
Annual Accounts	Annually	Complied
Annual Returns	Annually	Complied
Change of Directors and Company Secretary (Form 20)	As required	Complied
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	Complied
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax Payment	Monthly	Complied
National Insurance Trust Fund (NITF)		
Crop Insurance Levy	Quarterly	Complied

MADE TO ACHIEVE

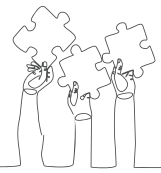
20 Years 

OF SUSTAINABLE PERFORMANCE

Statutory Disclosures & Financial Statements



FINANCIAL CALENDAR



> Dividend

	2021 Achievement on	2022 Target Date
Final dividend for the previous year paid/payable	6th April 2021	On or before 26th April 2022
Final dividend for the year to be paid	On or before 26th April 2022	In April 2023



> Annual Report and Annual General Meeting (AGM)

	2021 Achievement on	2022 Target Date
Annual Report and Accounts for the year signed/to be signed	18th February 2022	In February 2023
Annual General Meeting for the year to be held	31st March 2022	In March 2023



> Interim Financial Statements Submission to the Colombo Stock Exchange (CSE)

	2021 Achievement on	2022 Target Date
1st Quarter (ended 31st March)	5th May 2021	On or before 15th May 2022
2nd quarter (ended 30th June)	4th August 2021	On or before 15th August 2022
3rd Quarter (ended 30th September)	29th October 2021	On or before 15th November 2022
4th Quarter (ended 31st December)	14th February 2022	On or before 28th February 2023

AUDIT COMMITTEE REPORT

Amidst the turbulent environment experienced during the year the Committee continued to provide oversight and guidance to the Group's financial reporting and internal control processes.

Ashoka Goonesekere

Areas of Focus in 2021



Sound
Corporate
Governance



Financial
Reporting



Internal and
External Audit
Activities

Charter of the Committee

The Charter of the Audit Committee ("the Committee") approved by the Board, clearly defines the terms of Reference of the Committee and is reviewed annually to ensure that new developments relating to the Committee's functions are addressed. The Charter of the Committee was last reviewed and approved by the Board in February 2022.

The Audit Committee assists the Board of Directors of HNB Assurance PLC ("the Company"/ "HNBA") in discharging its responsibilities by exercising structured, systematic oversight over financial reporting, internal audit, internal controls and external audits of the Company and its fully owned subsidiary HNB General Insurance Limited.

The composition, functions, duties and responsibilities of the Committee is regulated by Section 7.10.6 of the 'Listing Rules' of the Colombo Stock Exchange (CSE), the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and other applicable guidelines.

The Committee is empowered to carry out any investigations it deems necessary and has unrestricted access to information, cooperation from Management and employees to obtain relevant information considered necessary in the discharge of its duties and responsibilities. It also has the authority to seek external professional advice on matters within their purview and meet with management, Auditors, regulator, actuaries etc as necessary.

Activities in 2021

Financial Reporting

The Committee reviewed and discussed Interim Financial Statements, Annual Financial Statements of the Company and the Group, and the Annual Financial Statements of the Subsidiary, HNB General Insurance Limited in consultation with the External Auditors and the Management where necessary and recommended for the approval of the Board.

In reviewing the Financial Statements, special emphasis was given on the following aspects;

Composition

Mr. Ashoka Goonesekere*
- Chairman (IND/NED)

Mr. Mahendra Jayasekera*
- Chairman (IND/NED)

Dr. Sivakumar Selliah
- Member (Senior IND/NED)

Mr. Damien Fernando
- Member (NIND/NED)

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

* (Mr. Mahendra Jayasekera retired from the Board of Directors w.e.f 3rd December 2021 and Mr. Ashoka Goonesekere was appointed as the new Chairman of the Committee w.e.f 31st December 2021)

Expertise

The Chairman and members of the Committee have extensive experience in diverse fields the details which can be found on pages 28 to 31.

Meetings

The Committee held 05 meetings during the year 2021.

Attendance

Mr. Ashoka Goonesekere0*/0
Mr. Mahendra Jayasekera 5/5
Dr. Sivakumar Selliah 5/5
Mr. Damien Fernando 5**/5

*Mr. Ashoka Goonesekere was appointed as the new Chairman of the Committee w.e.f 31st December 2021

**All five (5) meetings attended by Alternate Director, Dr. Prasad Samarasinghe

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI, Chief Executive Officers, Chief Financial Officer, Chief Actuarial Officer and other Executive Committee Members attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara
- Chief Legal Officer, Board Secretary and Compliance Officer

- Adequacy and effectiveness of internal control systems, financial reporting systems and processes in place to ensure accuracy and reliability of the information provided in the Financial Statements.
- Quality and acceptability of the accounting principles and reasonableness of significant judgements.
- New Accounting standards and Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/ LKAS) and its impact to the Financial Statements.
- Consistency of the adopted accounting policies and methods, and their compliance with the accounting standards (SLFRS/LKAS).
- Significant accounting and reporting issues.
- Going Concern assumption.
- Outstanding Tax Assessments and actions initiated for resolution through regular reports submitted by the Chief Financial Officer.
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007, Listing rules and Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, etc.

New Accounting Standards and Amendments to Existing Standards

Accounting Standards Effective but deferred due to temporary Exemption SLFRS 9: Financial Instruments

SLFRS 9: Financial Instruments came into effect with effect from 01st January 2018. However, as the predominant activity of the Company and subsidiary is issuing insurance contracts within the scope of SLFRS 4: Insurance Contracts, the Group is allowed to apply LKAS 39:

Key Responsibilities

- Monitor and review the financial reporting processes in place to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, Shareholders and other stakeholders.
- Review the integrity of the Company/Group's Financial Statements including Annual Reports and Interim Financial Statements in consultation of the External Auditors where necessary and ensure these are prepared in accordance with Sri Lanka Accounting Standards (LKAS), Sri Lanka Financial Reporting Standards (SLFRS), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto and other applicable laws and regulations and recommend the same to the Board of Directors.
- Liaise with the Board Risk Management Committee and the Management to evaluate the adequacy, efficiency and effectiveness of Risk Management framework of the Group to mitigate the risks associated with financial reporting.
- Liaise with the Related Party Transactions Review Committee to ensure adherence to the related party transaction requirements given in the Listing Rules and to ensure proper disclosure of related party transactions in the Financial Statements.
- Review the design and implementation of internal control systems to provide reasonable assurance to the effect that the Group's assets are safeguarded and the financial position of the Group is well monitored and accurately reported.
- Ensure that the Group adopts and adheres to high standards of Corporate Governance practices, conforming to the highest ethical standards and good industry practices in the best interests of all stakeholders.
- Overseeing the conduct of the business to monitor its compliance with applicable laws and regulations of the country and the policies and procedures of the Company.
- Make recommendations to the Board on the appointment, re-appointment/removal of External and Internal Auditors, approve the remuneration and terms of engagement and review their scope and monitor performance.
- Assess the independence of External Auditors.
- Evaluate the Company's ability to continue as a going concern for a foreseeable future.

Financial Instruments recognition and measurement until 31st December 2022. As such, the Group continued to apply LKAS 39 during the financial year ending 31st December 2021.

Accounting Standard Issued but not Effective for the reporting period SLFRS 17: Insurance Contracts

Corresponding to the IFRS 17 issued by International Accounting Standard

Board, in 2020 CA Sri Lanka issued SLFRS 17 which comes into effect on 01st January 2023. SLFRS 17 establishes the principles for recognition, measurement, presentation and disclosure of Insurance Contracts within the scope of the standard. The objective of this standard is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of

AUDIT COMMITTEE REPORT

Financial Statements to assess the effect Insurance Contracts have on the entity's financial position, performance and cash flows.

Accordingly, the Group has initiated a detailed gap analysis of the new standard with the consultation of external consultants Messrs. KPMG and Actuarial Partners Consulting Sdn Bhd. The detailed gap analysis and the findings including the key challenges was presented to the Committee in 2020.

Currently the Group is in the process of preparing for implementation phase of the SLFRS 17 project. During the year the Committee reviewed the project plan including the Governance structure, project leading committee and working group to manage SLFRS 17 implementation. The Management Requested for Proposals (RFPs) from External Consultants for the implementation phase with the approval of the Committee and the Management is currently in the process of evaluating the proposals. The Group will commence the project in 2022.

Risks and Internal Controls

The Committee regularly engages in monitoring and evaluating the effectiveness of the internal control environment of the Company/Group. The evaluation is mainly done through discussions and assessment of reports submitted by the Management and Internal/External Auditors. The Committee also overlooks the remedial actions in respect of the identified risks to maintain the effectiveness of the internal control systems.

The following measures were taken to monitor and evaluate the effectiveness of the internal control environment of the Company/Group;

- The effectiveness of the risk management process is evaluated through the Risk Management Committee. All minutes of the Risk Management Committee were tabled to the Audit Committee who reviewed the same.

- Reports pertaining to internal control and risk management practices of the Company/Group, produced by the Management and Internal and External Auditors are reviewed by the Committee.
- Review of Related Party Transactions through the Related Party Transactions Committee.

Internal Audit

The Committee monitors the effectiveness of the internal audit function and is responsible for approving the appointment or removal of the Internal Auditors. The Committee is also responsible for reviewing and approving the internal audit plan, scope, reporting requirements of the Group annually and ensuring that Internal Auditors have adequate access to information required to conduct their audits.

The internal audit function of the Group is outsourced to Messrs. Ernst & Young, Chartered Accountants. During the year ended 31st December 2021, the Committee reviewed the internal audit plan and recommended improvements. Internal Auditors presented the issues and audit findings identified during internal audits covering the operations of the Company and subsidiary which were reviewed by the Committee. Management responses to recommendations was also monitored by the Committee and the internal audit reports were made available to the External Auditors.

Compliance with Laws and Regulations

The Audit Committee reviewed the Company/ Group compliance with laws and regulations through the following measures.

- Review of checklists signed off by the Management of the Company and its subsidiary on a monthly basis to ensure compliance with all applicable compliance submissions relating to the Department of Inland Revenue,

Insurance Regulatory Commission of Sri Lanka (IRCSL) and Labour regulations etc.

- Reviewed Quarterly and Annual Returns submitted to the IRCSL on a timely basis.
- Obtaining reports from the External Auditors on the factual findings on compliance with Circular 29 and specified areas of Determination 14 and filing the same with the regulator.

IT Risk and Control Assessment

Messrs KPMG performed a review on the general and application controls of the IT function during the year, as a part of their external audit process. The Internal Auditors also carried out an assessment of the General IT control aspect as a part of their internal audit work.

The Committee reviewed the Risk Committee minutes including observations made by the Auditors on IT related areas and monitored the implementation of actions agreed by the Management.

Fraud Risk

The Committee monitored the necessary measures taken by the Management to mitigate fraud risk of the Company/ Group and no major material fraudulent activities were reported during the year.

The Committee ensures exercise of following policies and practices.

- The Procurement Policy, approved by the Board, is applied to all procurement activities,
- The Integrity Reporting Policy which enables employees to raise concerns on fraudulent activities,
- Risk and Compliance Department, Internal Auditors and External Auditors review the processes of the Company / Group continuously to identify and mitigate the risk of fraud.

Ethics and Good Governance

The Audit Committee continuously emphasises the importance of upholding ethical values by all staff members. In this regard all staff members are encouraged to adhere to a Code of Ethics and resort to the Integrity Reporting Policy in place to raise their concerns in relation to any suspected wrongdoings at work - whether by the Management, peers or any other employee. Further, the Integrity Reporting Policy guarantees the maintenance of strict confidentiality of the identity of the whistle blowers. Employees are made aware of the same and are advised to report any suspected wrongdoing directly to the following nominated members of the Group.

- Board Chairperson
- Chairman of the Audit Committee
- Chief Executive Officer
- Group Compliance Division
- Chief Human Resources Officer

All concerns brought forward during the year under this Policy were duly investigated and appropriate actions were taken.

Compliance with the Listing Rules of the CSE

The Company fully adheres to the Corporate Governance Rules set out by Section 7.10 of the Listing Rules of the CSE. (Please refer pages 126 to 128 for further information)

Evaluation of the Committee

The Committee carried out a self-evaluation based on a checklist approved by the Committee. Additionally, the Executive Committee of the Company also performed an appraisal of the Audit Committee, and the results of the appraisal were notified to the members of the Audit Committee. The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the Management and the Board of Directors. Summarised results of both evaluations were tabled to the Board of Directors.

External Audit

The Committee reviewed the external audit plan, scope and the methodology presented by the External Auditors Messrs. KPMG Chartered Accountants. Discussions were also held between the Committee, the Management, and the External Auditors regarding the co-ordination of the audit effort to ensure that the External Auditors have access to required information.

The Committee also scrutinised the Report of the Auditors and Management Letter in consultation with the External Auditors and the Management to monitor the implementation of the prescribed corrective actions. Key Audit Matters were discussed with the External Auditors with due consideration placed on judgements, assumptions and measures taken by the Company and auditors to ensure reasonability.

The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required. The Auditors were provided with the opportunity of meeting the Audit Committee separately without the presence of the Management, to ensure that the Auditors had the opportunity to discuss and express their opinions openly on any matter. It provided the assurance to the Committee that the Management has provided all information and explanations requested by the Auditors.

The Committee also reviewed all fees to the statutory auditors for the interim and final audits for the year 2021 and recommended the same for the approval of the Board of Directors.

Re-Appointment of the External Auditors

The Committee reviewed the performance of the External Auditors, Messrs. KPMG Sri Lanka, Chartered Accountants, during the year and recommended to the Board their re-appointment as the External Auditors of the Group for the financial year ending

31st December 2022, subject to the approval of the Shareholders at the Annual General Meeting to be held on 31st March 2022.

Independence of External Auditors

The Audit Committee reviews the independence and objectivity of the External Auditor and the effectiveness of the audit process on an annual basis. Accordingly, as far as the Audit Committee is aware, Auditors do not have any relationship (other than that of Auditors) with the Company.

In this respect, the Committee received a declaration, as required under the Companies Act, No. 07 of 2007, from Messrs. KPMG, confirming the absence of any relationship with the Company/ Group which may have a bearing on their Independence.

Provision of Non-Audit Services

Non-audit services provided by the External Auditors are segregated between assignments that require an independent view and other advisory services and such was reviewed by the Audit Committee during the year. The External Auditors were only engaged with assignments that required an independent view to prevent a conflict of interest for External Auditors.

Reports of the External Actuaries

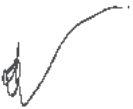
During 2021, the Company and its subsidiary appointed Wills Towers Watson (WTW) India Pvt Ltd as external Actuary of the respective companies. The appointment was reviewed by the Committee, prior to key responsibilities for approval of the Boards of the two companies. The external actuaries have provided the Committee with written representations summarising the observations and comments with regard to the work performed.

AUDIT COMMITTEE REPORT

Conclusion

The Committee, along with the Management, reviewed the system of Internal Controls in the Group and actions were taken to improve the same. The Committee is satisfied with the implementation of the Group's internal controls and Risk Management Framework and that the Group's assets are adequately safeguarded. The Group's Internal and External Auditors have been effective and independent throughout the year.

The Committee is also satisfied that the application of appropriate accounting policies provides reasonable assurance that the Financial Statements of the Group are true and fair.



Ashoka Goonesekere
Chairman
– Audit Committee

Colombo, Sri Lanka
18th February, 2022

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

It's about taking care of the employees of the business who takes care of the business.

Dr. Sivakumar Selliah

Areas of Focus in 2021



Leadership Transformation



Digitalization



HS&E

Charter of the Committee

The terms of reference of the Committee is defined in the Human Resources & Remuneration Committee Charter, which is reviewed annually. The Charter defines the objectives, duties and responsibilities, composition, etc. of the Committee. The Human Resources and Remuneration Committee Charter outlines the strategic intent of the Company in adopting HR practices which provides the employee quality service while creating a platform that would enable the employee to offer their service with trust and confidence to attain Company goals while fulfilling individual aspirations.

Activities in 2021

As it was the case for many business organisations, Covid 19 pandemic presented one of the biggest challenges in terms of Human Resource Management. However, at the same time it was equally important to keep the business moving forward and for HR to continue its strategic role in shaping the organisation under new normal. Therefore, as much as there was reactive response, we continued to be strategic in our approach.

Employee Health, Safety and Environment

In response to the threats of the pandemic, the telecommuting option for staff was further strengthened. This allowed 100% of pregnant and feeding mothers to work entirely from home and move the operation to a hybrid work model enabling individuals to work predominantly from home on flexible work arrangements. A special vaccination drive has ensured that every employee of the organisation is vaccinated except for the ones with a medical recommendation specifying otherwise. Recognition received as one of the best workplaces for women in the country during the year is a testimony to the Company's efforts to care for its employees.

Leveraging Technology

During 2021, the journey of HR digitalisation continued to provide much needed remote access capabilities for HR processors.

- Learning Management System (LMS)
- Performance Management System (PMS)

Are now completely delivered through an online platform and proved timely.

Composition

Dr. Sivakumar Selliah
- Chairman (Senior IND/NED)

Ms. Rose Cooray
- Member (NIND/NED)

Mr. Mahendra Jayasekera*
- Member (IND/NED)

Mr. Stuart Chapman** -
- Member (NIND/NED)

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

* (Mr. Mahendra Jayasekera retired from the Board of Directors w.e.f 3rd December 2021)

** (To be replaced by Mr. Ravi Abeysuriya (IND/NED) w.e.f 21st February 2022)

Meetings

The Committee held 4 meetings during the period.

Attendance

Dr. Sivakumar Selliah	4/4
Ms. Rose Cooray	4/4
Mr. Mahendra Jayasekera	3/4
Mr. Stuart Chapman	1/1

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI, Ms. Chiranthi Cooray Director HNBGI, Chief Executive Officers and Chief Human Resources Officer attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara
- Chief Legal Officer, Board Secretary and Compliance Officer

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Key Responsibilities

- Determine and agree with the Board on the Board Policy for the remuneration of the Board Non-Executive Directors, the Chairman, the CEO and other members of the Senior Management.
- Recommend and monitor the level and structure of remuneration for all Executive Management Officers.
- The Committee shall determine increments and bonuses payable based on recommendations submitted by the CEO and CHRO.
- The Committee shall provide policy direction for the Human Resource Strategy of the Company.
- Direct the Human Capital strategy of the Company.
- Guide, influence and shape the HR strategies and policies of the Company.

Leadership Transition

Both HNBA and HNBGI would see new CEOs succeeding from January 2022. In line with the responsibilities entrusted upon the Committee, HRRC continues to work with all stakeholders to ensure a seamless transition for both companies and to ensure mentoring and guiding of the new appointees are aligned with the Company's long-term vision.



Dr. Sivakumar Selliah
Chairman
– Human Resources and Remuneration
Committee

Colombo, Sri Lanka
18th February 2022

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

The Committee reviewed the adherence of the Related Party Transaction Policy during the year and thereby continued to support the Audit Committee to carry out its statutory responsibilities.

Dr. Sivakumar Selliah

Areas of Focus in 2021



Compliance with Rules and Regulations



Review of Related Party Transactions



Protecting Shareholder Interest

Charter of the Committee

The Related Party Transactions Review Committee of HNB Assurance PLC ('the Committee'), is appointed by and is responsible to the Board of Directors of HNB Assurance PLC (HNBA).

The Charter of the Related Party Transactions Review Committee clearly sets out the purpose, membership, authority, duties, and responsibilities of the Committee.

The purpose of the Committee is to conduct an appropriate review of all related party transactions of HNBA and its fully owned subsidiary, HNBGI and to ensure that the Group/Company complies with the rules set out in Section 09 of the Listing Rules. The primary objectives of the said rules are to ensure that the interests of the Shareholders as a whole are taken into account when entering into related party transactions and to prevent Directors, Key Management Personnel (KMP) or substantial Shareholders from taking advantage of their positions.

In order to execute duties and responsibilities assigned to the Related

Party Transactions Review Committee effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the Management and have access to any information the Committee deems necessary relating to its responsibilities.
- Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions.
- Review and evaluate the terms and conditions and to determine the advisability of any related party transaction.
- Determine whether the relevant related party transaction is fair and in the best interest of the Company and its Shareholders as a whole.
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction;

Composition

Dr. Sivakumar Selliah*
- Chairman (Senior IND/NED)

Mr. Mahendra Jayasekera*
- Chairman (IND/NED)

Mr. Damien Fernando
- Member (NIND/NED)

Mr. Ashoka Goonesekere**
- Member (IND/NED)

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

* (Mr. Mahendra Jayasekera retired from the Board of Directors w.e.f 3rd December 2021 and Dr. Sivakumar Selliah was appointed as the new Chairman of the Committee w.e.f 21st January 2022)

** (Mr. Ashok Goonesekere was appointed to the committee as a member w.e.f 21st January 2022)

Meetings

The Committee held 04 meetings during the year.

Attendance

Mr. Mahendra Jayasekera	4/4
Dr. Sivakumar Selliah	4/4
Mr. Damien Fernando	4/4

* All four (4) meetings attended by Alternate Director, Dr. Prasad Samarasinghe

Attendees by Invitation

Chief Executive Officers, Chief Financial Officer, Chief Investment and Strategy Officer, Head of Finance and Support Services HNBGI attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara
- Chief Legal Officer, Board Secretary and Compliance Officer

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

- Obtain advice and assistance from legal, technical, financial and other advices from within or outside the Company as deemed necessary by the Committee in order to carry out its duties.
- Form and delegate authority to Sub-Committees consisting of one or more members where appropriate, provided that the decision of such Sub-Committees shall be presented to the main Committee at its next meeting.

Key Responsibilities

- Developing and formulating guidelines to ensure that the Company complies with the rules listed in Section 09 of the Listing Rules.
- Review all proposed related party transactions in advance, subject to the exceptions given under Section 9.5 of the Listing Rules.
- Perform other activities relating to the Charter as requested by the Board.
- Regularly report to the Board on the Committee's activities.
- Share information with the Audit Committee as and when necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.

Activities in 2021

Review of Related Party Transactions

The Committee reviewed all related party transactions of the Company for the year 2021. All related party transactions entered into during the year were of a recurrent, trading nature and were necessary for the day-to-day operations of the Company.

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally transacted with the public.

All details of such Related Party Transactions entered into during the year, are given in Note 48 to the Financial Statements on pages 328 to 334 of this Annual Report.

The minutes of the committee meetings were recorded at Board meetings of HNB Assurance PLC and HNB General Insurance Limited for the review of the Board of Directors.

Policies and Procedures

Chief Financial Officer is responsible for reporting the information set out under 'Appendix 9 A' of the Listing Rules with regard to each related party transaction proposed to be entered into by the Company with the exception of information listed in the Section 9.5 of the Listing Rules for the Committee to review and to grant approval or disapproval.

Moreover, on a quarterly basis, the Chief Financial Officer is required to report the approved related party transactions actually entered into by the Company for Committee's consideration.

Conclusion

During the year under review, the Company has complied with the related party transactions rules set out in Section 9 of the Listing rules. An affirmative statement of compliance with the rules pertaining to related party transactions by the Board of Directors and KMPs are included on page 185 of this Annual Report.



Dr. Sivakumar Selliah
Chairman
– Related Party Transaction Review
Committee

Colombo, Sri Lanka
18th February, 2022

NOMINATION COMMITTEE REPORT

Ensuring that the Board has the skills and experience required is critical to the effectiveness of the Board.

Rose Cooray

Areas of Focus in 2021



Board
Composition
and Expertise



Board Sub-
Committee
Composition
and Expertise



Corporate
Governance

Charter of the Committee

The Nomination Committee ('the Committee') of HNB Assurance PLC ('the Company') is a committee of the Board of Directors ('Board') appointed by and responsible to the Board.

The terms of reference of the Committee are defined in the Nomination Committee Charter. The purpose of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/ appointment of new Directors, re-appointment of current Directors, selection and appointment of the CEO.

Activities in 2021

- During the year the Committee re-appointed Directors retiring by rotation.
- Appointment of Mr. Ashoka Goonasekera to the Board of HNB Assurance PLC.
- Appointment of CEOs to HNB Assurance PLC and HNB General Insurance Limited.

Conclusion

The Committee is satisfied that the combined knowledge and experience of the Board match the demands facing the Company.

Rose Cooray
Chairperson
– Nomination Committee

Colombo, Sri Lanka
18th February 2022

Composition

Ms. Rose Cooray
- Chairperson (NIND/NED)
Mr. Mahendra Jayasekera *
- Member (IND/NED)
Mr. Dilshan Rodrigo
- Member (NIND/NED)
Dr. Sivakumar Selliah**
- Member (Senior IND/NED)

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

* (Mr. Mahendra Jayasekera retired from the Board of Directors w.e.f 3rd December 2021)

** (Dr. Sivakumar Selliah was appointed to the Committee as a member w.e.f 21st January 2022)

Meetings

The Committee held 01 meeting for the period ended 31st December 2021.

Attendance

Ms. Rose Cooray	1/1
Mr. Mahendra Jayasekera	1/1
Mr. Dilshan Rodrigo	1/1

Secretary to the Committee

Ms. Sitari Jayasundara
- Chief Legal Officer, Board Secretary
and Compliance Officer

NOMINATION COMMITTEE REPORT

Key Responsibilities

- Exercise general oversight with respect to the governance of the Board of Directors.
- To ensure the implementation of the approved procedure in selecting/ appointing Directors/CEO;
- Taking into account the performance and contribution made by Directors towards the overall discharge of responsibilities of the Board and to make a recommendation on the re-election of current Directors to the Board of Directors;
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO;
- To ensure Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Companies Act and other applicable statutes;
- To consider and recommend from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel;
- To provide advice and recommendations to the Board or the Chairperson (as the case may be) on any such appointment; and
- To regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- Review and recommend to the Board new/additional Corporate Governance Principles of the Board and any changes to such principles taking in to account the developments in the area of Corporate Governance Principles applicable for the Company locally and internationally;
- Periodically appraise the framework for assessment of Board performance and the Board self-evaluation discussion.

INVESTMENT COMMITTEE REPORT

The Committee guided the Company to achieve healthy investment returns whilst managing risks posed by the challenging economic conditions during the year.

Dr. Sivakumar Selliah

Areas of Focus in 2021



Investment Returns



Oversight of Portfolios & its Risk Management



Liquidity Management Oversight

Charter of the Committee

The Investment Committee ('the Committee') is responsible to assist the Board in reviewing the investment policies, strategies and performance of the investment portfolios of the Company and its subsidiary.

As per the Charter of the Investment Committee in furtherance of its duties, the Committee is authorised to have direct access to, and receive regular reports from, the Management, and to request any additional information relating to its responsibilities. The Committee is also empowered to review and amend policies and programmes falling under its purview and recommend to the Board for adoption.

Activities in 2021

- The Committee reviewed information presented by the Management, at its meetings, on macro-economic conditions and external environment and provided guidance on investment strategies to be followed.

- The performance of investment portfolios of the Company and its subsidiary were evaluated each quarter and guidance given where necessary.
- The Company's and subsidiary's compliance to requirements of the Investment Policy, statutory rules and regulations were monitored by receipt and review of Quarterly Compliance Reports from the Management.
- Risks relating to the investment function, Liquidity Management and Asset and Liability Management (ALM) positions were also evaluated.
- The Committee reviewed the changes proposed to the Investment Policy of the Company and its subsidiary, in light of economic and regulatory changes, and the growth of the investment portfolios of the Company/subsidiary and made recommendations to the Board where relevant.

Composition

Dr. Sivakumar Selliah
- Chairman (Senior IND/NED)

Ms. Siromi Wickramasinghe
- Member (NIND/NED)

Mr. Ravi Abeysooriya
- Member (IND/NED)

Mr. Arjuna Abeygunasekara
- Member (NIND/NED) - Director of HNBGI

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

Expertise

The Chairman and members of the Committee have extensive experience in diverse fields the details which can be found on pages 28 to 31.

Meetings

The Committee held 4 meetings during the period.

Attendance

Dr. Sivakumar Selliah 4/4
Ms. Siromi Wickramasinghe 4/4
Mr. Ravi Abeysooriya 4/4
Mr. Arjuna Abeygunasekara 4/4

Attendees by Invitation

Chief Executive Officers, Chief Operating Officers, Chief Investment & Strategy Officer, Chief Actuarial Officer and Middle Management of the investment front office and back office attended meetings by invitation regularly.

Secretary to the Committee

Ms. Punsirini Perera
- Chief Financial Officer

INVESTMENT COMMITTEE REPORT

- In addition to scheduled meetings, the Committee also maintained constant dialogue with the Management throughout the year and discussed matters as and when they arose. Any issue that needed the attention of the Investment Committee was promptly attended to and solutions reached, through close communication between the Committee and the Management.

Conclusion

Considering the tough market conditions created by interest rate volatilities together with poor economic conditions, the Committee is of the opinion that HNBA and HNBGI recorded an impressive performance by managing its investment portfolios, while operating within the framework prescribed by the Investment Policy and statutory and other laws, regulations and guidelines.



Dr. Sivakumar Selliah
Chairman
– Investment Committee

Colombo, Sri Lanka
18th February 2022

Key Responsibilities

- Developing and formulating guidelines for the Management of the investment portfolios of the Company and subsidiary.
- Reviewing and advising on the strategies to be followed by the investment function, after evaluation of the investment portfolios.
- Monitoring compliance of the investment function with applicable laws and regulations and the Investment Policy of the Group.
- Providing recommendations on any changes to the Investment Policy deemed by the Committee to be necessary, to the Board for approval.
- Evaluating and granting approval for any investment activity which require specific approval of the Committee as per the Investment Policy.
- Evaluating Liquidity Position of the Company and subsidiary.
- Evaluating the performance of investments already made, through a periodic comparison of actual returns with expected returns.
- Regularly reporting to the Board on the Committee's activities.
- Reviewing and assessing the adequacy of the Charter periodically, and recommending any proposed changes to the Board for approval.
- Performing other activities under the Charter, as requested by the Board.

RISK MANAGEMENT COMMITTEE REPORT

The Committee continued to strengthen the Group risk framework, taking a universal approach to manage the risks at this unprecedented situation and pleased to implement pandemic risk management strategies to reduce risks to our staff and ensure the continuity of the business.

Dilshan Rodrigo

Areas of Focus in 2021



Key Risk Indicators



Risk Management Framework



Pandemic and Cyber Security Risks

Charter of the Committee

The Risk Management Committee ('the Committee') of HNB Assurance PLC ('the Company' or 'HNBA') is a standing committee of the Board of Directors ('the Board') appointed by and responsible to the Board.

The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Risk Management Framework, including significant policies and practices used in managing risks, of the Company and its fully owned subsidiary, HNB General Insurance Limited ('HNBGI').

The terms of reference of the Committee is defined in the Risk Management Committee Charter which is approved by the Board and is also reviewed annually.

Authority

The Committee has been empowered to have direct access to and receive regular reports from the Management. In order to discharge its duties and responsibilities effectively and efficiently, the Committee is authorised to request and receive any information from the Management relating to its responsibilities.

Moreover, the Committee has the authority to engage independent professional advisors on matters within its purview.

Key Responsibilities

- Review the Company's Risk Management Framework, including significant policies, processes, and systems that the Management uses to manage risk exposures as well as risk measurement methodologies and approaches used for stress testing.

Composition

Mr. Dilshan Rodrigo
- Chairman (NIND/NED)

Ms. Rose Cooray
- Member (NIND/NED)

Mr. Ravi Abeyesuriya
- Member (IND/NED)

Ms. Marina Tharmaratnam
- Member (IND/NED) – Director of HNBGI

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

Meetings

The Committee held 06 meetings during the year.

Attendance

Mr. Dilshan Rodrigo	4/6
Ms. Rose Cooray	6/6
Mr. Ravi Abeyesuriya	6/6
Ms. Marina Tharmaratnam	4/6

Attendees by Invitation

Mr. Ruwan Manatunga - Chief Risk Officer (CRO) HNB PLC, Chief Executive Officers, Chief Financial officer, and Other members of the Executive Committee attended meetings by invitation regularly.

Secretary to the Committee

Mr. Patkunarajah Kugesan
- Manager Risk and Control

RISK MANAGEMENT COMMITTEE REPORT

- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits.
- Review the risk appetite statement of the Company along with the Management by periodically assessing performance with the established risk appetite.
- Review and discuss with the Management on issues raised by Internal/External Auditors that impact upon the Risk Management Framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established and delegated authorities.
- The Committee also reviewed the Group's compliance with all applicable laws and regulations through review of compliance checklists prepared and presented by the management.
- Discussed the investment strategy and reviewed the Asset and Liability Management policy of the Group.
- Risks relating to new products were reviewed by the Committee prior to launch.
- The Committee reviewed the Key Risk Indicators (KRIs) of the Group against internal tolerance levels covering credit, reinsurance, market, operational and strategic risks facing the Group and management actions taken to address internal breaches.

Activities in 2021

- The Committee reviewed the development, implementation and maintenance of the Group's overall Risk Management Framework, its Risk appetite principles, and policies, to ensure they are in line with emerging regulatory, governance, and industry best practices.
- The Committee reviewed the risk response strategies of the Group related to COVID -19 such as business continuity planning, stress testing of cashflow and liquidity, digitalisation process and Disaster recovery planning through the meetings and ensure the business is reacting to the pandemic in an effective and timely manner and to ensure the safety of all stakeholders.
- Emerging and Top 5 risks faced by the Group were discussed in detail and the Committee provide guidance on mitigating actions.
- IT risks related issues of the Group and the steps taken by the Management to strengthen the IT Security environment of the Company were also discussed and guidance offered.
- The minutes of all meetings held were tabled at the Audit Committee meetings to permit the Audit Committee to carry out its statutory, regulatory, and other responsibilities as well as at the Board meetings of HNBA and HNBGI to update and inform the other members of the Board on the proceedings.



Dilshan Rodrigo
Chairman
– Risk Management Committee

Colombo, Sri Lanka
18th February, 2022

STRATEGY REVIEW COMMITTEE REPORT

Guiding the Management for the achievement of KPIs set is vital for the development of the Company

Rose Cooray

Areas of Focus in 2021



Profitability of the Group



Achievement of KPIs



Implementation of the Corporate Plan

Charter of the Committee

The terms of reference of the Committee are defined in the Strategy Review Committee Charter, which is reviewed periodically. The main purposes of the Committee involve closely reviewing and monitoring the implementation of the three year strategic plan of the Group/Company, keeping the Board informed about the progress of such implementations and making timely recommendations that are deemed necessary to ensure the early arrest of any unhealthy developments with regard to the businesses of both HNB General Insurance Limited (HNBGI) and HNB Assurance PLC (HNBA).

Activities in 2021

- Reviewing the front burner document containing materially significant short term activities, change of processes etc.
- Interacting with identified KMPs responsible for implementation of each activity.
- Identifying and monitoring the implementation of medium and long-term strategies.

- Reviewing and making recommendations to the board on the forecast made on KPIs.
- Updating the Board regularly regarding the implementation and achievements against each target.
- Continuous reviewing of the strategic plan developed for the next three years.
- Monitoring progress of the Company performance with the challenges faced due to the Global Pandemic and revisiting the projections made during the year.
- Guiding both HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited continuously in their ongoing digital transformation journey.

Rose Cooray
Chairperson
– Strategy Review Committee

Colombo, Sri Lanka
18th February, 2022

Composition

Ms. Rose Cooray
- Chairperson (NIND/NED)

Dr. Sivakumar Selliah
- Member (Senior IND/NED)

Mr. Damien Fernando
- Member (NIND/NED)

Mr. Stuart Chapman
- Member (NIND/NED)

Mr. Faizal Salieh*
- Member (IND/NED)

Ms. Marina Tharmarathnam*
- Member (IND/NED)

Mr. Sanjaya Wijemanne*
- Member (NIND/NED)

(IND - Independent Director, NIND - Non Independent Director and NED - Non Executive Director)

* Director of HNB General Insurance Limited

Meetings

The Committee held 6 meetings during the year

Attendance

Ms. Rose Cooray	6/6
Dr. Sivakumar Selliah	6/6
Mr. Damien Fernando	*6/6
Mr. Stuart Chapman	6/6
Mr. Faizal Salieh	6/6
Ms. Marina Tharmaratnam	5/6
Mr. Sanjaya Wijemanne	5/6

* All 06 meetings were attended by Alternate Director, Dr. Prasad Samarasinghe

Attendees by Invitation

Mr. Rajive Dissanayake - Chief Financial Officer of HNB PLC, Chief Executive Officers and the Executive Committee members of the Company attended meetings by invitation regularly.

Secretary to the Committee

Mr. P N H Amarasinghe
- Chief Investment and Strategy Officer

DIRECTORS' STATEMENT ON INTERNAL CONTROL

The following statement is presented as required by the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

RESPONSIBILITY

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ("the Company"). The Company has in place a comprehensive system of internal controls, covering risk management and financial, organisational, operational and compliance controls. However, as with the inherent limitations of any system, such systems of internal control are designed to manage, rather than to eliminate risks that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against material misstatement of financial information and records, or against financial loss or fraud.

The Board has established an on-going process for identifying, evaluating, and managing the significant risks faced by the Company, as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is periodically reviewed by the Board through its Audit and Risk Management Committees, supported by the Internal Auditors. The Board, with the assistance of its Sub-Committees, reviewed deficiencies identified in internal controls during the year and has taken appropriate actions to improve the control environment.

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

The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting policies, principles, and regulatory requirements.

PROCESS OF REVIEWING THE INTERNAL CONTROL SYSTEM ON FINANCIAL REPORTING

The key features of the process that has been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting are as follows:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's and its fully owned subsidiary, HNB General Insurance Limited (HNBGI)'s daily operations, and that they are in accordance with the corporate objectives, strategies, annual budget, approved policies and business direction.
- The Company and subsidiary have outsourced its Internal Audit function to Messrs. Ernst & Young. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis, using samples and rotational procedures and highlight significant findings in respect of any area of non-compliance. Audits are carried out covering main areas of the operations and branches island-wide, to provide an independent and objective report. The frequency of such audits is determined by the level of risk assessment, while the annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and their reports are discussed at Audit Committee meetings.
- The Audit Committee reviews internal control issues identified by the Internal Auditors, the External Auditors, regulatory authorities, and the Management, and evaluates the adequacy and effectiveness of the risk management and internal control systems of the Company and its subsidiary. They also review the internal audit functions with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings for the information of the Board. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Report of the Audit Committee on pages 162 to 166.
- Risk Management Committee assists the Board to oversee the risk management framework of the Company and its subsidiary. The Management has prepared a Risk Register identifying all key risks faced by the Company and its subsidiary, as well as existing and proposed controls to mitigate such identified risks. This Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls and to prepare the internal audit plan focusing on the significant risks faced by the Company. A Business Continuity Plan for Public Contagion was developed and approved by the Board Risk Management Committee to be followed in addition to the Business Continuity Plan.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and its subsidiary and a KRI Report is prepared monthly. A summary of the KRI Report is included in the Risk Dashboard and presented to the Risk Management Committee. Furthermore, the key risks are discussed at Board level.

- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tabled at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed to by the Management.
- A compliance checklist covering all applicable laws and regulations is signed-off by the Management on a monthly basis and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager - Risk and Compliance are also presented to the Audit Committee, Risk Management Committee and the Investment Committee on a regular basis. A monthly report to the Board is submitted by the Manager - Risk and Compliance on the Company's and the subsidiary's compliance with applicable laws and regulations.
- Procedure checklists have been prepared for Life Insurance operations, finance and IT related activities and the operations of the Company's fully owned subsidiary HNB General Insurance Limited (HNBGI), covering key control aspects. These checklists are prepared monthly, and any deviations noted in the checklists are reported to the Audit Committee.

CONFIRMATION

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting. The preparation of Financial Statements for external purposes was done in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No.43 of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE).

By order of the Board,



Ashoka Goonesekere
Chairman - Audit Committee



Rose Cooray
Chairperson

Colombo, Sri Lanka
18th February 2022

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2021

GRI 207-2

Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the Contents of the Annual Report as Required by Section 168 of the Companies Act, No. 07 of 2007.

1. PREFACE

The Board of Directors ('the Board') of HNB Assurance PLC ('HNBA' or 'the Company') is pleased to present the Annual Report together with the Audited Financial Statements of the Company, consolidated Financial Statements of the Group for the financial year ended 31st

December 2021 as set out in pages 198 to 337 and the Auditors Report on the Financial Statements.

This report covers statutory requirements and directions of the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 as amended, the Listing Rules of the Colombo Stock Exchange (CSE), rules and regulations of the Insurance Regulatory Commission of Sri Lanka (IRC SL) and is guided by the recommended best practices on Corporate Governance.

The Annual Report was reviewed and approved by the Board of Directors of the Company on 18th February 2022 and appropriate number of copies will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board as specified and stipulated.

As required by the Section 168 of the Companies Act, No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended 31st December 2021.

Reference to the Companies Act	Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference from the Annual Report of the Board of Directors
Section 168 (1) (a) (i)	The nature of the business of the Company or any of its subsidiaries.	Section 2.3 on page 181
Section 168 (1) (b)	Financial Statements for the accounting period completed and signed in accordance with section 151, and any Group Financial Statements for the accounting period completed and signed in accordance with section 152.	Section 3.1 on page 181
Section 168 (1) (c)	Auditor's appointment and Auditors' Report on the Financial Statements of the Group and the Company.	Section 8.1 on page 185
Section 168 (1) (d)	Accounting Policies of the Group and the Company and any changes therein.	Section 3.2 on page 181
Section 168 (1) (e)	Particulars of the entries made in the Interests Registers of the Company and its Subsidiary during the accounting period.	Section 5.6 on page 184
Section 168 (1) (f)	Remuneration and other benefits paid to Directors during the accounting period.	Section 5.7 on page 185
Section 168 (1) (g)	Total amount of donations made by the Group during the accounting period.	Section 20 on page 187
Section 168 (1) (h)	Names of the persons holding office as Directors of the Company and the subsidiary as at the end of the accounting period and the names of any persons who ceased to hold office as Directors of the Company and the subsidiary during the accounting period.	Section 5.1 on page 183 Section 5.2 on page 184
Section 168 (1) (i)	Disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company and the subsidiary.	Section 8.2 on page 185
Section 168 (1) (j)	Auditors' relationship or any interest with the Company and the subsidiary.	Section 8.2 on page 185
Section 168 (1) (k)	Acknowledgement of the contents of this Report/Signatures on behalf of the Board of Directors.	Section 24 on page 187
Section 168 (2)	A company that is required to include Group Financial Statements in its annual report shall include those in relation to its subsidiaries, the information specified in paragraphs (b) to (j) of subsection (1).	All requirements in relation to the subsidiary operations have also been covered under relevant sections
Section 168 (3)	The Annual Report of a company need not comply with of paragraph (a) and paragraphs (d) to (j) of subsection (1), if all Shareholders agree in writing that it need not do so. Any such agreement shall be noted in the Annual Report.	Not Applicable. The Company complies with paragraph (a) and (d) to (j) of subsection (1)

2. REVIEW OF BUSINESS

2.1 Formation

The Company was incorporated on 23rd August 2001 as a limited liability company under the Companies Act, No. 17 of 1982, and reregistered on 09th August 2007 as per the requirements of the Companies Act, No. 07 of 2007 and bears the Company Registration Number, PQ 108. In November 2003, ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange (CSE). The Company is registered under the Regulation of Insurance Industry Act, No. 43 of 2000 to operate as a Life Insurance company and also owns a fully owned subsidiary, HNB General Insurance Limited ("HNBGI"), which is a licensed General Insurance company registered under the same Act. The ultimate parent of the Company is Hatton National Bank PLC, a Licensed Commercial Bank which owns 59.99% of the voting rights of the Company. The registered office of the Company is located at No. 479, T B Jaya Mawatha, Colombo 10.

During the year, Fitch Ratings Lanka Ltd upgraded the National Insurer Financial Strength Ratings of HNB Assurance PLC and HNB General Insurance Limited from A (lka) to A+ (lka) with a Stable outlook considering the financial strength of the Company and its subsidiary.

2.2 Corporate Vision, Mission and Values

The vision, mission and the values of the Company are given on page 7 of this report. The Directors and employees of the Company and the Group practices high standards of ethical behaviour in carrying out the business in line with the vision and mission set.

2.3 Principal Business Activities of the Company and Group Companies

The principal activities of the Company is Life Insurance business and HNB General Insurance Limited carries out General Insurance business. No significant change took place in the principal business activities of both entities.

Both companies also provide Takaful Insurance products within the framework of main business activities. These Takaful business operations are structured as 'Window Units' and considered a part of the Company's/Group's operations for both financial and regulatory reporting purposes.

2.4 Review of Business and Future Developments

An overview of the business performance and the future developments of the Company and the Group are discussed and presented in the Chairperson's Message, Chief Executive Officer's review (pages 22 to 25 and 32 to 35), and the Management Discussion and Analysis (pages 44 to 99). These reports together with Audited Financial Statements reflect the state of affairs of the Company and the Group.

3. FINANCIAL STATEMENTS OF THE COMPANY AND THE GROUP

3.1 Director's Responsibility for Financial Reporting

As per Section 150 (1) of the Companies Act, No. 07 of 2007, the Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and the Group and these Financial Statements give a true and fair view of the state of affairs of the Company and Group in compliance with Sections 151, 152, 153 (1) and 153 (2) of the Companies Act, No. 07 of 2007.

Accordingly, the Financial Statements of Company and the Group are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and also comply with requirements of the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995, Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka and Listing Rules of the Colombo Stock Exchange (CSE). The detailed statement of Directors'

Responsibility is included in pages 189 to 190 forms an integral part of this report.

The aforementioned Financial Statements for the year ended 31st December 2021 which appears on pages 198 to 337 are duly signed by the Chief Financial Officer and two Directors of the Company as per Section 168 (1) (b). These statements form an integral part of the Annual Report of the Board of Directors.

3.2 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements and changes to significant accounting policies if any, in the preparation of the Financial Statements are described on pages 207 to 211.

3.3 Going Concern

The Directors after having made necessary assessment of the Company's and its subsidiary's ability to continue as a going concern declare that it has the resources to continue in business for the foreseeable future. In doing so the Board has considered the implications arising due to the Covid-19 pandemic as well. An overview of the measures taken by the Company to ensure business continuity in the wake of the pandemic is given in the Chairperson's review on pages 22 to 25. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's and its subsidiary's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared for the Company and its subsidiary on going concern basis.

3.4 Events Occurring after the Date of the Statement of Financial Position

The payment of a first and final dividend of Rs. 3.20 per share for the year ended 31st December 2021 (2020: Final Rs. 2.80 per share) is to be approved at the Annual General Meeting to be held on 31st March 2022. More information with respect to the dividend is given in Note 46 on page 326.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2021

Except for the post balance sheet events disclosed in Note 49 on page 335, there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

3.5 Contingencies

All contingencies to the Group and the Company were disclosed in the Note 52 on the page 336. In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Group and the Company, would not have a material impact on the reported financial results. All pending litigations for claims have been evaluated and adequate provisions have been made in the Financial Statements where necessary.

4. FINANCIAL RESULTS AND APPROPRIATIONS

4.1 Gross Written Premium

Gross Written Premium of the Group for the year 2021 was Rs. 12,646.9 Million. (2020: Rs. 10,398.9 Million) whilst the Company's Gross Written Premium for the year 2021 was Rs. 7,091.5 Million (2020: Rs. 5,487.0 Million). Note 31 to the Financial Statements in page 310 provides a segmental analysis of the Gross Written Premium.

4.2 Profits and Appropriations

The Profit After Tax of the Group for the year 2021 was Rs. 1,223.6 Million (2020 – Rs. 1,175.2 Million) whilst the Company's Profit After Tax for the year 2021 was Rs. 1,000.5 Million (2020 - Rs. 723.9 Million). The details of the appropriation of profit are given below.

For the year ended 31st December,	Group		Company	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
Profit Before Taxation (PBT)	1,748,378	1,630,496	1,452,211	999,363
Income Tax Expenses	(524,730)	(455,273)	(451,712)	(275,418)
Profit for the Year	1,223,648	1,175,223	1,000,499	723,945
Unappropriated Profit Brought Forward	5,841,032	4,965,809	4,968,314	4,544,369
Profits Available for Appropriation	7,064,680	6,141,032	5,968,813	5,268,314
Dividends Paid	(420,000)	(300,000)	(420,000)	(300,000)
Unappropriated Profit Carried Forward	6,644,680	5,841,032	5,548,813	4,968,314

4.3 Dividends on Ordinary Shares

Information on final dividend proposed by the Company is given in Note 46 on page 326 to the Financial Statements.

The Directors recommended a first and final dividend of Rs. 3.20 per share for the year under review to be approved by the Shareholders at the forthcoming Annual General Meeting to be held on 31st March 2022. The final dividend will be paid on or before 26th April 2022 to holders of issued and paid-up ordinary shares of the Company, whose names remain in the

share registry as at the close of business on the 31st of March 2022.

As required by Section 56 (3) of the Companies Act, No. 7 of 2007, the Board of Directors have confirmed that the Company satisfies the solvency test immediately after the distribution of the final dividend of Rs. 3.20 and Statement of Solvency prepared by the Board was audited by External Auditors Messrs. KPMG in terms of Section 56 (2) of the Companies Act, No. 07 of 2007. Further, the Company has submitted information

on dividend distribution to the Insurance Regulatory Commission of Sri Lanka as per Direction 1 of 2021.

4.4 Stated Capital

The Stated Capital of the Company as at 31st December 2021 was Rs. 1,171,875,000 comprising 150,000,000 fully paid ordinary shares. (2020: Stated Capital - Rs. 1,171,875,000, No. of Shares -150,000,000).

4.5 Reserves

Transfers to/from reserves of the Group/ Company are shown in the Statement of Changes in Equity appearing on pages 200 and 201.

4.6 Taxation

Under the prevailing tax rules of the Country, the Company and its subsidiary were taxed at the corporate tax rate of 24% (2020 – 28%). The tax position of the Company and its subsidiary is disclosed in Note 44 to the Financial Statements on page 321.

The Company has reversed a Deferred Tax Asset of Rs. 451.7 Million during the year due to utilisation of brought forward tax losses against the taxable income and on account of the change of the corporate tax rate from 28% to 24%. The Company carries a deferred tax asset of Rs. 273.5 Million as of 31st December 2021 and the subsidiary carries a deferred tax asset of Rs. 18.3 Million as of 31st December 2021.

4.7 Capital Expenditure

The Company's and Group's capital expenditure on Property, Plant and Equipment and Intangible Assets amounted to Rs. 85.5 Million and Rs. 194.2 Million respectively (2020: Company Rs.96.2 Million and Group Rs. 119.6 Million) and all other related information and movements have been disclosed in Note 7 on page 260 and Note 9 on page 270 to the Financial Statements.

4.8 Financial Investments

The Financial Investments held by the Company and the Group mainly comprises of Financial Instruments. Financial Investments of the Company and

Group amounted to Rs. 24,667.1 Million and Rs. 29,094.1 Million respectively as at 31st December 2021 (2020 - Rs. 22,075.3 Million and Rs. 26,366.6 Million respectively). The details of the Financial Investments are given in Note 10 to the Financial Statements on pages 272 to 284.

4.9 Provisions, Liabilities and Capital Commitments

The Directors have taken all reasonable steps to ensure that adequate provisions were made for all known liabilities and commitments. Contract Liabilities for Life Insurance stood at Rs. 20,342.8 Million (2020 - Rs. 17,064.1 Million) as at 31st December 2021, while Contract Liabilities for General Insurance constituted Rs. 3,735.9 Million (2020 - Rs. 3,309.1 Million) as at 31st December 2021. These liabilities

have been valued by the appointed Actuaries whose reports are disclosed on pages 192 and 193 respectively. The assumptions and methods used are given in the accounting policies in pages 297 to 303 of these Financial Statements. The gratuity liability of the Company and the Group stood at Rs. 137.3 Million and Rs. 239.2 Million respectively (2020 - Rs. 150.7 Million and Rs. 254.4 Million respectively), and is certified by an External Actuary. At the year end, there were no capital expenditure approved by the Board and contracted, for which no provision has been made in the Financial Statements other than Rs. 49.1 Million on Property Plant and Equipment and software (2020 - Rs. 24.1 Million).

5. THE BOARD OF DIRECTORS

5.1 Information on Directors of the Company and the Group and Directors Meetings

The Board of Directors of HNBA consists of 8 members and the Board of Directors of HNB General Insurance Ltd consists of 7 members as at 31st December 2021. Information relating to the Directors of the Company is available in the Directors' Profile on pages 26 to 31.

The Board is made up of experienced professionals from diverse backgrounds, experience, expertise and age, contributing varied perspectives to boardroom deliberations. Directors are appointed through a formal and transparent process, assessed for their independence and approved by the IRCSL.

The names, appointment dates and meeting attendance of Directors of Company and the subsidiary are given below.

	Board Status	Appointment to HNBA Board	Appointment to HNBGI Board	HNBA Board	HNBGI Board	Audit Committee	Human Resources and Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee	Investment Committee	Risk Management Committee	Strategy Review Committee
M A R C Cooray		06.07.2015	30.06.2015	13/13	13/13	-	4/4	-	1/1	-	6/6	6/6
J A P M Jayasekera (retired w.e.f. 03.12.2021)		03.12.2012	N/A	12/12	N/A	5/5	3/4	4/4	1/1	-	-	-
D P N Rodrigo (resigned from HNBGI w.e.f. 17.03.2021)		01.07.2013	21.12.2015	9/13	0/3	-	-	-	1/1	-	4/6	-
S N Wickramasinghe		02.10.2013	N/A	13/13	N/A	-	-	-	-	4/4	-	-
Dr. S Selliah**		17.06.2014	N/A	13/13	N/A	5/5	4/4	4/4	-	4/4	-	6/6
D R Abeyhuriya		01.01.2018	N/A	13/13	N/A	-	-	-	-	4/4	6/6	-
L U D Fernando		29.03.2019	29.03.2019	12*/13	13*/13	5*/5	-	4*/4	-	-	-	6*/6
S A Chapman		29.03.2019	N/A	13/13	N/A	-	1/1	-	-	-	-	6/6
A Goonesekere		31.12.2021	N/A	-	N/A	-	-	-	-	-	-	-
M O F Salieh		N/A	22.09.2014	N/A	12/13	-	-	-	-	-	-	6/6
M Tharmaratnam		N/A	01.09.2016	N/A	13/13	-	-	-	-	-	4/6	5/6
M S Wijemanne		N/A	29.03.2019	N/A	11/13	-	-	-	-	-	-	5/6
A V Abeygunasekara		N/A	29.03.2019	N/A	13/13	-	-	-	-	4/4	-	-
L C Cooray		N/A	17.03.2021	N/A	10/10	-	-	-	-	-	-	-

* Includes meeting/s attended by Alternate Directors

** Senior Independent Director

Independent

Non-Executive

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2021

5.2 New Appointments, Retirement and Resignations

Ms. L C Cooray was appointed to the Board of HNB General Insurance Limited in the capacity of a Director with effect from 17th March 2021.

Mr. A Goonesekere was appointed to the Board of HNB Assurance PLC in the capacity of a Director with effect from 31st December 2021.

Mr. D P N Rodrigo resigned from the Board of HNB General Insurance Limited with effect from 17th March 2021 having served in the capacity of a Director for a period of 05 years.

Mr. J A P M Jayasekera retired from the Board of HNB Assurance PLC with effect from 3rd December 2021 having served in the capacity of Director for a period of 09 years.

There were no appointments, retirements or resignations to the Board of both HNB Assurance PLC and HNB General Insurance Limited during the reporting period other than those mentioned above.

5.3 Retirement and Re-election of Directors

In terms of Article 27 (2), of the Articles of Association of the Company Mr. A Goonesekere is retiring by rotation at the AGM and being eligible, offer himself for re-election.

In terms of Article 27 (7), of the Articles of Association of the Company Mr. D R Abeyseriya is retiring by rotation at the AGM and being eligible, offer himself for re-election.

Ms. Rose Cooray is over the age of 70 years. Accordingly, in terms of the provisions of the Companies Act in Section 210 and 211, she will offer herself for re-election as a Director at the Annual General Meeting.

5.4 Appraisal of Board Performance

Performance of the Board of Directors was reviewed through a self-assessment questionnaire and the responses were

shared among all Board members. Suggestions to further improve the performance of the Board that arose from these self-assessment questionnaires were discussed in detail and adopted as appropriate. The Secretary to the Board and the Management continuously follow up on the progress of implementing such agreed actions.

5.5 Board and Sub-Committees

Seven Board Sub-Committees have been appointed by the Board to support the Board in ensuring that the Company and the Group carry out its activities with the highest ethical standards and in the best interest of all its stakeholders at all times. The Terms of Reference of these Sub-Committees follow the recommendations made by various regulatory bodies, including but not limited to the Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission, the Colombo Stock Exchange and the Institute of Chartered Accountants of Sri Lanka. These Committee reports are given on pages 162 to 177 in the Annual Report. Committee mandates are reviewed regularly. The composition and meeting attendance by members for the above Sub-Committee meetings are given on page 183.

5.6 Interest Register and Interest in Contracts or Proposed Contracts

As per requirements of the Companies Act, No. 07 of 2007 an Interest Register is maintained by the Company. Directors have made declarations of their interests in other companies conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 07 of 2007 and they are recorded in the Directors' Interest Register.

The Interest Register is available at the registered office of the Company, in keeping with the requirements of the Section 119 (1) (d) of the Companies Act, No. 07 of 2007.

Directors also refrained from voting on any contract or matter in which they have a material interest as a practice of good governance. Particulars of the Directors' Interests in Contracts are given on page 188 of the Annual Report and Note 48 to the Financial Statements presents complete disclosure on Related Party Transactions, which forms an integral part of the Annual Report of the Board of Directors.

The Directors' Interest in shares has not changed between 31st December 2021 and 18th February 2022, the date of this report.

Name of Director	No. of Shares held as at 31st December	
	2021	2020
M A R C Cooray – Chairperson	94,235	69,105
J A P M Jayasekera *	N/A	174,000
D P N Rodrigo	540	540
S N Wickramasinghe	67,500	37,500
Dr. S Selliah	600,000	600,000
D R Abeyseriya	5,000	5,000
L U D Fernando	Nil	498
S A Chapman	500	Nil
Dr. T K D A P Samarasinghe (Alternate Director to L U D Fernando)	Nil	Nil
A Goonesekere	Nil	N/A

*retired w.e.f. 03.12.2021

5.7 Directors' Remuneration

Director's remuneration including post-employment is given in Note 42 on page 319 to the Financial Statements. Further, Directors are not entitled to obtain any loan from the Company.

5.8 Related Party Transactions

The Company's transactions with Related Parties, given in Note 48 on page 328 to the Financial Statements have complied with Colombo Stock Exchange Listing Rule 9.3.2 (d) and the Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive. No related party transaction exceeded the limits of 10% of equity or 5% of total assets requiring immediate disclosure to CSE and a separate disclosure in the Annual Report as per Section 9.3.2 of the Listing Rules. The Directors have also disclosed transactions, if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures'.

6. SHARE INFORMATION

6.1 Information on Earnings, Dividends, Net Assets and Market Value

Information related to earnings, dividends, net assets, market price per share, and share trading as per the CSE Listing Rules are given on pages 148 to 155. Ratios relating to dividends, net assets, market price per share are presented on Investor Information on page 356.

6.2 Distribution Schedule of Shareholding

The distribution and analysis of shareholding is given on page 150 of this Annual Report. As at 31st December 2021, HNB Assurance PLC had 4,450 registered ordinary Shareholders (2020 – 4,075).

6.3 Substantial Shareholding

Hatton National Bank PLC holds 59.99% of the Ordinary Voting shares as at 31st December 2021. Information of the top 20 Shareholders and the percentage held by each Shareholder as at 31st December 2021 are presented on page 152 with comparable information as at 31st December 2020.

6.4 Employee Share Ownership/Option Plans

The Company does not have any employee share ownership/option plans.

7. EQUITABLE TREATMENT OF SHAREHOLDERS

All Shareholders irrespective of the number of shares owned by them are treated equally and the Company recognises the right of all Shareholders to obtain information.

Further establishing this principle, the Chairperson's Message, the Chief Executive Officer's Review, the Statement of Financial Position, the Statement of Profit or Loss and Other Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity are available in Sinhala and Tamil languages to our Shareholders on request. This is also made available through our Company website.

8. INDEPENDENT AUDITORS' APPOINTMENT AND REMUNERATION

8.1 Appointment and Audit Report

The Company's Independent External Auditors, Messrs. KPMG, Chartered Accountants, who were appointed by a resolution passed at the 19th Annual General Meeting, have carried out an audit on the Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2021 and expressed their opinion which appears on pages 194 to 197 of this Annual Report.

8.2 Auditors Remuneration and Relationship

The details of their remuneration in respect of audit fees and audit related fees are given in Note 42.2 on page 320 to the Financial Statements as required by Section 168 (1) (i) of the Companies Act No 07 of 2007. As far as the Directors are aware, the Auditors do not have any relationship with the Company, and the Subsidiary which would impair the Auditors' independence within the means of the Code of Professional Conduct and Ethics issued by the Institute of Chartered

Accountants of Sri Lanka, applicable on the date of this report, thus comply with the Section 168 (1) (j) of the Companies Act No 07 of 2007.

Report of the Audit Committee provides more information on appointment of Auditors, Independence of Auditors and the provision of Non-Audit services.

8.3 Re-appointment of Auditor for the Financial Year 2022

The retiring Auditors Messrs. KPMG have signified their willingness to continue to function as the Auditor to the Company and subsidiary. A resolution to reappoint Messrs. KPMG as Auditors and granting authority to the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting of HNB Assurance PLC and HNB General Insurance Limited to be held on 31st March 2022 for Shareholder approval.

9. COMPLIANCE WITH LAWS AND REGULATIONS

To the best knowledge of the Directors, the Group/Company has not acted in contravention of any rule or regulation of the country. Further, the Group has submitted all statutory returns and other required details to the relevant authorities on or before the due dates.

10. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and related institutions, the Insurance Regulatory Commission of Sri Lanka, and relating to the employees, by the Company and its subsidiary, have been made on time or where relevant provided for, except as specified in Note 52 on page 336 to the Financial Statements, covering contingent liabilities.

11. RISK BASED CAPITAL (RBC) COMPLIANCE

The Company and its subsidiary have complied with the requirements of the Risk Based Capital (RBC) framework on solvency margin as required by the IRCSL. Total Available Capital (TAC) and Risk

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2021

based Capital Adequacy Ratio (CAR) of HNBA and HNBGI were maintained in excess of the minimum requirements as prescribed by the IRCSL throughout the year. At the end of the financial year 2021, HNB Assurance PLC recorded a CAR of 277% and HNB General Insurance Limited recorded a CAR of 260%.

12. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The Board of Directors believe that strong internal controls are an essential part of management of the business and is committed to maintaining financial, operational and risk management controls over all its activities. The ultimate responsibility of Company's/Group's system of internal controls and risk management is vested with the Board of Directors.

Therefore, the Board continuously monitors all business aspects through the Risk Management Committee and the Audit Committee along with the reports of the outsourced Internal Auditors to ensure the adequacy and effectiveness of internal controls of the Group, compliance with laws and regulations and established policies adopted by the Group.

Further details of these aspects are discussed in the Corporate Governance Report, Director's Statement of Internal Control, Audit Committee Report and Risk Management Committee Report available on pages 101 to 133, pages 178 to 179, pages 162 to 166 and pages 175 to 176 respectively.

13. CORPORATE GOVERNANCE

The Board of Directors is committed towards maintaining an effective Corporate Governance Framework and implementing systems and structures required to ensuring best practices in Corporate Governance and their effective implementation.

The Company's compliance with relevant sections of Corporate Governance framework issued by IRCSL in the year 2018 is given on pages 129 to 130. Further,

the table from pages 126 to 128 shows the manner in which the Company has complied with Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance and Company's compliance on the Code of Best Practice on Corporate Governance issued by CA Sri Lanka is given on page 157. The Corporate Governance Report is given from pages 101 to 133. Also, the Director's declare that;

- a) all applicable laws and regulations have been complied with by the Company, in conducting its business activities,
- b) the Directors have disclosed all material interests in contracts involving the Company and have refrained from voting on matters in which they were materially interested,
- c) the Company has made all endeavours to ensure that all Shareholders have been treated equitably,
- d) the business is a going concern with supporting assumptions or qualifications as necessary,
- e) a review of internal controls, covering financial, operational and compliance controls, and risk management, has been conducted, and a reasonable assurance of their effectiveness and successful adherence has been obtained.

14. CODE OF CONDUCT AND ETHICS

All employees of the Company/subsidiary are governed by a Code of Business Conduct and are expected to abide by the Code without any exceptions. During the year no major violations of the Code was reported, except for few insignificant operational level incidents over which appropriate and prompt actions were taken by the management.

The Board of Directors is also governed by a Code of Conduct and Ethics and during the year no violations of the Code were reported.

15. WHISTLE BLOWING

An Integrity Reporting Policy is in place and has been communicated to all employees of the Company/subsidiary. It encourages to bring to the attention of the Management or the Board any possible risks faced by the Company at the earliest. During the year no major concerns were raised through the Policy.

16. INTEGRATED CORPORATE REPORTING

The Company has prepared this Integrated Annual Report in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). The Independent Limited Assurance Report provided by Messrs. KPMG on the Integrated Annual Report is given on pages 20 to 21.

17. SUSTAINABILITY

The Company/Group is conscious of the importance of assessing business performance through financial as well as social and environmental aspects. Accordingly, sustainability aspects have been considered when formulating business strategies and details of which are presented on pages 94 to 96.

18. ENVIRONMENT PROTECTION

To the best knowledge of the Board, the Company and subsidiary have complied with the relevant environmental laws and regulations and the Company and subsidiary have not engaged in any activity that is harmful or hazardous to the environment. Specific measures taken to protect the environment are found in the Natural Capital Report on pages 94 to 96.

19. CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a socially responsible corporate citizen, the Company carries out a range of CSR activities. The details of Corporate Social Responsibility activities are given under Social and Relationship Capital Report on pages 83 to 90.

20. CORPORATE DONATIONS

Total donations made by the Company during the year amounted to Rs. 750,000 (2020 - Rs. 500,000).

21. HUMAN RESOURCES

The Company and Group ensure that effective human resource practices and policies exist, continuously reviewed and improved to enhance workforce efficiency, effectiveness and productivity. These practices and policies are applied for all employees of the Group/Company irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability.

Details of the Company and Group Human Resources are detailed in the Human Capital Report on pages 76 to 82 and on Human Resources and Remuneration Committee Report given on pages 167 to 168.

22. TECHNOLOGY

The Company/Group has accelerated its digitalisation journey focusing on technological advancements to support the business strategy of the Group. The Company and subsidiary invested in digitalisation of processes to increase the efficiencies and deliver superior products and services to customers. This enabled the Group to carryout its operations remotely during periods of travel restrictions and to serve its customers uninterrupted. Key achievements for the year are detailed in the pages 97 to 99.

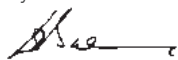
23. ANNUAL GENERAL MEETING

The twentieth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10, on 31st of March 2022 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 360 of the Annual Report.

24. ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

Board of Directors does hereby acknowledge the contents of this Annual Report as required by Section 168 (1) (k) of the Companies Act, No. 07 of 2007.

By order of the Board,



Sitari Jayasundara
Board Secretary



Ashoka Goonesekere
Director



M A R C Cooray
Chairperson

Colombo, Sri Lanka
18th February 2022

DIRECTORS INTEREST IN CONTRACTS WITH THE GROUP/COMPANY

Related party disclosures as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures' are detailed in Note 48 to the Financial Statements on pages 328 to 334 of this Annual Report.

In addition, Group/Company carries out transactions in the ordinary course of business on an arm's length basis with entities in which a Key Management Person (KMP) is a Chairman or a Director of such entities where no significant influence is exercised.

Name of the Company	Name of the Director	Nature of Transactions	Insurance Segment	Group		Company	
				2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
John Keells Holdings PLC	Mr. D A Cabraal	Insurance Premium	HNBGI	17,388	-	-	-
		Claims Incurred	HNBGI	323	-	-	-
Odel PLC	Dr. S Selliah	Insurance Premium	HNBGI	380	317	-	-
		Claims Incurred	HNBGI	-	19	-	-
Asiri Hospital Holdings PLC		Insurance Premium	HNBGI	1,876	-	-	-
		Claims Incurred	HNBGI	175	-	-	-
Asiri Surgical Hospital PLC		Insurance Premium	HNBGI	398	-	-	-
		Claims Incurred	HNBGI	319	-	-	-
Central Hospital (Pvt) Ltd		Insurance Premium	HNBGI	906	-	-	-
Bio Foods (Pvt) Ltd	Mr. D R Abeyseriya	Insurance Premium	HNBGI	-	4,201	-	-
CIC Holdings PLC	Mr. P R Saldin	Insurance Premium	HNBGI	3,740	1,474	-	-
		Insurance Premium	HNBA	2,494	-	2,494	-
		Claims Incurred	HNBA	1,000	-	1,000	-
Uni dil Packaging Solutions Ltd	Mr. J A P M Jayasekara	Insurance Premium	HNBGI	1,040	651	-	-
Uni dil Packaging Ltd		Insurance Premium	HNBGI	2,852	512	-	-
		Claims Incurred	HNBGI	1,734	874	-	-
Life Insurance Corporation (Lanka) Ltd	Mr. D Cooray	Insurance Premium	HNBGI	-	263	-	-
Tea Small Holders Factories PLC	Ms. A Goonetilleke	Insurance Premium	HNBGI	124	-	-	-
		Claims Incurred	HNBGI	5	-	-	-
Softlogic Finance PLC	Ms. A Goonetilleke	Insurance Premium	HNBGI	1,650	-	-	-
		Claims Incurred	HNBGI	227	-	-	-

STATEMENT OF DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Board of Directors in relation to the Financial Statements of the Company and the Consolidated Financial Statements of the Company and its subsidiary prepared in accordance with the provisions of the Companies Act, No.07 of 2007, is given in this statement.

The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Independent Auditors' Report given on pages 194 to 197.

As per the provisions of sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act, No 7 of 2007, the Directors are required to prepare and present Financial Statements for each financial year for the Company and the Group which give a true and fair view of the state of affairs of the Company as at the reporting date and of the profit or loss for the year and place the same before the Annual General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2021, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The Board of Directors' also confirm that the Financial Statements of the Company and the Consolidated Financial Statements of the Company and its subsidiary give a true and fair view of;

- The state of affairs of the Company and the Group as at the date of the Statement of Financial Position; and
- The financial performance of the Company and the Group for the financial year ended 31st December 2021.

Compliance Report

In preparing the Financial Statements for the period ended 31st December 2021, the Directors also confirm that,

- a) Appropriate accounting policies have been selected and applied in a consistent manner when preparing the Financial Statements/Consolidated Financial Statements appearing on pages 198 to 337.
- b) Reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained in the Financial Statements/Consolidated Financial Statements and accompanying Notes.
- c) The Financial Statements/Consolidated Financial Statements for the year ended 31st December 2021, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the applicable regulatory requirements including;
 - Sri Lanka Accounting Standards (SLFRS/ LKAS)
 - Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995
 - Companies Act, No. 07 of 2007
 - Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto
 - Listing Rules of the Colombo Stock Exchange (CSE)
 - Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

d) As required by the Section 148 (1) of the Companies Act, the Company and the Group keep accounting records which correctly record and explain the Company's/Group's transactions and enable the financial position of the Company/Group to be determined with reasonable accuracy at any time while enabling the preparation of the Financial Statements in accordance with the Companies Act, No. 07 of 2007 and ensuring that these statements can be readily and properly audited.

e) Appropriate steps have been taken to ensure that the Company/Group maintains proper books of accounts and the financial reporting system is reviewed through the Audit Committee. The report of the Audit Committee is given on pages 162 to 166 of this Annual Report. Financial records of the Company/Group have been reviewed by the Board at their regular meetings and the Interim Financial Statements of the Company/Group have been reviewed and recommended by the Audit Committee and have then been approved by the Board of Directors prior to release to the Shareholders and public.

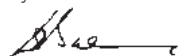
f) The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

g) Steps have been taken to establish and maintain a system of internal controls to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of the operations, safeguarding of the assets of the Company/Group, compliance with applicable laws and regulations, and prevention and detection of frauds and other irregularities. Directors' Statement on Internal Control is given on pages 178 to 179.

STATEMENT OF DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

- h) The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties due to all relevant regulatory and statutory authorities which were payable by the Company/Group as at the reporting date have been paid or where relevant provided for.
- i) As required by the Section 56 (2) of the Companies Act, No. 07 of 2007, the Board of Directors based on the information available is satisfied that the Company will immediately after the distribution of dividends satisfy the solvency test, in accordance with the Section 57 of the Companies Act, No. 07 of 2007, and has obtained a certificate from the External Auditors, prior to declaring a first and final dividend of Rs. 3.20 per share for this year, to be paid on or before 26th April 2022.
- j) As required by the Sections 166 (1) and 167 (1) of the Companies Act, No. 07 of 2007 and Rule 7.5 (a) and (b) on Continuing Listing Requirements of the Colombo Stock Exchange (CSE), the Board of Directors have prepared this Annual Report in time and will ensure that a copy thereof is sent to every Shareholder of the Company, who have expressed desire to receive a hard copy or to other Shareholders an online link containing the Annual Report within the stipulated period of time.
- k) The Board of Directors after considering the financial position, operating conditions, regulatory environment and other factors required to be addressed, have established that it has reasonable expectations that the Company and the Group have adequate resources to continue in operation to justify applying the 'Going Concern' basis in preparation of these Financial Statements/Consolidated Financial Statements.
- l) As required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act, No. 07 of 2007, Chief Financial Officer has certified that the Financial Statements of the Company/Group are in compliance with the requirements of the Companies Act, No. 07 of 2007. Further, as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act, No. 07 of 2007 and other regulatory requirements the Financial Statements of the Company/Group have been signed by two Directors of the Company on 18th February 2022.
- m) The Consolidated Financial Statements of the Group and the Financial Statements of the Company have been provided to the Company's External Auditors, Messrs KPMG, who were appointed in terms of the Section 158 of the Companies Act, No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting held on 31st March 2021. The External Auditors have been provided with every opportunity to carry out whatever reviews and sample checks on the system of internal controls they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements of the Company and the Consolidated Financial Statements of the Group. The Financial Statements thus made available to them by the Board of Directors along with all the financial records, related data and minutes of Shareholders' and Directors' meetings have been examined by the External Auditors who have expressed their opinion which is given on pages 194 to 197.

By order of the Board,



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka
18th February 2022

CEO'S AND CFO'S RESPONSIBILITY STATEMENT

The Financial Statements of the Company and the Consolidated Financial Statements of the Company and its subsidiary as at 31st December 2021 are prepared and presented in compliance with the requirements of the following;

- Sri Lanka Financial Reporting Standards/Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act, No. 07 of 2007,
- The Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto,
- Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995,
- Listing Rules of the Colombo Stock Exchange (CSE),
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made therein comply with the formats prescribed by the relevant regulators and comply with the disclosure requirements of the Sri Lanka Financial Reporting Standards/Sri Lanka Accounting Standards (SLFRS/LKAS). The accounting policies used in the preparation of the Financial Statements are in compliance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and are consistently applied unless otherwise stated in the notes accompanying the Financial Statements. Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee

and the External Auditors of the Group. Comparative information has been reclassified wherever necessary to comply with the current year's presentation.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis to ensure that the Financial Statements reflect in a true and fair manner, the form and substance of transactions as well as to ascertain that the state of affairs of the Company/Group is reasonably presented.

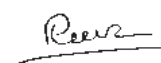
To ensure this, the Company/Group has taken proper and sufficient care in implementing a system of internal controls and accounting records, for safeguarding assets and for preventing and detecting frauds, as well as other irregularities, which is reviewed, evaluated and updated on an on-going basis. The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the audit plan and the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Board Audit Committee to discuss any matter of substance.


The Financial Statements of the Company/ Group were audited by Messrs. KPMG, Chartered Accountants, Independent Auditors and their report is given on pages 194 to 197 of this Annual Report. Prior approval was obtained from the Audit Committee for the audit and non-audit services provided by them to ensure the provision of such services does not impair the objectivity of the Independent Auditors.

We confirm that;

- The Company and the Group have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group/ Company other than those disclosed in Note 53 on page 337 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group/ Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company/Group as at December 31, 2021 have been paid, or where relevant accrued.



Punsirini Perera
Chief Financial Officer



Lasitha Wimalaratne
Chief Executive Officer

Colombo, Sri Lanka
18th February 2022

REPORT OF THE LIFE ACTUARY



18 February 2022

To the shareholders of HNB Assurance PLC

Actuarial Valuation of Long-Term Insurance Business as at 31 December 2021

In accordance with the engagement letter dated 20 May 2021, Willis Towers Watson India Private Limited ("WTW", "we", "our" or "us"), has carried out an actuarial review of the valuation of long-term insurance liabilities of HNB Assurance Plc's Long-Term Insurance Business as at 31 December 2021. We hereby certify that:

1. Proper records have been maintained by the Company which are appropriate for the purpose of actuarial valuation of liabilities of the Long-Term Insurance Fund.
2. Adequate and proper reserves have been held for all liabilities in respect of the Long-Term Insurance Fund, considering all current and contingent liabilities as at 31 December 2021.
3. We have reviewed the long-term provisions, Capital Adequacy Ratio (CAR) and surplus figures for valuation as at 31 December 2021.
4. The total long-term insurance provisions maintained within the life fund (on Risk Based Capital Basis) for conventional business is LKR 13,502 million. The total available capital (TAC) on the regulatory basis is LKR 11,140 million.
5. The risk-based capital required under the Regulation of Insurance Industry Act No. 43 of 2000 and its subsequent amendments is LKR 4,023 million, and the Company's CAR is 277%, compared to the regulatory minimum requirement of 120%.
6. The total surplus distributed to the shareholders for FY2021 is LKR 980 million and the surplus distributed to policyholders is LKR 83 million.
7. The tax payable on surplus distributed to policyholder amounted to LKR 19,871k. This is determined based on 24% tax on surplus distributed to policyholders.
8. We have undertaken a liability adequacy test for long term insurance provisions maintained within the life fund of HNB Assurance PLC as contemplated by SLFRS 4. In carrying out the liability adequacy test, we have compared the provisions held as per the audited accounts with the actuarial liability stated above. For this purpose, the value of the actuarial liability is determined following the principles laid out within the risk-based capital framework as prescribed by the IRCSL [the Solvency Margin (Risk Based Capital) Rules 2015]. Based on this test, we conclude that the long-term insurance provisions maintained within the life fund of HNB Assurance Plc as per the audited accounts of the Company for the year ended 31 December 2021 is in excess of the liabilities computed in the above-mentioned manner.

Abhishek Chadha, FIA, FIAI
Director – Insurance Consulting and Technology, India
WTW

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CERTIFICATION OF INCURRED BUT NOT REPORTED (IBNR) AND INCURRED BUT NOT ENOUGH REPORTED (IBNER) CLAIMS RESERVE



14 February 2022

To the shareholders of HNB General Insurance Limited

HNB General Insurance Limited 31 December 2021 IBNR and LAT Certification

In accordance with the engagement letter dated 6 April 2021, Willis Towers Watson India Private Limited has provided actuarial services relating to the role of Appointed Actuary as at 31 December 2021.

I hereby certify that the undiscounted Central Estimate of IBNR (inclusive of CHE) provision of LKR 166,845,025 is adequate in relation to the Claim Liability of HNB General Insurance Limited as at the 31 December 2021, 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 2021.

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). I hereby certify that the UPR provision net of DAC of LKR 2,249,293,435 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB General Insurance Limited as at 31 December 2021. As such, there is no premium deficiency to be recognized 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.

Sipika Tandon Mathur, FIAI
Associate Director
Willis Towers Watson India Private Limited

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INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HNB Assurance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 December 2021, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 198 to 337 of this Annual Report.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INSURANCE CONTRACT LIABILITIES

Refer to Note 24 (page 297) and Note 25 (page 301) to these financial statements.

The Life Insurance Contract Liabilities and General Insurance Contract Liabilities as at 31 December 2021 amounted to Rs. 20.3 Bn and Rs.3.7 Bn respectively, which represents 86.8% of Group's total liabilities.

Risks Description

The valuation of these liabilities is highly judgmental and requires a number of key assumptions to be made that involves high estimation, uncertainty. The accuracy and completeness of the data used in calculating insurance liabilities or forming judgments over key assumptions, would have material impact on the valuation of insurance contract liabilities.

The valuation of insurance contract liabilities depends on the accuracy of data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims.

Our responses - Our audit procedures included:

- Evaluating the governance around the Group's reserving process including the scrutiny applied by the Group level actuarial reviews.
- Assessing the competence, capabilities and objectivity of the independent appointed actuary of the Group and the Group's staff involved in the valuation process of policyholders' liability.
- Assessing the key controls adopted (including IT related controls) by the Group in providing accurate and complete data to the independent appointed actuary for the purpose of valuations.

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M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara FCA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel FCA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Alahakoon ACA	Ms. P.M.K.Sumanasekara FCA	

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekera CFA, ACMA, MRICS



Changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance contract liabilities. The key assumptions that drive the reserving calculations include loss ratios, mortality and morbidity assumptions, estimates of the frequency and severity of claims and where appropriate the discount rates for longer tail classes of business by territory and line of business.

The appropriate margin added to the actuarial best estimate of insurance contract liabilities, to provide for the risk of adverse development in the claims involves judgment made by the management, based on the perceived uncertainty and potential for volatility in the underlying claim. As such it is subjective estimate.

As a result of the above factors, insurance contract liabilities have been identified as a key audit matter.

- Assessing the Group's methodology for calculating the insurance contract liabilities to be in line with guidelines of Insurance Regulatory Commission of Sri Lanka (Risk Based Capital Rules 2015).
- Reconciling the movements in insurance contract liabilities during the year with the movements in the financial results reported in separate funds.
- We used our actuarial specialist to assist us in performing the following audit procedures:
 - Assessing the accuracy and completeness of data used for estimates;
 - Assessing the key assumptions and reserving methodologies driving the value of the insurance liabilities by;
 - o Comparing the assumptions to expectations based on, current trends and our own industry knowledge and experience
 - o Evaluating the level of prudence applied and compared this to prior periods;
 - o Reviewing sensitivity analysis over key judgments and assumptions
 - Independently re-projected the reserve balances for certain classes of business.
- Assessing the adequacy of the Group's disclosure in relation to insurance liabilities.

RECOVERABILITY OF DEFERRED TAX ASSETS

Refer to Note 44 (page 321) to these financial statements.

The deferred tax assets recognized as at 31 December 2021 amounted to Rs. 274 Mn.

Risks Description

The Company has recognised deferred tax assets on unused tax losses based on the internal assessment made by the management on future recoverability. The assessment of recoverability of deferred tax assets arising from unused tax losses involves significant judgment made by the management in respect of sufficiency of future taxable profits and the probability of such future taxable profit being generated.

As a result of the above factors, Recoverability of Deferred Tax Assets has been identified as a key audit matter.

Our responses - Our audit procedures included;

- Evaluating the key assumptions driving the forecast of future taxable profits on which the recognition and recoverability of the deferred tax asset relies.
 - Assessing the accuracy and consistency of the forecasting process in the past and considered whether projected margins are achievable with reference to the business's recent performance and revised operating plans approved by the board of directors.
 - Evaluating the robustness of the internal review process adopted by the Board during the development of the operational plan, the extent to which alternative outcomes are considered prior to approval of the operational plan.
 - Evaluating the adequacy of the disclosures made in the financial statements in respect of the key assumptions and judgement supporting the assessment of recoverability of deferred tax asset.
-

INDEPENDENT AUDITOR'S REPORT



Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report FCA 2294.

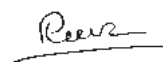
Chartered Accountants

Colombo, Sri Lanka
18 February 2022

STATEMENT OF FINANCIAL POSITION

As at 31st December,			Group		Company	
	Note	Page No.	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Assets						
Property, Plant and Equipment	7	260	282,884	169,788	141,390	116,740
Right of Use Assets	8	266	395,148	394,437	362,336	380,105
Intangible Assets	9	270	63,180	68,858	57,839	62,240
Deferred Tax Assets	44	321	291,832	738,721	273,543	725,255
Financial Investments	10	272	29,094,085	26,366,608	24,667,102	22,075,265
Investment in Subsidiary	11	284	-	-	1,150,000	1,150,000
Loans to Life Policyholders	12	285	403,452	379,736	403,452	379,736
Reinsurance Receivables	13	286	1,072,206	771,776	317,009	172,699
Premium Receivables	14	288	1,247,997	1,111,594	7,822	4,988
Other Assets	15	290	747,946	864,414	507,528	582,321
Insurance Contract - Deferred Expenses	16	292	157,710	163,619	-	-
Cash and Cash Equivalents	17	293	2,112,745	711,111	1,575,931	393,522
Total Assets			35,869,185	31,740,662	29,463,952	26,042,871
Equity and Liabilities						
Equity Attributable to the Equity Holders						
Stated Capital	18	294	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	19	294	6,644,680	5,841,032	5,548,813	4,968,314
Available For Sale Reserve	20	295	4,009	93,754	4,446	15,626
Other Reserve	21	295	(11,421)	(51,520)	(6,614)	(33,916)
Life Policyholders' Available For Sale Reserve Fund	22	295	(67,291)	757,933	(67,291)	757,933
Restricted Regulatory Reserve	23	295	381,156	381,156	381,156	381,156
Equity Attributable to the Equity Holders			8,123,008	8,194,230	7,032,385	7,260,988
Non-Controlling Interest			-	-	-	-
Total Equity			8,123,008	8,194,230	7,032,385	7,260,988
Liabilities						
Insurance Contract Liabilities - Life Insurance	24	297	20,342,757	17,064,089	20,342,757	17,064,089
Insurance Contract Liabilities - General Insurance	25	301	3,735,922	3,309,149	-	-
Employee Defined Benefit Liabilities	26	304	239,167	254,438	137,328	150,729
Current Tax Liabilities	27	306	62,168	151,093	19,871	12,301
Reinsurance Creditors	28	307	1,085,512	700,105	453,054	290,916
Lease Creditors	29	307	421,838	393,145	390,374	377,746
Other Liabilities	30	308	1,747,148	1,550,108	1,034,819	832,198
Bank Overdrafts	17	293	111,665	124,305	53,364	53,904
Total Liabilities			27,746,177	23,546,432	22,431,567	18,781,883
Total Equity and Liabilities			35,869,185	31,740,662	29,463,952	26,042,871

The Notes to the Financial Statements as set out on pages 203 to 337 form an integral part of these Financial Statements. These Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



Punsirini Perera
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements.
Signed and on behalf of the Board;



Rose Cooray
Chairperson



Ashoka Goonesekere
Director

Colombo, Sri Lanka
18th February 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31st December,			Group		Company		Change	
	Note	Page No.	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000	Group %	Company %
Gross Written Premium	31	310	12,646,947	10,398,992	7,091,470	5,487,039	22	29
Premium Ceded to Reinsurers	32	312	(1,648,861)	(1,307,978)	(355,537)	(265,164)	26	34
Net Written Premium			10,998,086	9,091,014	6,735,933	5,221,875	21	29
Net Change in Reserves for Unearned Premium	33	312	(242,252)	(164,257)	-	-	47	-
Net Earned Premium	34	313	10,755,834	8,926,757	6,735,933	5,221,875	20	29
Other Revenue								
Interest and Dividend Income	35	313	2,555,274	2,493,317	2,311,120	2,125,362	2	9
Net Realised Gains	36	315	52,921	53,634	50,109	44,909	(1)	12
Net Fair Value Gains	37	315	79,128	17,696	49,484	12,987	347	281
Fee and Commission Income	38	316	225,738	140,843	77,025	34,945	60	120
Other Income	39	316	13,334	14,970	2,766	5,747	(11)	(52)
Total Other Revenue			2,926,395	2,720,460	2,490,504	2,223,950	8	12
Net Income			13,682,229	11,647,217	9,226,437	7,445,825	17	24
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	40	316	(4,095,720)	(3,398,239)	(1,638,904)	(1,428,349)	21	15
Net Change in Insurance Claims Outstanding	41	318	(127,570)	(160,402)	(7,184)	(65,832)	(20)	(89)
Change in Contract Liabilities - Life Fund	24	297	(3,249,356)	(2,576,169)	(3,249,356)	(2,576,169)	26	26
Other Operating and Administration Expenses	42	319	(2,892,824)	(2,546,209)	(1,694,018)	(1,430,742)	14	18
Underwriting and Net Acquisition Costs	43	320	(1,456,258)	(1,235,446)	(1,098,207)	(888,527)	18	24
Finance and Other Insurance Related Costs			(112,123)	(100,256)	(86,557)	(56,843)	12	52
Total Benefits, Claims and Other Expenses			(11,933,851)	(10,016,721)	(7,774,226)	(6,446,462)	19	21
Profit Before Taxation			1,748,378	1,630,496	1,452,211	999,363	7	45
Income Tax Expense	44	321	(524,730)	(455,273)	(451,712)	(275,418)	15	64
Profit for the Year			1,223,648	1,175,223	1,000,499	723,945	4	38
Other Comprehensive Income, Net of Related Tax Items that are or may be reclassified to Profit or Loss								
- Net Change in fair value of Available For Sale Financial Assets			(914,208)	709,787	(826,914)	631,105	(229)	(231)
- Realised Gains transferred to Income Statement	36	315	(9,490)	(53,106)	(9,490)	(44,655)	(82)	(79)
- Net Change in fair value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	22	295	825,224	(580,705)	825,224	(580,705)	242	242
- Related Tax	44	321	8,729	(7,023)	-	-	224	-
Items that will never be Reclassified to Profit or Loss								
- Actuarial Gains/(Losses) on Defined Benefit Plans	26	304	44,140	(44,995)	27,302	(27,402)	198	200
- Related Tax	44	321	(4,041)	-	-	-	(100)	-
Total Other Comprehensive Income for the year, Net of Related Tax			(49,646)	23,958	16,122	(21,657)	(307)	174
Total Comprehensive Income for the Year			1,174,002	1,199,181	1,016,621	702,288	(2)	45
Profit attributable to :								
Equity Holders of the Company			1,223,648	1,175,223	1,000,499	723,945	4	38
Non-Controlling Interest			-	-	-	-	-	-
Profit for the Year			1,223,648	1,175,223	1,000,499	723,945	4	38
Total Comprehensive Income Attributable to :								
Equity Holders of the Company			1,174,002	1,199,181	1,016,621	702,288	(2)	45
Non-Controlling Interest			-	-	-	-	-	-
Total Comprehensive Income for the year			1,174,002	1,199,181	1,016,621	702,288	(2)	45
Basic and Diluted Earnings Per Share (Rs.)	45	325	8.16	7.83	6.67	4.83	4	38
Dividend Per Share (Rs.)	46	326	3.20	2.80	-	-	-	-

The Notes to the Financial Statements as set out on pages 203 to 337 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY - GROUP

For the Year Ended 31st December,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January 2020 (a)	1,171,875	4,965,809	24,801	(6,525)	177,228	381,156	6,714,344
Comprehensive Income for the Year							
Profit for the Year (b)	-	1,175,223	-	-	-	-	1,175,223
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	649,658	-	-	-	649,658
Net Change in Fair Value of Available for Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(580,705)	-	-	-	(580,705)
Actuarial Losses on Defined Benefit Plans	-	-	-	(44,995)	-	-	(44,995)
Total Other Comprehensive Income for the Year (c)	-	-	68,953	(44,995)	-	-	23,958
Total Comprehensive Income for the Year (d = b+c)	-	1,175,223	68,953	(44,995)	-	-	1,199,181
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (e)	-	-	-	-	580,705	-	580,705
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Final dividend 2019 (Note 46) (f)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2020 (a+d+e+f)	1,171,875	5,841,032	93,754	(51,520)	757,933	381,156	8,194,230
Balance as at 01st January 2021 (g)	1,171,875	5,841,032	93,754	(51,520)	757,933	381,156	8,194,230
Comprehensive Income for the Year							
Profit for the Year (h)	-	1,223,648	-	-	-	-	1,223,648
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	(914,969)	-	-	-	(914,969)
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	825,224	-	-	-	825,224
Actuarial Gains on Defined Benefit Plans	-	-	-	40,099	-	-	40,099
Total Other Comprehensive Income for the Year (i)	-	-	(89,745)	40,099	-	-	(49,646)
Total Comprehensive Income for the Year (j= h+i)	-	1,223,648	(89,745)	40,099	-	-	1,174,002
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve Fund (k)	-	-	-	-	(825,224)	-	(825,224)
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Final dividend 2020 (Note 46) (l)	-	(420,000)	-	-	-	-	(420,000)
Balance as at 31st December 2021 (g+j+k+l)	1,171,875	6,644,680	4,009	(11,421)	(67,291)	381,156	8,123,008

Stated Capital represents 150 Million Ordinary Shares as at 31st December 2021. (2020 - 150 Million Ordinary Shares)
The Notes to the Financial Statements as set out on pages 203 to 337 form an integral part of Financial Statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the Year Ended 31st December,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January 2020 (a)	1,171,875	4,544,369	9,881	(6,514)	177,228	381,156	6,277,995
Comprehensive Income for the Year							
Profit for the Year (b)	-	723,945	-	-	-	-	723,945
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	586,450	-	-	-	586,450
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(580,705)	-	-	-	(580,705)
Actuarial Losses on Defined Benefit Plans	-	-	-	(27,402)	-	-	(27,402)
Total Other Comprehensive Income for the Year (c)	-	-	5,745	(27,402)	-	-	(21,657)
Total Comprehensive Income for the Year (d = b+c)	-	723,945	5,745	(27,402)	-	-	702,288
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (e)	-	-	-	-	580,705	-	580,705
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Final dividend 2019 (Note 46) (f)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2020 (a+d+e+f)	1,171,875	4,968,314	15,626	(33,916)	757,933	381,156	7,260,988
Balance as at 01st January 2021 (g)	1,171,875	4,968,314	15,626	(33,916)	757,933	381,156	7,260,988
Comprehensive Income for the Year							
Profit for the Year (h)	-	1,000,499	-	-	-	-	1,000,499
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	(836,404)	-	-	-	(836,404)
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	825,224	-	-	-	825,224
Actuarial Gains on Defined Benefit Plans	-	-	-	27,302	-	-	27,302
Total Other Comprehensive Income for the year (i)	-	-	(11,180)	27,302	-	-	16,122
Total Comprehensive Income for the Year (j = h+i)	-	1,000,499	(11,180)	27,302	-	-	1,016,621
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (k)	-	-	-	-	(825,224)	-	(825,224)
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Final dividend 2020 (Note 46) (l)	-	(420,000)	-	-	-	-	(420,000)
Balance as at 31st December 2021 (g+j+k+l)	1,171,875	5,548,813	4,446	(6,614)	(67,291)	381,156	7,032,385

Stated Capital represents 150 Million Ordinary Shares as at 31st December 2021. (2020 - 150 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 203 to 337 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31st December,			Group		Company	
	Note	Page No.	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Cash Flows From Operating Activities						
Profit Before Taxation			1,748,378	1,630,496	1,452,211	999,363
Adjustments for:						
Interest Income	35	313	(2,545,483)	(2,487,950)	(2,186,492)	(2,120,053)
Dividend Income	35	313	(9,791)	(5,367)	(124,628)	(5,309)
Amortisation of Intangible Assets	9	270	22,582	19,632	21,305	19,147
Depreciation of Property, Plant and Equipment	7	260	61,795	54,000	42,229	38,287
Net Depreciation of Right of Use Assets	8	266	130,759	130,693	122,825	115,293
Interest Expense of Lease Creditors	29	307	49,196	45,703	46,300	43,121
Provision for Employee Benefits	26	304	45,980	47,312	25,301	26,945
Net Realised Gains	36	315	(52,921)	(53,634)	(50,109)	(44,909)
Net Fair Value Gains	37	315	(79,128)	(17,696)	(49,484)	(12,987)
Losses/(Gains) on Disposal of Property, Plant and Equipment			220	(3,339)	289	(3,242)
Gains on Disposal of Right of Use Assets			(620)	(234)	(620)	(475)
			(629,033)	(640,384)	(700,873)	(944,819)
Net Change in Operating Assets	A		(331,137)	(362,064)	(96,044)	(48,747)
Net Change in Operating Liabilities	B		4,288,149	3,447,285	3,650,997	2,791,079
Cash Flows from Operating Activities			3,327,979	2,444,837	2,854,080	1,797,513
Gratuity Paid	26	304	(17,111)	(4,987)	(11,423)	(3,694)
Economic Service Charges (ESC) paid			-	(6,137)	-	-
Income Tax Paid	27	306	(169,374)	(73,109)	-	-
Capital Gain Tax Paid	27	306	-	(1,213)	-	-
Net Cash Generated From Operating Activities (a)			3,141,494	2,359,391	2,842,657	1,793,819
Cash Flows from Investing Activities						
Acquisition of Financial Investments	10	272	(218,308,521)	(161,539,857)	(169,673,417)	(112,016,270)
Proceeds from Maturity of Financial Investments	10	272	213,902,269	156,827,276	165,602,038	108,179,859
Proceeds from Sale of Financial Investments	10	272	976,949	391,770	853,655	301,267
Interest Received			2,455,660	2,372,238	2,075,569	2,001,689
Dividend Received			9,791	5,367	124,628	5,309
Acquisition of Intangible Assets	9	270	(16,904)	(36,703)	(16,904)	(31,557)
Acquisition of Property, Plant and Equipment	7	260	(177,281)	(77,408)	(68,629)	(59,114)
Proceeds from the Disposal of Property, Plant and Equipment			2,170	19,330	1,461	18,531
Advance Paid to Right of Use Assets			(20,518)	(8,487)	(16,722)	(8,487)
Net Cash Used in Investing Activities (b)			(1,176,385)	(2,046,474)	(1,118,321)	(1,608,773)
Cash Flows from Financing Activities						
Dividend Paid	46	326	(420,000)	(300,000)	(420,000)	(300,000)
Payment of Lease Liabilities	29	307	(130,835)	(161,318)	(121,387)	(147,090)
Net Cash Used in Financing Activities (c)			(550,835)	(461,318)	(541,387)	(447,090)
Net Increase/(Decrease) in Cash and Cash Equivalents (a+b+c)			1,414,274	(148,401)	1,182,949	(262,044)
Cash and Cash Equivalents at the Beginning of the Year			586,806	735,207	339,618	601,662
Cash and Cash Equivalents at the End of the Year	17	293	2,001,080	586,806	1,522,567	339,618
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
Decrease/(Increase) in Deferred Expenses			5,909	(24,997)	-	-
Increase in Loans to Life Policyholders			(23,716)	(54,429)	(23,716)	(54,429)
Increase in Reinsurance Receivables			(300,430)	(126,365)	(144,310)	(27,984)
(Increase)/Decrease in Premium Receivables			(136,403)	(164,944)	(2,834)	4,470
Decrease in Other Assets			123,503	8,671	74,816	29,196
Net Change in Operating Assets			(331,137)	(362,064)	(96,044)	(48,747)
B. Change in Operating Liabilities						
Increase in Other Liabilities			189,731	254,418	202,621	29,633
Increase in Insurance Contract Liabilities - (Before Tax) Life Insurance			3,286,238	2,595,681	3,286,238	2,595,681
Increase in Insurance Contract Liabilities - General Insurance			426,773	437,733	-	-
Increase in Reinsurance Creditors			385,407	159,453	162,138	165,765
Net Change in Operating Liabilities			4,288,149	3,447,285	3,650,997	2,791,079

The Notes to the Financial Statements as set out on pages 203 to 337 form an integral part of these Financial Statements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting entity

HNB Assurance PLC (“the Company”) is a public limited liability Company incorporated on 23rd August 2001 under the Companies Act No. 17 of 1982 with limited liability and domiciled in Sri Lanka. The Company was re-registered under the Companies Act No. 07 of 2007 on 13th December 2007. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03.

The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE) and the Company is a licensed insurance company registered under the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

More details of the Group are presented in pages 365 and 366 of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31st December 2021, comprise “the Company” which refers to HNB Assurance PLC as the holding Company and “the Group” referring to HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited.

1.3 Principal Activities and Nature of Operations

There was no significant change in the nature of the principal activities of the Company and its subsidiary during the financial year under review. The principal business activities, nature of operations of the Company and its subsidiary are as follows;

Entity	Principal business activities	Description
Parent		
HNB Assurance PLC	Life Insurance	HNB Assurance PLC provides Life Insurance solutions for both individual and corporate customers. Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration in exchange for premium payments made by the insured.
Subsidiary		
HNB General Insurance Limited	General Insurance	HNB General Insurance Limited provides General Insurance solutions for both individual and corporate customers. Insurance other than ‘Life Insurance’ falls under the category of General Insurance; Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance.

1.4 Parent Entity and Ultimate Parent Entity

The Group’s holding/parent entity is HNB Assurance PLC. In the opinion of the Directors, the Group’s ultimate parent undertaking and controlling party is Hatton National Bank PLC which is a licensed commercial bank incorporated in Sri Lanka. The Financial Statements of the Parent and the Subsidiary have a common financial year which ends on December 31st.

1.5 Number of Employees

The staff strength of the Group as at 31st December 2021 is 1,217 (2020 – 1,145) and the Company 623 (2020 – 590).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

2.1 Basis of Preparation

2.1.1 Statement of Compliance

These Financial Statements of the Group and the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) set out by the Institute of Chartered Accountants of Sri Lanka

and comply with the requirements of the Companies Act No. 7 of 2007, the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, rules and regulations of the Insurance Regulatory Commission of Sri Lanka and the listing rules of the Colombo Stock Exchange (CSE).

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of these Financial Statements.

The Group has opted to defer full application of SLFRS 9 – Financial Instruments, until the earlier of 2023 or on adoption of SLFRS -17 Insurance Contracts, by exercising the temporary exemption provided to an insurer. (Refer Note 3 of page 212)

Details of the Group’s significant accounting policies followed during the year are given in Note 2.4 to 49 on pages 208 to 335.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The Financial Statements include the following components:

Component	Description	Page No.
Statement of Financial Position	Provides information on the financial position of the Group and the Company as at the year end	198
Statement of Profit or Loss and Other Comprehensive Income	Provides information on the financial performance of the Group and the Company for the year under review	199
Statement of Changes in Equity – Group	Depicts all changes made to Shareholders' equity of the Group	200
Statement of Changes in Equity – Company	Depicts all changes made to Shareholders' equity of the Company	201
Statement of Cash Flows	Provides information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows	202
Notes to the Financial Statements	Comprising accounting policies and other explanatory information	203-337

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for these Financial Statements as per the provisions of the Companies Act No. 07 of 2007, the Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of Colombo Stock Exchange.

Responsibility of the Directors in relation to these Financial Statements is set out in detail in the Annual Report of the Board of Directors, Directors' Responsibility for Financial Reporting and the certification of the Statement of Financial Position appearing on pages 180 to 187, 189 to 190 and 198 respectively in this Annual Report.

2.1.3 Approval of Financial Statements by the Board of Directors

The Consolidated Financial Statements of the Company and its Subsidiary (collectively the Group) for the year ended 31st December 2021 (including comparatives for 2020) were approved and authorised for issue by the Board of Directors on 18th February 2022.

2.1.4 Basis of Measurement

These Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items stated in the Statement of Financial Position.

Category	Item	Basis of Measurement	Note	Page No.
Assets	Financial instruments at Available For Sale	at Fair Value	10.3	279
	Financial instruments at Fair Value Through Profit or Loss	at Fair Value	10.4	281
	Free hold Land and Buildings	at Fair Value	7	260
Liabilities	Insurance Contract Liabilities – Life Insurance	Actuarially Determined Values Based on Actuarial Guidelines Issued by IRCSL	24	297
	Incurred But Not Reported/Incurred But Not Enough Reported Liability	Actuarially Determined Values Based on Internationally Accepted Actuarial Policies and Methodologies	25	301
	Defined Benefit Obligations	Actuarially Valued and Recognised at Present Value of the Defined Benefit Obligation	26	304

The Group and the Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in Note 47 on page 327 of this Financial Statements. No adjustments have been made for inflationary factors affecting these Financial Statements.

2.1.5 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 339 to 346 continuing the past practice which was a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.1.6 Going Concern

The directors have made an assessment of the Group/Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for

the foreseeable future. The assessment took into consideration the existing and potential implications of COVID-19 pandemic on the business operations and performance of the Group/Company and the measures adopted by the Government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group/Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group/Company. Therefore, the financial statements continue to be prepared on the going concern basis.

2.1.7 Functional and Presentation Currency

The Financial Statements of the Group/Company are presented in Sri Lanka Rupees (LKR), which is the primary economic environment in which the Group/Company operates and is also the Functional Currency. There was no change in the Group/Company's Presentation and Functional Currency during the year under review.

2.1.8 Rounding

Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand (Rs.'000) except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements".

2.1.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable 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. Assets and liabilities or income and expenses are not offset unless required or permitted by Sri Lanka Accounting Standards or Interpretations (issued by the IFRS Interpretations Committee and Standard Interpretations Committee).

2.1.10 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by LKAS 01 - 'Presentation of Financial Statements' and subsequent amendments.

Notes to these Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Company. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.1.11 Comparative Information

These Financial Statements provide comparative information in respect of the previous financial year. The presentation and classification of assets and liabilities in the Financial Statements of the previous financial year have been amended, where relevant for better presentation and to be comparable with those of the current year.

2.1.12 Financial Period

The financial statements of Company and Subsidiary have a common financial year which ends on December 31st. Hence the Financial Statements of the Group are prepared for the twelve months period from 1st January to 31st December.

2.2 Use of Significant Accounting Judgments, Estimates and Assumptions

The preparation of these Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

2.2.1 Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to fair value measurement and the assessment of the recoverable amount of non-financial assets. Wherever necessary, the impact of the COVID-19 pandemic on estimates is discussed further in the relevant notes of these financial statements.

2.2.2 Judgement

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

2.2.2.1 Classification of Financial Assets and Liabilities

The significant accounting policies of the Group provide scope for assets to be classified upon initial recognition into different accounting categories under certain circumstances.

The Group has classified assets as "Held to Maturity" (HTM), "Loans and Receivables" (L & R), "Fair value through profit or loss" (FVTPL), and "Available For Sale" (AFS) based on the criteria given on Note 10 on page 272.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. At initial recognition Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost.

2.2.3 Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.2.3.1 to 2.2.3.10 below.

2.2.3.1 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recognised on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. This judgment may include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of the financial instruments. Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 5 on pages 244 to 251.

2.2.3.2 Impairment of Available For Sale Financial Assets

The Group reviews debt securities classified as Available For Sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Group also reviews equity investments classified as Available For

Sale at each reporting date and records impairment charges when there has been a 'significant' or 'prolonged' decline in the fair value below their cost considering the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to Profit or Loss. Further details of impairment of each financial asset will be discussed in Note 10 page 272.

2.2.3.3 Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitates to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating 'value in use' requires Management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.3.4 Fair value of freehold land and buildings

The freehold land and buildings of the Group are reflected at fair value. The Group engages independent valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard - SLFRS 13 on "Fair Value Measurement".

The valuation techniques used in measuring freehold land and buildings are stated in Note 7 on pages 260 to 266.

2.2.3.5 Useful life-time of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation

of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 7 on page 260.

2.2.3.6 Deferred Tax Assets

The Group uses judgement in recognising a deferred tax asset in its Financial Statements. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available to the Group which can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Details of Deferred tax asset recognised on tax losses of the Group are disclosed in Note 44 on page 321.

The accumulated tax losses of the Company are disputed by the Department of Inland Revenue through assessments issued, the details of which are disclosed in Note 52 on page 336. These Tax Assessments have been common assessments for all Life Insurance companies in the insurance industry. The Company has appealed against the assessments issued in consultation with its Tax Consultants, as detailed in Note 52. The Company is of the firm view that these assessments will not materialise against the Company and total tax losses will be available to set off against future taxable income.

2.2.3.7 Valuation of Insurance Contract Liabilities – Life Insurance

The liability for Life Insurance contracts with Discretionary Participating Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used are mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to lifestyle, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing the Life Insurance Contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates for the non-participating products, whereas it is the expected fund yield of participating fund for the policies with Discretionary Participating Benefits.

The key assumptions and estimations made in the valuation of the Life Fund is given in Note 24 on page 297.

2.2.3.8 Valuation of Insurance Contract Liabilities – General Insurance

The estimates of General Insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported and claims incurred, but not enough reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying in estimating the amount of outstanding claims is the past claims development experience.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

The key assumptions and estimates made in the valuation of the General Insurance Contract Liabilities are given in Note 25 on page 301.

2.2.3.9 Valuation of Defined Benefit Liability – Gratuity

The cost of defined benefit plans – Gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increments, withdrawal rates and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit liability is highly sensitive to changes in these assumptions.

All assumptions are reviewed annually at each reporting date. In determining the discount rate, management considers the interest rates of the Government of Sri Lanka Treasury bond with maturities corresponding to the expected duration of defined benefit obligation. Future expected inflation rates and salary increment rates of the Group are considered in determining the salary increases.

Details of the key assumptions used by the Actuary and sensitivities on the estimation are contained in Note 26 on page 304.

2.2.3.10 Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. Timing of concluding legal claims is uncertain; as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page No.
Fair Value of Financial Instruments	5	244
Assessment of Impairment	2.7	210
Property, Plant and Equipment (PPE)	7	260
Intangible Assets	9	270
Deferred Tax Assets	44	321
Insurance Contract Liabilities – Life Insurance	24	297
Liability Adequacy Test (LAT) – Life Insurance	24.5	299
Insurance Contract Liabilities – General Insurance	25	301
Liability Adequacy Test (LAT) – General Insurance	25.8	303
Valuation of Defined Benefit Liabilities – Gratuity	26	304
Provisions for Liabilities and Contingencies	2.8	211

2.3 Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparation and presentation of Financial Statements as set out in Note 2 to 55 on pages 203 to 337.

Significant Accounting Policies

Significant Accounting policies adopted by the Group have been applied consistently for all financial periods presented in the Financial Statements of the Group unless otherwise stated. An index to the Significant Accounting Policies is set out below; and the detailed explanations to each are set out in the respective notes to the Financial Statements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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2.4 Basis of Consolidation

The Group's Financial Statements comprise the consolidation of the Financial Statements of the Company and its subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on “Consolidated Financial Statements”.

2.4.1 Business Combination and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

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 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.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial

instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.2 Subsidiaries

Subsidiaries are investees that the Parent has control over. Specifically, the Parent controls an investee if, and only if, the Parent has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The Financial Statements of Subsidiaries are prepared for the same reporting period as followed by the parent company, using consistent accounting policies and same accounting policies are used for preparation. Profit or Loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Parent, even if this results a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

The Details of the Company's subsidiaries, how they are accounted in the Financial Statements of the Company and their contingencies are set out in Notes 11 and 52 on pages 284 and 336 to the financial statements.

2.4.3 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, except that those are only eliminated to the extent that there is no evidence of impairment.

2.4.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest 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. Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

2.4.5 Material Gains or Losses, Provisional Values or Error Corrections in Business Combinations

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

2.5 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated to the functional currency of the Group companies which is Sri Lankan Rupees at exchange rates at the dates the transactions are affected. In this regard, the Group's practice is to use the buying rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the buying exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in Profit or Loss. However, foreign currency differences arising from the translation of Available For Sale equity instruments are recognized in Other Comprehensive Income.

2.6 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.

2.6.1 Insurance Contracts

Insurance contracts are those contracts under which one party (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Contracts which transfer significant insurance risk are classified as insurance contracts and others are classified as investment contracts.

2.6.2 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 variable

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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.

2.6.3 Subsequent Classification and Reclassification

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.

2.6.4 Product Portfolio of the Group

The Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no insurance products are launched if it does not meet the above criterion. As such, all products sold by the Group are insurance contracts and therefore classified as insurance contracts under the SLFRS 4 – Insurance Contracts.

Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

2.7 Impairment of Financial Assets/ Non- Financial Assets

2.7.1 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

Objective evidence of impairment may include:

- (a) significant financial difficulty of the borrower or issuer,
- (b) default or delinquency by debtor,
- (c) It becomes probable that the issuer or debtor will enter bankruptcy or other financial re-organisation,
- (d) adverse changes in the payment status of issuers or debtors in the Group, and
- (e) In the case of equity, a significant or prolonged decline in its fair value below its cost.

2.7.2 Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Other Revenue in Profit or Loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to the 'Other Income' in Profit or Loss.

The Group has not experienced any indication of impairment and thus no additional impairment losses were recognized other than disclosed in the Financial Statements.

2.7.3 Impairment of Financial Investments classified as Available For Sale

For Available For Sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments are impaired. If the asset is determined to be impaired, the cumulative loss is recognised in Profit or Loss and removed from the Available For Sale reserve.

In the case of debt instruments classified as Available For Sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between

the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Other Revenue'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in Profit or Loss, the impairment loss is reversed through the Profit or Loss; otherwise, any increase in fair value is recognised through OCI.

In the case equity investments classified as AFS, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. LKAS 39 does not provide any further guidance or quantitative threshold for 'significant' or 'prolonged'. In the absence of further authoritative guidance, applying these criteria is a matter for professional judgement. The term 'prolonged' should be assessed based on the period for which fair value has been less than acquisition cost. A general stock market decline over the period of 12 months may not necessarily be considered as 'prolonged' in the Sri Lankan stock market context. A decline of 20%-30% of the fair value of an investment in an equity instrument below its acquisition cost may be considered as 'significant'.

Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to Profit or Loss. Any subsequent recovery in the fair value of an Available For Sale equity instrument is always recognised in OCI.

2.7.4 Impairment of Non-Financial Assets

The carrying amounts of the Group'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 re-estimated and adjusted in profit or loss.

The recoverable amount of an asset or cash-generating unit ("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. For the purpose of impairment testing, assets that cannot be tested individually 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. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in Profit or Loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

2.8 Provisions and Contingencies

2.8.1 Provisions

Provisions are recognised when the Group/Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.8.2 Contingent Liabilities

Contingent liabilities are disclosed if material and if there is a possible obligation whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured (Note 52).

2.8.3 Contingent Assets

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised and a contingent asset is disclosed where an inflow of economic benefits is probable.

2.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – Cash Flows Statements.

Interest and dividend received are classified as investing cash flows and dividend paid is classified as financing cash flows. Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows, cash and cash equivalents are presented net of bank overdrafts (Note 17).

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

3. NEW ACCOUNTING STANDARDS ISSUED AS AT THE REPORTING DATE

3.1 Standards Issued but Not Yet Adopted as at the Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on future Financial Statements as summarized below.

3.1.1 SLFRS 9 – Financial Instruments

In December 2014, the CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments classification and measurement which reflects all phases of the financial instruments project and replaces LKAS 39 – Financial Instruments: Recognition and Measurement. The standard introduces new requirements for,

- Classification and Measurement
- Impairment
- Hedge Accounting

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018. Retrospective application is required, but comparative information is not compulsory.

Temporary Exemption from SLFRS 9

An insurer that meets the criteria in paragraph 20B of SLFRS 4 (amended) provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2023.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as Fair Value Through Profit or Loss and;

- its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1st April 2016, or at a subsequent annual reporting date.

As at 31st December	Group	
	2021 Rs.'000	2020 Rs.'000
Insurance contract liabilities- Life Insurance	20,342,757	17,064,089
Insurance contract liabilities- General Insurance	3,735,922	3,309,149
Reinsurance Creditors	1,085,512	700,105
Liabilities Connected with insurance	25,164,191	21,073,343
Total Liabilities as per financial statements	27,746,177	23,546,432
Predominance Ratio	91%	90%

Having considered the above criteria, since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with Insurance activities, both companies may continue to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2023.

Summary of the Requirements of Classification and Measurement of Financial Assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 contains three principal classification categories for financial assets measured at:

- Amortised Cost
- Fair Value Through Other Comprehensive Income (FVTOCI)
- Fair Value Through Profit or Loss

The standard eliminates the existing LKAS 39 categories of Held to Maturity, Loans and Receivables and Available For Sale. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

As at 31st December 2021, the Group had equity investments classified as Available For Sale with a fair value of Rs. 76.88 Million and Treasury bills Rs. 746.69 Million. Under SLFRS 9, the Group will reclassify equity investments as measured at FVTPL and treasury bills as measured at Amortised Cost. Consequently, all fair value gains and losses on disposal of equity instruments will be reported in Profit or Loss.

Financial Liabilities

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39 all fair value changes of liabilities designated as FVTPL are recognised in Profit or Loss, whereas under SLFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in Profit or Loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so.

Impairment

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments, and to contract assets.

Under SLFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and;
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component;

Disclosure to provide comparability

The Group will make an assessment of the objective of the business model when a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Classification – Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets; measured at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) and Fair Value Through Profit or Loss (FVTPL). It replaces the existing four categories under LKAS 39 of held to maturity (HTM), Loans and Receivables (L & R), Fair Value Through Profit or Loss (FVTPL) and Available For Sale (AFS).

The table below provides an initial assessment made by the Group on its portfolio of financial assets.

Financial assets that meet the Solely Payment of Principal and Interest (SPPI) Test

(excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instrument	Current Classification under LKAS 39	Carrying Value (Rs.'000)	Fair Value (Rs.'000)	Classification under SLFRS 9
REPO	L & R	5,644,673	5,644,673	Amortised cost
Term Deposit	L & R	7,214,859	7,252,633	Amortised cost
Debentures	L & R	7,204,800	7,210,837	Amortised cost
Sri Lanka Development Bonds	L & R	182,209	182,209	Amortised cost
Treasury Bonds	HTM	313,465	317,803	Amortised Cost
Treasury Bills	AFS	746,686	746,686	Amortised Cost

All other financial assets

(that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instrument	Current Classification	Carrying Value under LKAS 39 (Rs.'000)	Fair Value (Rs.'000)	Classification under SLFRS 9
Treasury Bonds	AFS	7,375,342	7,375,342	FVTOCI
Equity Shares	AFS	76,883	76,883	FVTPL
Equity Shares	FVTPL	141,583	141,583	FVTPL
Investment in Units	FVTPL	193,585	193,585	FVTPL

Impact Assessment

The standard will affect the classification and measurement of financial assets held, as follows;

- Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at fair value under LKAS 39, will also be measured at fair value under SLFRS 9.
- Loans and receivables measured at amortised cost under LKAS 39 will also be measured at amortised cost under SLFRS 9.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

- Held to maturity investment securities measured at amortised cost under LKAS 39 will be measured at amortised cost under SLFRS 9.
- Debt investment securities that are classified as Available For Sale under LKAS 39 may, under SLFRS 9, be classified under FVTOCI or amortised cost and measured at fair value / amortised cost depending on the particular circumstance.
- The majority of the equity investment securities that are classified as Available For Sale under LKAS 39 will be classified under FVTPL and measured at fair value under SLFRS 9. However, some of the equity investment securities are held for Long-Term strategic purposes and may be designated as FVTOCI on initial recognition and measured at fair value.

3.2 New Accounting Standards Issued But Not Effective as at the Reporting Date

3.2.1 SLFRS 17 – Insurance Contracts

SLFRS 17 will replace SLFRS 4 on accounting for insurance contracts and will be effective from 1st January 2023.

SLFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdiction prior to January 2005. SLFRS 17 replaces this with new measurement model for all insurance contracts.

Objective

SLFRS 17 Insurance contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard.

The objective of SLFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of Financial Statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Scope

An entity shall apply SLFRS 17 Insurance contracts to:

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have their primary purpose as provision of services for a fixed fee. Such issued contracts are in the scope of the Standard, unless an entity chooses to apply to them SLFRS 15 Revenue from Contracts with Customers and provided the following conditions are met:

- a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- b) the contract compensates customers by providing a service, rather than by making cash payments to the customer; and
- c) the insurance risk transferred by the contract arises primarily from the customer's use of service rather than from uncertainty over the cost of those services.

Recognition

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- a) the beginning of the coverage period;
- b) the date when the first payment from a policyholder becomes due; and
- c) when the group becomes onerous if facts and circumstances indicate that there is such a group.

SLFRS – 17 specify three measurement approaches;

1. Building Block Approach (BBA)
2. Premium Allocation Approach (PAA)
3. Variable Fee Approach (VFA)

Building Block Approach (General Measurement Model) Measurement

On initial recognition, an entity shall measure a group of contracts at the total of:

- a) the amount of fulfilment cash flows ("FCF"), which comprise:
 - I. estimates of future cash flows;
 - II. an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows; and
 - III. a risk adjustment for non-financial risk
- b) the contractual service margin ("CSM").

An entity shall include all the cash flows within the boundary of each contract in the group. The entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts.

The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing and uncertainty of those future cash flows. They should reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices.

Discount rates

The discount rates applied to the estimate of cash flows shall:

- a) reflect the time value of money (TVM), the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;

- b) be consistent with observable market prices of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and
- c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk Adjustment for Non-financial Risk

The estimate of the present value of the future cash flows is adjusted to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk.

Contractual Service Margin (CSM)

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- a) the initial recognition of an amount for the FCF;
- b) the derecognition at that date of any asset or liability recognised for acquisition cash flows; and
- c) any cash flows arising from the contracts in the group at that date.

Subsequent Measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

- a) the liability for remaining coverage comprising:
 - I. the FCF related to future services and;
 - II. the CSM of the group at that date;
- b) the liability for incurred claims, comprising the FCF related to past service allocated to the group at that date.

Onerous Contracts

An insurance contract is onerous at initial recognition if the total of the FCF, any previously recognised acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. An entity shall recognise a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero.

On subsequent measurement, if a group of insurance contracts become onerous (or more onerous), that excess shall be recognised in profit or loss. Additionally, CSM cannot increase and no revenue can be recognised, until the onerous amount previously recognised has been reversed in profit or loss as part of a service expense.

Premium Allocation Approach

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- a) the entity reasonably expects that this will be a reasonable approximation of the General Model, or
- b) the coverage period of each contract in the group is one year or less

Where, at the inception of the group, an entity expects significant variances in the FCF during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows.

Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortisation of acquisition cash flows, minus the

amount recognised as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Modification and De-recognition

Modification of an insurance contract

If the terms of an insurance contract are modified, an entity shall derecognise the original contract and recognise the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The modification is substantive if any of the following conditions are satisfied:

- a) if, had the modified terms been included at contract's inception, this would have led to:
 - I. exclusion from the Standard's scope;
 - II. unbundling of different embedded derivatives;
 - III. redefinition of the contract boundary; or
 - IV. the reallocation to a different group of contracts; or
- b) if the original contract met the definition of a direct participating insurance contracts, but the modified contract no longer meets that definition, or vice versa; or
- c) the entity originally applied the PAA, but the contract's modifications made it no longer eligible for it.

De-recognition

An entity shall de-recognise an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

Presentation in the Statement of Financial Position

An entity shall present separately in the statement of financial position the carrying amount of groups of:

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

- a) insurance contracts issued that are assets;
- b) insurance contracts issued that are liabilities;
- c) reinsurance contracts held that are assets; and
- d) reinsurance contracts held that are liabilities.

Recognition and Presentation in the statement(s) of financial performance

An entity shall disaggregate the amounts recognised in the statement(s) of financial performance into:

- a) an insurance service result, comprising insurance revenue and insurance service expenses; and
- b) insurance finance income or expenses.

Income or expenses from reinsurance contracts held shall be presented separately from the expenses or income from insurance contracts issued.

Insurance Service Result

An entity shall present in profit or loss revenue arising from the groups of insurance contracts issued, and insurance service expenses arising from a group of insurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Revenue and insurance service expenses shall exclude any investment components. An entity shall not present premiums in the profit or loss, if that information is inconsistent with revenue presented.

Insurance Finance Income or Expenses

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from: [SLFRS 17:87]

- a) the effect of the time value of money and changes in the time value of money; and
- b) the effect of changes in assumptions that relate to financial risk; but

- c) excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM.

An entity has an accounting policy choice between including all of insurance finance income or expense for the period in profit or loss, or disaggregating it between amount presented in profit or loss and amount presented in other comprehensive income ("OCI").

Under the general model, disaggregating means presenting in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of contracts. On derecognition of the groups amounts remaining in OCI are reclassified to profit or loss.

Under the VFA, for direct participating insurance contracts, only where the entity holds the underlying items, disaggregating means presenting in profit or loss as insurance finance income or expenses an amount that eliminates the accounting mismatches with the finance income or expenses arising on the underlying items. On derecognition of the groups, the amounts previously recognised in OCI remain there.

Disclosures

An entity shall disclose qualitative and quantitative information about:

- a) the amounts recognised in its Financial Statements that arise from insurance contracts;
- b) the significant judgements, and changes in those judgements, made when applying SLFRS 17; and
- c) the nature and extent of the risks that arise from insurance contracts.

Effective Date

SLFRS 17 is effective for annual reporting periods beginning on or after 1st January 2023. Earlier application is permitted if

both SLFRS 15 'Revenue from Contracts with Customers' and SLFRS 9 'Financial instruments' have also been applied. The Company intends to adopt the new standard on its mandatory effective date.

Transition

An entity shall apply the Standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilise reasonable and supportable information and maximise the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. Under this approach the use of hindsight is permitted, if that is the only practical source of information for the restatement of prior periods.

Under the fair value approach, an entity determines the CSM or the loss component at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date. Using this approach, on transition entity has a choice need for annual groups.

At the date of initial application of the Standard, those entities already applying SLFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the Standard.

Entities can choose not to restate SLFRS 9 comparatives with any difference between the previous carrying amount of those financial assets and the carrying amount at the date of initial application recognised in the opening equity at the date of initial application. Any restatements of prior periods must reflect all the requirements of SLFRS 9.

The Group has completed a gap assessment for SLFRS 17 in consultation with external consultants of actuarial and finance. The Group has initiated a road map to implement SLFRS 17 and SLFRS 9. This will involve setting of accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing and implementing appropriate actuarial and finance system changes.

3.3 Other new accounting pronouncements

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Onerous Contract – Cost of Fulfilling a Contract (Amendments to LKAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1st January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparative are not restated.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after 1st January 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period

presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. There will be no impact on retained earnings on adoption of the amendments

- Reference to Conceptual Framework (Amendments to SLFRS 3) - effective for annual periods beginning on or after 1st January 2022.
- Annual Improvements to IFRS Standards 2018–2020 - effective for annual reporting periods beginning on or after 1st January 2022.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16)) - effective for annual reporting periods beginning on or after 1st January 2022.
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1) - effective for annual periods beginning on or after 1st January 2023.
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) - effective for annual periods beginning on or after 1st January 2023.
- Definition of Accounting Estimates (Amendments to LKAS 8) - effective for annual periods beginning on or after 1st January 2023.

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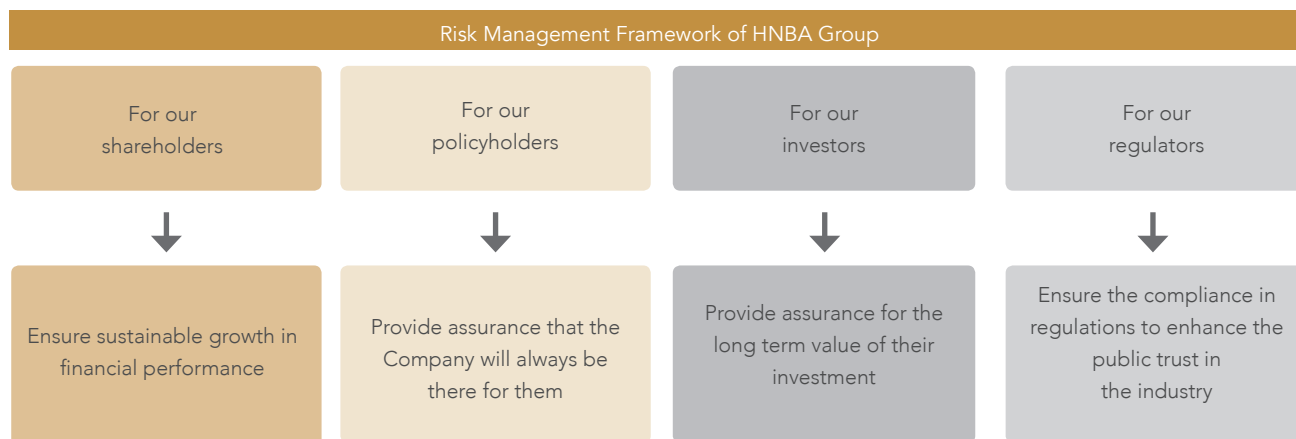
4. FINANCIAL RISK MANAGEMENT

4.1 Overview

The Group and Company are exposed to various types of risks in carrying out its business activities. This necessitates having an effective risk management framework in place to ensure growth, profitability and long-term value creation to shareholders and other stakeholders. The main types of risks to which the Group/Company is exposed are given below.

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Importance of a sound risk management process



4.2 Risk Management Framework

Risk management of the group is governed by various aspects ranging from group policies, capital structure and regulatory requirements.

a) Risk Management Framework

The Company/Group have a Risk Management Framework (RMF) to provide a structure to identify current and emerging risks, measure, formulate response strategies, implement and continuously monitor effectiveness of responses. The primary role of RMF is

to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. It is also intended to protect the interests of policyholders and other key stakeholders. An effective RMF is the key to avoid the financial and reputational damage that arises from inadequate or ineffective controls in the business.

The primary responsibility of establishment and oversight of the RMF

lies with the Board of Directors of the Company. The Board has delegated their authority to the Risk Management Committee which is responsible for review and oversight of the RMF, policies and processes. The Risk Management Committee comprises four non-executive Directors, two of whom are independent, representing the Boards of the Company and subsidiary and Chief Risk Officer of Hatton National Bank PLC who is an invitee of the Risk management Committee who oversees the Risk Management activities of the

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HNBA Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, RMF, including the significant policies and practices employed to manage risks in the business, as well as the overall adequacy of the Risk Management function. The Audit Committee liaises with the Risk Management Committee in exercising oversight of risks arising in the internal control environment. The outsourced Internal Audit function reviews the effectiveness of controls in place to manage risks and reports any deviations to the Audit Committee.

While the Risk Management Committee has the responsibilities and powers, the Executive Committee and Management are responsible for designing, implementing and maintaining an effective risk program to identify and

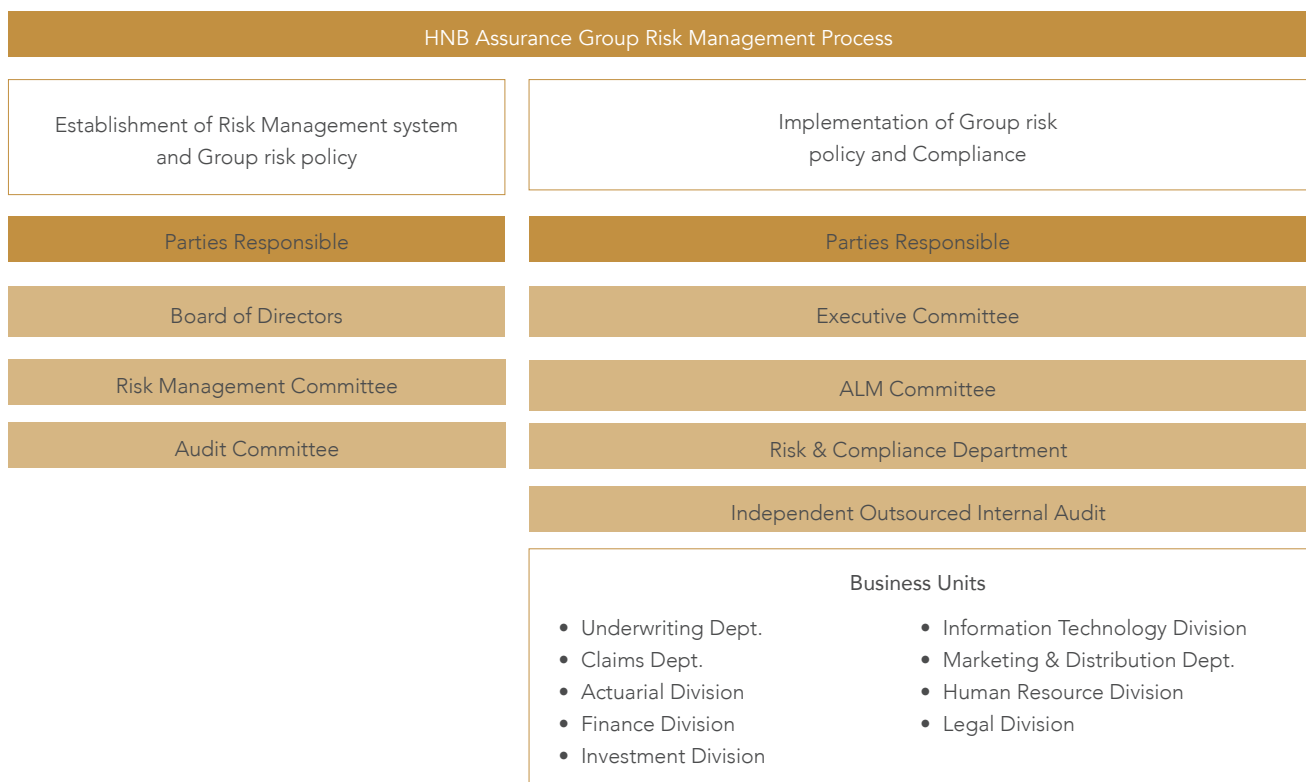
manage risks which affect the Company/ Group adversely. The management discharges this responsibility by maintaining a periodically updated risk register and monitors risks through identified Key Risk Indicators (KRIs). These KRIs are prepared by the Risk and Compliance Department, reviewed by the Executive Committee and the Risk Management Committee regularly. Significant KRIs are reported to the Boards of the Company and subsidiary on a monthly basis for review.

An Asset and Liability Management Committee (ALMC), comprising the Chief Executive Officers, senior management and representatives from the Finance, Investment, Actuarial and Risk and Compliance Department, monitors the asset, liability and liquidity positions of the Company and subsidiary.

The Company/Group's risk management policies and systems are reviewed regularly to reflect the changes in the market conditions and products offered.

The Board of Directors approves the Group's risk management policies and any commercial, regulatory and organisational requirements of such policies. These policies are defined based on the Group's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The following diagram depicts the accountable and responsible parties for the Group's established risk management process which underlines the principal risk management and control responsibilities.



Objectives of Risk Management

The major Risk Management objectives of the Group are to;

- Enhance value creation and stability of the Group by establishing an optimal risk-return profile which avoids losses greater than expected.
- Allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders.
- Maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- Maintain strong credit ratings and healthy capital adequacy ratios in order to support business objectives and maximise shareholders value.
- Support decision-making processes by providing consistent, reliable and timely risk information.

b) Capital Management Framework

The Group's Capital Management Framework formed to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. The capital requirements are forecasted on a periodic basis by the Management and the Board of Directors.

The Group has made no significant changes, from previous years, to its policies and processes of its capital structure. Thus, there were no changes in the capital structure in the Company during the year.

Capital Management Objectives, Policies and Approach

The Group has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

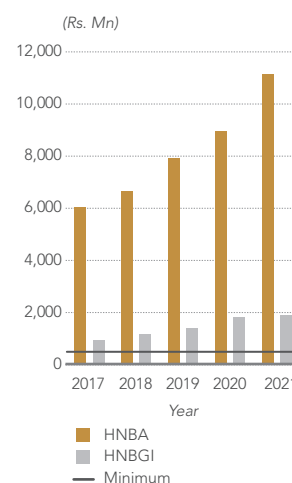
- To maintain solvency levels of the Company and subsidiary above the levels stipulated by the regulator and thereby providing a degree of security to Policyholders.
- To allocate capital efficiently and support the development of business by ensuring that return on capital employed meets the requirements of its Shareholders and Policyholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the Policyholders, Shareholders, regulators and other stakeholders.
- To maintain strong credit ratings and healthy capital adequacy ratios in order to support its business objectives and maximise Shareholders' value.

The operations of both companies (HNB Assurance PLC and HNB General Insurance Limited) in the Group are subject to regulatory guidelines and frameworks. Such regulations are there, not only to prescribe approval and monitor activities, but also to impose certain restrictive provisions such as minimum Capital Requirement, Solvency Margin, Approved Assets Requirements, etc. to minimise the risk of default, insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise.

The Group has complied with all these regulatory requirements throughout the financial year.

The chart below shows the development of the Company (HNBA) and subsidiary (HNBGI) total available capital throughout past five years.

Total available capital



c) Regulatory Framework

Insurance Regulatory Commission of Sri Lanka (IRCSL) protects Policyholders rights through supervision of both life and general insurance companies in line with the requirements of the Regulation of Insurance Industry Act No 43 of 2000 (RII Act) and subsequent amendments thereto. During the financial year the Company and the subsidiary maintained appropriate levels of solvency and admissible assets as per the Risk-Based Capital Rules (RBC) issued by the IRCSL and in compliance with Section 26 of the RII Act and approved assets complying to Section 25 of the RII Act and Determination 1 issued by the IRCSL, to meet unforeseeable events.

The Company and subsidiary each maintained adequate Total Available Capital (TAC) levels to support the Risk-Based Capital Requirements (RCR) throughout the year thereby maintained Capital Adequacy Ratios (CAR) well above the regulatory minimum of 120%.

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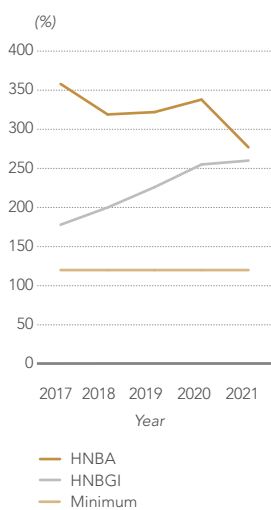
The TAC and CAR of the Company (HNBA) and subsidiary (HNBGI) as of 31st December 2021 and 2020 are as follows.

Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

Company	As at 31st December 2021				As at 31st December 2020			
	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR Ratio	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR Ratio
	Rs.000	Rs.000	%	%	Rs.000	Rs.000	%	%
HNBA	11,139,698	500,000	277	120	8,966,667	500,000	338	120
HNBGI	1,903,450	500,000	260	120	1,840,729	500,000	255	120

The chart below shows Company (HNBA) and subsidiary (HNBGI) Risk based Capital Adequacy Ratio (CAR) through the past five years.

Risk based Capital Adequacy Ratio (CAR)



The CAR of the Company decreased by 61% due to the increase of risk-free rates by 400 basis points and the widening of the asset-liability cashflows. The latter was due to a conscious decision by the Company to overweight short-term investments in anticipation of interest rate increases to improve investment income and profitability. Nevertheless, the Company closely monitors the impact of external factors on its CAR and takes appropriate action accordingly.

Further, the operations of the Company and the subsidiary are in compliance with requirements of other regulators such as

Colombo Stock Exchange (CSE), Securities and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (IRD), etc. Both companies are also regulated by the Companies Act No. 07 of 2007.

4.3 Organisation Risk

4.3.1 Introduction and Overview

As a Group providing insurance services, both HNB Assurance PLC and HNB General Insurance Ltd, are exposed to Insurance, Financial and Operational Risks.

The following chart graphically presents all types of risks that the Group considers in Risk Management.



4.3.2 Insurance Risk

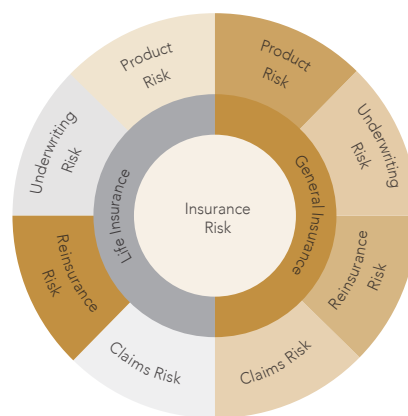
The primary risk faced by the Group is insurance risk, which arises due to the insurance contracts undertaken from customers. Insurance risk is the uncertainty relating to the occurrence, magnitude and timing of insurance liabilities. Insurance liabilities are claims and benefit payments and possibility that actual experience of

claims/benefits differ from expectations gives rise to risk.

Risk Response Strategies

The objective of the Group is to ensure that at a given time sufficient reserves are held to cover all reported and expected future liabilities.

The following chart graphically presents all types of insurance risks considered in Risk Management.



Strategies used to mitigate Insurance Risk

- Diversification across a large portfolio of insurance contracts and geographical areas.
- Risk variability through careful selection and implementation of underwriting guidelines.
- Use of reinsurance arrangements - proportional and non-proportional basis.

4.3.2.1 Life Insurance Risk

A life insurance contract is an agreement between the policyholder and Company where the Company agrees to compensate the policyholder or his/her beneficiaries in the event of a specified event occurring such the policyholder's policy maturity, death, disability, illness etc., in exchange for a premium.

The Company issues life Insurance contracts, which include term assurance, endowment plans, annuity plans and Group Life plans. Endowment and term assurance are conventional regular or

single premium products, where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Regular endowment products acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being "myfreedom", offers a pre-determined annuity amount for a specified time period, whilst the second product; namely "mypension", offers a fixed monthly annuity for the entire lifetime of the policyholder. Both these products offer a

life cover along with its annuity pay-out as part of its product feature. The Company also issues single premium investment policies with a guaranteed maturity benefit.

4.3.2.1.1 Product Design Risk

Product design risk occurs when life insurance products become unprofitable due the futuristic assumptions and judgments used in designing the product being inappropriate. The main risks relating to assumptions used in product design are detailed below.

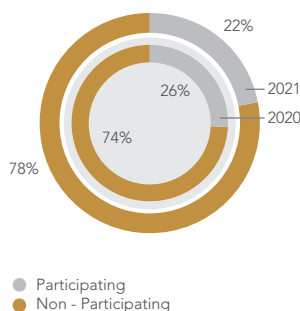
Risk	Description	Assumptions and Risk Response Strategies
Mortality Risk	Mortality assumption relates to the occurrence of death of policyholder. Mortality risk arises due to policyholder death experience being different than expected resulting in loss to the company.	<ul style="list-style-type: none"> • Use of latest mortality tables with adjustments to reflect the Company's mortality experience. • Underwriting limits are in place to enforce appropriate risk selection.
Morbidity Risk	Morbidity assumption relates to the occurrence of accidents and sickness of the insured and the risk arises due to policyholder health experience being different than expected resulting in loss to the Company.	<ul style="list-style-type: none"> • Reinsurance tables are used with adjustment to reflect company experience. • Medical screening to ensure pricing takes account of current health conditions and family medical history, regular review of actual claims experience.
Longevity Risk	Longevity assumption relates to lifetime of an annuity policyholder. The risk arises due to the annuitant living longer than expected causing a loss to the Company.	<ul style="list-style-type: none"> • Terms and conditions in annuity product applications designed to address non-standard and unpredictable risk.
Investment Return Risk	Investment returns projections are derived from current and projected market rates on current and projected investments held to support liabilities. Risk of loss arising from actual returns being different than expected is the investment return risk.	<ul style="list-style-type: none"> • The weighted average rate of return is derived based on a model portfolio, consistent with the long term investment strategy of the company, which is assumed to back liabilities. • Discretion to declare bonus rates based for participating policies. • Guaranteed dividend rates for universal life policies decided based on latest projected returns encompassing market interest rate expectations. • Annuity products structured by backing investments which are maintained for the agreed amount of business for the year. • Single premium products with guaranteed maturities are issued only with matching assets with similar or higher returns.
Expense Risk	Expense assumptions are the expected cost of acquisition and maintaining policies. Expense risk is the loss arising from expense experience being different than expected.	<ul style="list-style-type: none"> • Annual expense studies are carried out to align expectation with actuals. • The management expense assumptions are developed as such that all management expenses are fully allocated to the policies.
Policyholder decision Risk	Policyholders have the discretion to stop payment of premiums resulting in policy lapses or to surrender policies prior to maturity. Policyholder decision risk is the loss arising due to policyholder experiences (lapses and surrenders) being different than expected.	<ul style="list-style-type: none"> • Lapse and surrender rates are projected based on company past experience. • Need analysis prior to sale of product to reduce lapse risk and introduction of convenient premium payment methods. • Charging surrender penalties to discourage surrenders.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Risk	Description	Assumptions and Risk Response Strategies
Concentration Risk	Concentration risk refers to losses that may arise due to over dependence on a product, product type or geographical area.	<ul style="list-style-type: none"> • Diversification across industry, sectors, geography. • Maintain a predetermined product mix in line with the corporate strategy and reducing over reliance on one product. • Limiting exposure on any single life by way of retention limits agreed with the reinsurers and by having a catastrophic treaty in place to address risks such as natural disasters. • Reducing reliance on participating products and increasing non-participating type of products.

The following graph shows the concentration of the Participating and Non-Participating funds position of the Company.

Participating Vs Non - Participating



4.3.2.1.2 Underwriting Risk

Premiums received from policyholders being insufficient to cover claims due to inaccurate assessment when issuing the policy can give rise to losses for the Company which is underwriting risk.

Risk Response Strategies

- Underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits.
- Maximum input is obtained from the Appointed Actuary and Reinsurers in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Division reviews the Life Insurance business closely and guides the management to take more informed pricing decisions.
- Customers are required to submit medical reports from registered laboratories and strict adherence to auto underwriting limits.

- Focused training programs are organised for Insurance Advisors on proper selling in Sinhala, Tamil and English regularly.
- A customer need analysis form is used to identify customers' requirements and sell the most appropriate policy.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.
- Continuous training and development of staff on underwriting policy and practices.
- Strict adherence to underwriting manual and ISO 9001:2015 certification for new business.
- In addition to the need analysis form, a detailed quotation, which is signed by both client and the salesperson, is obtained to avoid any misunderstanding in terms and conditions.
- Subject to the "Sum at Risk" value, financial stability of the client is verified by obtaining completed financial questionnaires, salary slips or audited accounts.

4.3.2.1.3 Reinsurance Risk

Although reinsurance is used as a risk transfer strategy, it also gives rise to certain risks for the Company. These include legal risk, liquidity risk, counterparty risk, residual insurance risk and operational risk.

Legal Risk arises when the terms of the reinsurance contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced.

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.

Counterparty Risk arises due to failure of reinsurers to meet their obligations to company due to insufficient financial strength or potential refusal of the reinsurer to honour its obligations towards the ceding insurer.

Residual Insurance Risk arises when insurer retains a higher risk than expected as a result of discrepancies between reinsurance needs and the actual coverage provided in the contract to policyholder.

Insufficient capacity of insurer to maintain records and collect receivables could lead to Operational Risk.

Risk Response Strategies

- Strict adherence to reinsurer's guidelines and limits which are set in line with the requirements of the regulator and opting for facultative covers for risk beyond treaty levels.
- Restructuring of reinsurance agreements with reinsurance parties regularly.
- Continue and maintain a close and professional relationship with all reinsurers and reinsurance brokers.
- Frequent review of the outstanding Reinsurance Receivables.
- Minimise risk of reinsurer insolvency by selection of reinsurers with ratings of AA- and above and monitor changes to the ratings of reinsurance companies continuously.

The following table shows the credit ratings of the reinsurance companies with whom the Company has reinsurance arrangements at the end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
Munich-Re	Germany	AA	Fitch Rating
Munich-Re Retakaful	Malaysia (Retakaful branch)	AA	Fitch Rating
Hannover Re	Germany	AA-	Standard & Poor
RGA	Ireland	AA-	Standard & Poor

4.3.2.1.4 Claims Risk

The risk arising due to experiencing higher level of claims cost than expected at product development and pricing resulting in losses to the Company.

Risk Response Strategies

- In-house Actuarial Department reviews reserving in the Life Insurance business more closely and guide the Management to take more informed decisions.
- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel which is involved in taking decisions on

significant/problematic claims and appeals made in respect of claims.

- Claims ratio is closely monitored and any significant change in current experience is brought to the management attention, in order to take corrective remedies.
- All suspicious claims are investigated with the support of expert third-party investigators.

Valuation of Life Insurance Contract Liability

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience,

current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IRCSL. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality Rates	Mortality rates are determined based on standard mortality tables and Company historical experience.
Longevity	Assumptions are based on standard tables, adjustments made when appropriate to reflect the company's own risk experience. Assumptions are differentiated by gender, underwriting class and contract type.
Lapse Rates	Policies which do not have premium payment up to date after the grace period are considered as lapsed. Lapse and surrender rates are projected based on company past experience.
Discount Rate	Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Risk-Free Rate Risk-free discount rate shared by the IRCSL was used to discount the cash flows for corresponding durations for guaranteed benefits of Non-Participating and Participating insurance fund policies. Fund-Based Yield Fund-based yield was used in the Participating fund to discount the cash flows for corresponding durations where total guaranteed and non-guaranteed benefits are considered.
Expenses	The assumptions for management expenses are determined based on the expense analysis carried out. The management expense assumptions are developed such that all the management expenses are fully allocated to the policies. Allowance has been made for the payment of commission to advisors and managers on business. These rates exclude appropriate allowances for overriding and bonus commissions.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Sensitivities

The following analysis provides the sensitivity of the life insurance liability due to possible movements in key assumptions with all other assumptions held constant, and shows the impact on gross liabilities.

Sensitivity of the Value of Insurance Liabilities

As at 31st December,	Change in assumptions	Impact on Gross Liabilities	
		2021 %	2020 %
Mortality	+ 10%	0.22	0.21
	- 10%	(0.22)	(0.21)
Discount rate	+ 50 basis points	(0.56)	(0.74)
	- 50 basis points	0.58	0.76
Expense	+10%	0.44	0.40
	- 10%	(0.43)	(0.40)

4.3.2.2 General Insurance Risk

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Ltd (HNBGI). A General insurance contract is an agreement between the policyholder and the insurer where the insurer agrees to compensate the policyholder in the event of a specified unforeseen event which adversely affects the policyholder occurs, in exchange for a premium.

HNBGI primarily issues Motor, Fire, Engineering, Marine, Medical, Title, Workmen Compensation and Miscellaneous insurance contracts. General Insurance contracts of the subsidiary are predominantly issued

for a one-year period. The exceptions are; Marine insurance contracts where coverage period is less than one year, Title insurance and certain Fire and Engineering contracts which may be issued for a period exceeding a year.

4.3.2.2.1 Product Design Risk

Risk of General Insurance product pricing being inadequate due to outdated/ inaccurate assumptions on effects of climate change, natural disasters, terrorist activities, behavioural trends of people due to changing life styles, epidemics and medical science/technology improvements in the case of medical insurance, the steady escalation of costs due to currency rate changes and inflation

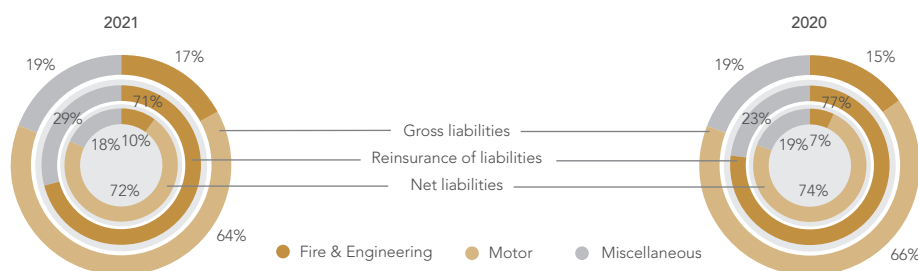
in respect of spare parts in the Motor industry etc. resulting in losses.

Risk Response Strategies

- Diversification across a large portfolio of insurance contracts and geographical areas and increasing the number of policies issued to spread risk.
- Considering adequate reinsurance arrangements in pricing.
- Monitoring external factors such as floods, terrorist activities, political climate and economic factors and updating pricing accordingly.

The graph below depicts the concentration of general insurance contract liabilities by type of contract:

General Insurance Contract Liabilities



4.3.2.2.2 Underwriting Risk

This risk arises due to insufficiency of premiums received from policyholder to cover claims in the insured event or contingency occurs.

Risk Response Strategies

- Careful selection and implementation of underwriting strategies designed to ensure risks are diversified in terms of type of risk and level of insured benefits.
- Training and development of underwriting staff and distribution network team including through “General Insurance Academy”, an internal training and development school, set up targeting the improvement of technical knowledge.
- Statistical databases maintained on all customer profiles and loss-making customers strategically reviewed.
- Strict controls are maintained on the issuance of temporary cover notes and limiting such notes to 60 days validity period.
- Daily monitoring of Motor average premium based on risk appetite.
- Centralised underwriting of Motor and Non-Motor policies to ensure control and specialisation.
- Internal flood mapping and alignment with the past catastrophe incidents considered in underwriting.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both top-line and profitability, ensuring alignment of Company objectives.
- Motor Insurance pricing determined based on a risk-based pricing grid.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.

4.3.2.2.3 Reinsurance Risk

Reinsurance risk arises due to retention of risks beyond the HNB GI's net retention capacity without having adequate reinsurance and/or the inability of reinsurers to meet their commitments due to insufficient financial strength, inability to meet obligations on time.

Reinsurance recoveries on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from Policyholders rests with HNBGI. Default of reinsurers does not negate the obligation and in that respect HNBGI carries a credit risk up to the extent ceded to each reinsurer.

HNBGI reinsurance placement is arranged in a manner that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. All reinsurance contracts are reviewed annually and renewed based on careful selection of reinsurers. All General Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Regulatory Commission of Sri Lanka.

Risk Response Strategies

- Adequate reinsurance arrangements have been placed within the guidelines of the IRCSL and are continuously reviewed for the adequacy of covers in light of catastrophic/extreme events.

- Majority of proportional reinsurance is quota-share reinsurance to reduce the overall exposure of the subsidiary to most of the classes of business. Non-proportional reinsurance used as primarily excess-of-loss reinsurance designed to mitigate the subsidiary's net exposure to catastrophe losses. Retention limits for these arrangements differ by product line and territory.
- Strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Limiting reinsurer panel to globally trusted and stable portfolio of reinsurance companies with high ratings by Standard & Poors, AM Best or Fitch with the exception of reinsurance placed with National Insurance Trust Fund (NITF), a reinsurer operating under Government of Sri Lanka.
- Periodic review of the credit rating and ensuring all reinsurers maintain the rating throughout the year.
- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- Clearly defined financial authority for reinsurance arrangements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Reinsurance Credit Rating

The following table shows the credit ratings of the reinsurance companies with whom the subsidiary has arrangements at end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
General Insurance Corporation of India	India	bbb+	A M Best
Oman Reinsurance Company SAOC	Barbados	a-	A M Best
SCOR Reinsurance Asia-Pacific Pte Ltd	Singapore	aa-	A M Best
Santam Ltd	Switzerland	aa	A M Best
Trust International Insurance & Reinsurance Company	Barbados	a-	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka (Government owned entity)	A+	Fitch Rating
Saudi Reinsurance Company, Labuan Branch	Saudi Arabia	A3	Moody's
Lancashire Syndicates Limited (9329 at Lloyds)	UK	a+	A M Best
Antares Syndicate 1274 (AUL 1274 at Lloyds)	UK	a+	A M Best

4.3.2.2.4 Claims Risk

This is the risk of actual claim experience differing from expectation resulting in losses for the company.

Risk Response Strategies

- Claim intimation is carried out through a 24-hour fully fledged Customer Service Centre (CSC) to reduce time lag.
- Assessments are carried out by an independent expert panel of assessors/ loss adjustors working throughout the Island on a 24-hour basis.
- Claims are assessed immediately upon intimation and reserved accordingly.

- Comprehensive estimation of costs and high-quality service to customers granted through garages located island-wide.
- Significant outstanding claims are subjected to monthly reviews by the management.
- Service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third-party claim intimations are separately reviewed with the support of the Legal Division.

- Adequate claim reserves are maintained according to the agreed methodology adopted by the Company.
- 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 established to reduce the risk exposure.
- Financial authority limits are set for claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant/ problematic claims and appeals made in respect of claims.

Valuation of liabilities in General Insurance

The principal assumption underlying the liability estimates is that HNBGI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are also used to assess the extent to which liabilities may arise in the future, but exclude one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, and internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

The following analysis is performed for possible movements in Claims Outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, Profit Before Tax and Equity. It should be noted that movements in these assumptions are non-linear.

Sensitivity of Claims Outstanding

As at,	Change in Assumptions	Reported Claim Outstanding Rs. '000	Impact on Gross Liabilities Rs. '000	Impact on Net Liabilities Rs. '000	Impact on Profit Before Tax Rs. '000	Impact on Equity (After Tax) Rs. '000
31st December 2021	+/-10 %	1,145,465	+/-114,546	+/-65,846	+/-65,846	-/+50,043
31st December 2020	+/-10 %	950,111	+/-95,011	+/-58,533	+/-58,533	-/+42,144

Claims Development Table

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Accident Year	0	1	2	3	4	5	6	7	8	9	10
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
2011	170,450	7,258	3,422	2,661	1,494	3,622	1,826	3,408	3,798	2,433	4,335
2012	163,480	3,250	2,821	3,064	4,039	3,564	4,305	6,826	6,221	9,686	-
2013	163,203	5,303	3,529	1,695	1,902	2,542	3,395	7,100	3,154	-	-
2014	188,644	7,055	2,765	4,300	4,304	4,086	4,675	7,137	-	-	-
2015	324,314	9,962	8,599	8,472	9,798	9,713	20,315	-	-	-	-
2016	267,060	12,372	10,050	10,497	8,943	11,399	-	-	-	-	-
2017	351,723	9,785	11,017	8,835	13,404	-	-	-	-	-	-
2018	419,251	27,114	23,624	30,284	-	-	-	-	-	-	-
2019	468,169	37,746	38,317	-	-	-	-	-	-	-	-
2020	518,468	64,775	-	-	-	-	-	-	-	-	-
2021	552,850	-	-	-	-	-	-	-	-	-	-

Sensitivities

The following analysis provides the Sensitivity analysis on claim handling expenses, loss development factors and provision for adverse deviation.

Impact on Claim Liabilities by change in key variables

Variable	Change in Variable	Central Estimate of Claim Liability (CL) after CHE	Change in Central Estimate of Claim Liability (CL) after CHE
		Rs. '000	Rs. '000
Original		819,510	-
Claim Handling Expenses (CHE)	+10	823,373	3,864
	-10	815,646	(3,864)
Initial Expected Loss Ratio (IELR)	+10	827,970	8,460
	-10	811,050	(8,460)

Impact on Premium Liabilities by change in key variables

Variable	Change in Variable	Central Estimate of Unexpired Risk Reserve (URR) inc Expense	Premium Liabilities	Change in Premium Liabilities
		Rs. '000	Rs. '000	Rs. '000
Original		1,617,629	-	-
Claim Handling Expenses (CHE)	+10	1,631,663	2,249,293	-
	-10	1,603,595	2,249,293	-
Unexpired Risk Reserve (URR)	+10	1,779,392	2,249,293	-
	-10	1,455,866	2,249,293	-

Note: The sensitivities are applied multiplicatively on the best estimate RBC liabilities.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

4.3.3 Financial Risk

4.3.3.1 Introduction

The Group is exposed to different types of financial risks as a result of investing in financial instruments. The Group's Senior Management has established appropriate policies and procedures to identify financial risks, measure and manage in accordance with the Group's policies and risk objectives. Following are the primary risks the Group is exposed to.



4.3.3.2 Credit Risk

Credit risk of the Group arises from the possibility of financial loss to the Group by a counter party's failure to discharge its contractual obligations to a financial instrument.

Risk Exposure

The following table shows the maximum risk positions of assets, which are generally subject to credit risk. The maximum risk exposure of following financial assets are equal to their carrying amounts.

Concentrations of Credit Risk - Financial Assets

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Financial Investments	29,094,085	84.90	26,366,608	88.48	24,667,102	90.81	22,075,265	94.82
Loans to Life Policyholders	403,452	1.18	379,736	1.27	403,452	1.49	379,736	1.63
Reinsurance Receivables	1,072,206	3.13	771,776	2.59	317,009	1.17	172,699	0.74
Premium Receivables	1,247,997	3.64	1,111,594	3.73	7,822	0.03	4,988	0.02
Staff and Advisor Loans	324,786	0.95	449,423	1.51	176,032	0.65	248,130	1.07
Amounts due from Related Parties	-	-	-	-	13,548	0.05	7,286	0.03
Co -Insurance Receivables	9,270	0.03	8,216	0.03	-	-	-	-
Cash and Cash Equivalents	2,112,745	6.17	711,111	2.39	1,575,931	5.80	393,522	1.69
Total	34,264,541	100	29,798,464	100	27,160,896	100	23,281,626	100

Credit Risk of Financial Investments

The counterparty failing to fulfil the obligation to repay the principal and interest of a financial instrument expose the Group to credit risk.

The credit exposure of financial investments including short term deposits is given below.

Concentrations of Credit Risk - Financial Instruments

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Medium & Long Term Financial Instruments								
Government Securities	14,262,375	47.2	9,980,851	39.3	12,175,057	47.4	8,278,384	38.8
Corporate Debt Securities	7,204,800	23.9	5,448,960	21.5	6,339,921	24.7	4,902,208	23.0
Term Deposit	7,214,859	23.9	9,942,693	39.2	5,936,903	23.1	8,143,522	38.2
Total Credit Risk Exposure - Medium & Long Term (a)	28,682,034	95.0	25,372,504	100	24,451,881	95.2	21,324,114	100
Short Term Deposits (b)	1,523,835	5.0	-	-	1,233,934	4.8	-	-
Total Credit Risk Exposure (a+b)	30,205,869	100	25,372,504	100	25,685,815	100	21,324,114	100
Credit Risk-Free Financial Instruments								
Equity	218,466		151,410		215,221		149,187	
Unit Trusts	193,585		842,694		-		601,964	
Total Credit Risk-Free Financial Instruments (c)	412,051		994,104		215,221		751,151	
Total Financial Instruments (a+c)	29,094,085		26,366,608		24,667,102		22,075,265	

Concentrations of Credit Risk - Financial Instruments & Short Term Deposits

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Held to Maturity								
Treasury Bonds	313,465	1.04	-	-	313,465	1.22	-	-
Available For Sale								
Treasury Bonds	7,375,342	24.42	7,120,330	28.07	6,636,808	25.84	6,263,397	29.36
Treasury Bills	746,686	2.47	-	-	547,635	2.13	-	-
Fair Value Through Profit or Loss	-	-	-	-	-	-	-	-
Loans and Receivables								
Repo	5,644,673	18.69	2,827,051	11.14	4,636,918	18.05	2,011,243	9.43
Sri Lanka Development Bonds	182,209	0.60	33,470	0.13	40,231	0.17	3,744	0.02
Debentures								
AAA	-	-	-	-	-	-	-	-
AA+ to AA-	-	-	250,611	0.99	-	-	250,611	1.18
A+ to A-	7,204,800	23.85	4,167,394	16.42	6,339,921	24.68	3,709,124	17.39
BBB+ to BBB-	-	-	1,030,955	4.06	-	-	942,473	4.42
BB+ to BB-	-	-	-	-	-	-	-	-
Term Deposits								
AAA	-	-	1,694,298	6.68	-	-	1,491,939	7.00
AA+ to AA-	-	-	3,169,713	12.49	-	-	2,444,941	11.47
A+ to A-	7,214,859	23.89	5,078,682	20.02	5,536,903	23.11	4,206,642	19.73
BBB+ to BBB-	1,523,835	5.04	-	-	1,233,934	4.80	-	-
BB+ to BB-	-	-	-	-	-	-	-	-
Total	30,205,869	100	25,372,504	100	25,685,815	100	21,324,114	100

HNBA Group had no instruments classified as Fair Value Through Profit or Loss, with exposure to Credit Risk during the year and the comparative period.

Specific actions undertaken by the Group to mitigate Credit Risk in financial investments are shown below.

Risk Response Strategies

During new Placements

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal Credit Risk.
- Checking the credit worthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.

- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the Committee approved 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 corporate debt investment before taking the investment decision.
- The Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments

in Repos are on DVP/RVP basis (Delivery vs. Payment and Receive vs. Payment).

- Established guidelines regarding the acceptability of collateral and valuation parameters with regards to Repo investments were followed. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.
- Adhering to the guidelines on selection of Primary dealers with regard to Government security investments and strict adherence to IRCSL rules and guidelines.

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- Preparation of checklist to ensure adherence to the Company investment policy and other regulatory requirements.
- Adhering to approved financial authority limits set by Investment Committee and the Board for all investment related activities.

Investment Operation and Monitoring

- Signing Master Repurchase Agreements (MRA) with all primary dealers the Group works with in order to ensure zero level of default risk for lending under repo transactions, in the event of their bankruptcy. MRAs provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party.
- Maintained a custodian arrangement for Government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank). Group changed the Government securities custodian to HNB w.e.f February 2022 with the approval of Boards of Directors.

- Entering into a custodian agreement with Hatton National Bank PLC for listed equity investments.
- Obtaining specialist advice from legal experts on any issues related to investment activities.

The Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes were made during the year.

Loans to Life Policyholders

Life policyholders failing to repay policy loans granted gives rise to credit risk for the Company.

Risk Response Strategies

The value of each loan granted to a Life Policyholder including interest receivable, is limited to the surrender value of the insurance policy and if the loan and interest amount exceeds the surrender value, policy is foreclosed.

The surrender value of policies for which loans were granted amounted to Rs.678 Million.

Staff and Advisor Loans

The Group staff and agent benefits include vehicle and emergency loans. The risk of non-repayment of such loans gives rise to credit risk.

Risk Response Strategies

Group has established an effective Credit Policy which evaluates Staff and Advisor credit worthiness before granting loans.

All loans are fair valued and tested for impairment on a periodic basis. The Group obtains collateral in the form of mortgage over the vehicle for all vehicle loans to staff and agents. An approved policy is followed when granting loans and valuation certificates of vehicles are obtained from a reputed valuer prior to grant. 89% of loans granted includes collateral.

Reinsurance Receivables

Reinsurance receivables comprise reinsurance receivable from claim outstanding and settled claims amounts. Following table provides information regarding the Credit Risk exposure on Reinsurance Receivables of the Group and the Company.

Credit Risk - Reinsurance Receivables

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Reinsurance Receivable on Outstanding Claims	580,745	54	491,630	64	77,128	24	35,129	20
Reinsurance Receivable on Claims Settled	491,461	46	280,146	36	239,881	76	137,570	80
Total Exposure to Credit Risk	1,072,206	100	771,776	100	317,009	100	172,699	100

Reinsurance Receivables on Claims Outstanding and on IBNR/IBNER have not yet crystallised.

Reinsurance Receivables Based on Credit Rating (on Settled Claims)

Reinsurance receivables classified according to counterparty and rating are given below along with an analysis of aging.

Reinsurance Receivable Based on Credit Rating

Group	AA+ to AA		A+ to A-		BBB+ to BBB-		Not rated		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,										
2021	270,914	55.2	126,458	25.7	94,089	19.1	-	-	491,461	100
2020	217,928	77.8	731	0.3	61,487	21.9	-	-	280,146	100

Company	AA+ to AA		A+ to A-		BBB+ to BBB-		Not rated		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,										
2021	239,881	100	-	-	-	-	-	-	239,881	100
2020	137,570	100	-	-	-	-	-	-	137,570	100

Age Analysis of Reinsurance Receivable

Group	< 30 days		31 to 60 days		61 to 90 days		91 to 180 days		>180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,												
2021	76,685	16	49,798	10	37,178	8	95,508	19	232,292	47	491,461	100
2020	50,028	18	22,310	8	44,657	16	40,794	15	122,357	43	280,146	100

Company	< 30 days		31 to 60 days		61 to 90 days		91 to 180 days		>180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,												
2021	24,799	10	19,795	8	18,820	8	52,538	22	123,929	52	239,881	100
2020	9,049	7	2,865	2	24,407	18	26,098	19	75,151	54	137,570	100

Risk Response Strategies

- All reinsurers of the Company and 80.9% of reinsurers of the Group, are rated A- and above. However, reinsurance is placed according to the directions given by Board of Directors and IRCSL guidelines.
- Long outstandings are monitored and collected or set off against payables to the same counter party.
- Management assesses the credit worthiness of reinsurers on a regular basis and align the reinsurance strategy accordingly.

Premium Receivable

The Group is exposed to credit risk where policyholder or intermediary does not settle the premium due.

Age Analysis of Premium Receivable

Group	< 30 days		31 to 60 days		>61 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,								
2021	917,452	73.51	330,166	26.46	379	0.03	1,247,997	100
2020	812,962	73.13	298,632	26.87	-	-	1,111,594	100

Company	< 30 days		31 to 60 days		>61 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,								
2021	5,106	65.28	2,337	29.88	379	4.84	7,822	100
2020	4,988	100	-	-	-	-	4,988	100

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Risk Response Strategies

Specific actions undertaken by the Group to mitigate Credit Risk in premium receivable are shown below.

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all General Insurance policies with payments outstanding for more than 60 days are cancelled.
- 30 days grace period has been offered to Life Policy Holders (other than Group Life Policy Holders, whom 90 days grace period has been offered) to settle due premiums.

- Conducting follow-up meetings on debt collection on a monthly basis.
- Using the latest technology (e.g.: mobile text messages) to inform customers on premium reminders and cancellation notices.
- Follow up with the customer by contacting from our Customer Relations Centre (CRC) on long outstanding balances.
- Processing claims only for the premium settled policies.

Group regularly reviews the policies and procedures in respect of managing the

premium receivables and no significant changes were made during the year.

The Group has no significant concentration of credit risk during the reporting period.

Cash and Cash Equivalents

Credit risk relating to cash can arise in the event of the bank/financial institution faces an inability to repay the amounts in credit to the Group.

Given below is the list of banks and financial institutions the Group maintains current/savings accounts with, and their respective credit ratings.

Cash and Cash Equivalents Balances with Respective Credit Ratings

As at 31st December,	Rating	Rating Agency	Group		Company	
			2021	2020	2021	2020
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Hatton National Bank PLC	AA-	Fitch Rating	828,993	684,641	512,977	382,135
Commercial Bank of Ceylon PLC	AA-	Fitch Rating	2,623	6,942	408	391
Bank of Ceylon	AA-	Fitch Rating	2,571	3,733	2,532	2,014
National Savings Bank	AAA	ICRA Rating	577,089	363	476,804	297
DFCC Bank PLC	A+	Fitch Rating	1,826	7,958	657	5,715
Pan Asia Banking Corporation PLC	BBB-	Fitch Rating	9,598	27	26	27
Sampath Bank PLC	AA-	Fitch Rating	2,753	1,426	1,979	1,130
HDFC Bank of Sri Lanka	BB+	Fitch Rating	1	12	-	11
LOLC Finance PLC	A	ICRA Rating	22	22	15	14
People's Leasing & Finance PLC	A+	Fitch Rating	36	35	27	26
National Development Bank PLC	A+	Fitch Rating	75	75	-	-
Nations Trust Bank PLC	A	Fitch Rating	4,398	3,348	-	-
HNB Finance PLC	A	Fitch Rating	139	66	139	66
Peoples' Bank	AA-	Fitch Rating	679,128	-	578,517	-
Seylan Bank PLC	A	Fitch Rating	233	-	-	-
Amana Bank PLC	BB+	Fitch Rating	643	-	-	-
Total exposure to credit risk			2,110,128	708,648	1,574,081	391,826
Cash in hand			2,617	2,463	1,850	1,696
Cash and Cash Equivalents			2,112,745	711,111	1,575,931	393,522

Risk Response Strategies

The Group maintains savings and current accounts with banks and financial institutions with good credit ratings. As at 31st December 2021, 99.2% of cash was maintained with AA- and above rated banks (2020: 98.4%).

Assessment of Impairment Losses

The Group assesses all financial investments for impairment at each reporting date and adequate provisions are made where relevant. Accounting policy relating to impairment is given on page 210.

The Company has no significant concentration of Credit risk during the reporting period.

4.3.3.3 Liquidity Risk

Liquidity risk refers to the risk of the Group encountering difficulty in meeting obligations associated with financial liabilities due to non-availability of sufficient level of liquid assets or having to incur additional costs to meet obligations when they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

Risk Response Strategies

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk.

- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by Investment Committee regularly.
- Guidelines are set out for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet Group insurance and investment contract obligations.
- Asset and Liability Management positions are monitored by the ALM Committee quarterly and any deviations are noted and corrective action taken.
- Maintaining sufficient cash balances, repurchase agreements and other short tenure investments to accommodate expected obligations and commitments of the Group.
- Determining the maturity profiles of insurance Contract Liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.

- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
- Agreeing with the reinsurers to support by way of cash call, if the need arises.
- Forecasting and planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.
- Guaranteed Life insurance investment policies are fully matched with investments.
- Group forecast and monitors cash flows and liquidity position on a monthly basis. With the on set of the pandemic this was further strengthened with regular reporting to Risk Committee and the Board on the cash flows and liquidity position of the Company and the Group.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that can be accessed to meet its liquidity needs. The Group has an effective and efficient daily cash management process to mitigate risk.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The table below summarizes the maturity profile of the financial assets and liabilities of the Group and the Company based on remaining contractual obligations.

Maturity Profile of Assets and Liabilities – Group

As at 31st December 2021,	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	29,094,085	12,071,432	6,127,263	5,286,377	5,609,013
Loans to Life Policyholders	403,452	-	-	-	403,452
Reinsurance Receivables	1,072,206	1,072,206	-	-	-
Premium Receivables	1,247,997	1,247,997	-	-	-
Staff and Advisor Loans	324,786	99,362	125,861	78,789	20,774
Co - Insurance Receivables	9,270	9,270	-	-	-
Cash and Cash Equivalents	2,112,745	2,112,745	-	-	-
Total Financial Assets	34,264,541	16,613,012	6,253,124	5,365,166	6,033,239
Liabilities					
Reinsurance Creditors	1,085,512	1,085,512	-	-	-
Lease Creditors	421,838	112,572	230,489	66,566	12,211
Other Liabilities	867,143	636,852	-	-	230,291
Bank Overdrafts	111,665	111,665	-	-	-
Total Financial Liabilities	2,486,158	1,946,601	230,489	66,566	242,502
As at 31st December 2020,					
	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	26,366,608	10,603,957	5,619,085	5,194,582	4,948,984
Loans to Life Policyholders	379,736	-	-	-	379,736
Reinsurance Receivables	771,776	771,776	-	-	-
Premium Receivables	1,111,594	1,111,594	-	-	-
Staff and Advisor Loans	449,423	124,434	169,840	116,243	38,906
Co - Insurance Receivables	8,216	8,216	-	-	-
Cash and Cash Equivalents	711,111	711,111	-	-	-
Total Financial Assets	29,798,464	13,331,088	5,788,925	5,310,825	5,367,626
Liabilities					
Reinsurance Creditors	700,105	700,105	-	-	-
Lease Creditors	393,145	94,145	209,686	83,038	6,276
Other Liabilities	729,994	521,408	-	-	208,586
Bank Overdrafts	124,305	124,305	-	-	-
Total Financial Liabilities	1,947,549	1,439,963	209,686	83,038	214,862

The Group has no significant concentration of Liquidity risk during the reporting period.

Maturity Profile of Assets and Liabilities – Company

As at 31st December 2021,	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	24,667,102	9,504,707	5,253,432	4,695,196	5,213,767
Loans to Life Policyholders	403,452	-	-	-	403,452
Reinsurance Receivables	317,009	317,009	-	-	-
Premium Receivables	7,822	7,822	-	-	-
Staff and Advisor Loans	176,032	64,435	67,739	35,472	8,386
Amounts due from Related Parties	13,548	13,548	-	-	-
Cash and Cash Equivalents	1,575,931	1,575,931	-	-	-
Total Financial Assets	27,160,896	11,483,452	5,321,171	4,730,668	5,625,605
Liabilities					
Reinsurance Creditors	453,054	453,054	-	-	-
Lease Creditors	390,374	107,699	217,369	55,492	9,814
Other Liabilities	568,461	358,320	-	-	210,141
Bank Overdrafts	53,364	53,364	-	-	-
Total Financial Liabilities	1,465,253	972,437	217,369	55,492	219,955
As at 31st December 2020,					
	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	22,075,265	8,024,240	4,945,560	4,518,989	4,586,476
Loans to Life Policyholders	379,736	-	-	-	379,736
Reinsurance Receivables	172,699	172,699	-	-	-
Premium Receivables	4,988	4,988	-	-	-
Staff and Advisor Loans	248,130	79,149	94,869	58,250	15,862
Amounts due from Related Parties	7,286	7,286	-	-	-
Cash and Cash Equivalents	393,522	393,522	-	-	-
Total Financial Assets	23,281,626	8,681,884	5,040,429	4,577,239	4,982,074
Liabilities					
Reinsurance Creditors	290,916	290,916	-	-	-
Lease Creditors	377,746	88,794	203,528	79,148	6,276
Other Liabilities	463,202	277,464	-	-	185,738
Bank Overdrafts	53,904	53,904	-	-	-
Total Financial Liabilities	1,185,768	711,078	203,528	79,148	192,014

The Company has no significant concentration of Liquidity risk during the reporting period.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Maturity Analysis of Undiscounted Financial Liabilities

Undiscounted value of Reinsurance Creditors, Bank Overdraft and Other Financial Liabilities are same as the carrying value considered under the maturity analysis as mentioned above. Undiscounted value of the Lease Creditors and the maturity of such undiscounted Lease Creditors of the Group and Company are as follows;

Group	Carrying Value	Undiscounted Value - Lease Creditor				Total
		Less Than One Year	One Year to Three Years	Three to Five Years	More than Five Years	
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2021	421,838	154,012	256,148	78,193	10,448	498,801
2020	393,145	147,772	297,650	143,160	29,605	618,187

Company	Carrying Value	Undiscounted Value - Lease Creditor				Total
		Less Than One Year	One Year to Three Years	Three to Five Years	More than Five Years	
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2021	390,374	146,181	238,742	65,523	7,948	458,394
2020	377,746	139,016	289,824	138,965	29,605	597,410

4.3.3.4 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk namely interest rate risk, equity price risk and currency risk.



Risk Response Strategies

The following policies and procedures are in place to mitigate the Group's exposure to market risks.

- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by ALM Committee and Investment Committee regularly.
- Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.

a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is considered to be the most important risk to be managed by the Group, because the magnitude of the impact is considered significant.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Risk Response Strategies

In order to mitigate the interest rate risk faced by the Group, the management follows the guidelines set out in the Investment Policy. Amongst other such guidelines, the policy also requires the management of the maturities of interest bearing financial assets. Compliance with the policy is monitored and the exposure and instances of noncompliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment. Macro-economic variables are closely monitored and their sensitivities are reported to the Investment Committee and the Risk Committee.

Interest on floating rate instruments is re-priced annually whilst Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on Profit Before Tax and Equity. The table below depicts the Group's and the Company's sensitivity to Interest Rate Risk.

Sensitivity to Interest Rate Risk

As at 31st December 2021,	Group				Company			
	2021		2020		2021		2020	
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
100 bps parallel increase in yield curve	-	(261,671)	-	(285,667)	-	(238,313)	-	(259,543)
100 bps parallel decrease in yield curve	-	279,627	-	309,662	-	255,109	-	282,085

Following tables presents the exposure to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk - Group

As at 31st December 2021,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Held to Maturity	-	313,465	-	313,465
Financial Investments - Loans & receivables	-	20,246,541	-	20,246,541
Financial Investments - Available for sale	-	8,122,028	76,883	8,198,911
Financial Investments - Fair value through profit or loss	-	-	335,168	335,168
Loans to Life Policyholders	-	403,452	-	403,452
Reinsurance Receivables	-	-	1,072,206	1,072,206
Premium Receivables	-	-	1,247,997	1,247,997
Staff and Advisor Loans	-	324,786	-	324,786
Co - Insurance Receivables	-	-	9,270	9,270
Cash and Cash Equivalents	-	1,523,835	588,910	2,112,745
Total Financial Assets	-	30,934,107	3,330,434	34,264,541
Financial Liabilities				
Reinsurance Creditors	-	-	1,085,512	1,085,512
Lease Creditors	-	421,838	-	421,838
Other Liabilities	230,291	-	636,852	867,143
Bank Overdrafts	-	111,665	-	111,665
Total Financial Liabilities	230,291	533,503	1,722,364	2,486,158

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Exposure to Interest Rate Risk - Group

	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
As at 31st December 2020,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Loans & receivables	-	18,252,174	-	18,252,174
Financial Investments - Available for sale	-	7,120,330	50,600	7,170,930
Financial Investments - Fair value through profit or loss	-	-	943,504	943,504
Loans to Life Policyholders	-	379,736	-	379,736
Reinsurance Receivables	-	-	771,776	771,776
Premium Receivables	-	-	1,111,594	1,111,594
Staff and Advisor Loans	-	449,423	-	449,423
Co - Insurance Receivables	-	-	8,216	8,216
Cash and Cash Equivalents	-	-	711,111	711,111
Total Financial Assets	-	26,201,663	3,596,801	29,798,464
Financial Liabilities				
Reinsurance Creditors	-	-	700,105	700,105
Lease Creditors	-	393,145	-	393,145
Other Liabilities	208,586	-	521,408	729,994
Bank Overdrafts	-	124,305	-	124,305
Total Financial Liabilities	208,586	517,450	1,221,513	1,947,549

The Group has no significant concentration of interest rate risk during the reporting period.

Exposure to Interest Rate Risk - Company

	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
As at 31st December 2021,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Held to Maturity	-	313,465	-	313,465
Financial Investments - Loans & receivables	-	16,953,973	-	16,953,973
Financial Investments - Available for sale	-	7,184,443	76,883	7,261,326
Financial Investments - Fair value through profit or loss	-	-	138,338	138,338
Loans to Life Policyholders	-	403,452	-	403,452
Reinsurance Receivables	-	-	317,009	317,009
Premium Receivables	-	-	7,822	7,822
Staff and Advisor Loans	-	176,032	-	176,032
Amounts due from Related Parties	-	-	13,548	13,548
Cash and Cash Equivalents	-	1,233,934	341,997	1,575,931
Total Financial Assets	-	26,265,299	895,597	27,160,896
Financial Liabilities				
Reinsurance Creditors	-	-	453,054	453,054
Lease Creditors	-	390,374	-	390,374
Other Liabilities	210,141	-	358,320	568,461
Bank Overdrafts	-	53,364	-	53,364
Total Financial Liabilities	210,141	443,738	811,374	1,465,253

Exposure to Interest Rate Risk - Company

	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
As at 31st December 2020,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Loans & receivables	-	15,060,717	-	15,060,717
Financial Investments - Available for sale	-	6,263,397	50,600	6,313,997
Financial Investments - Fair value through profit or loss	-	-	700,551	700,551
Loans to Life Policyholders	-	379,736	-	379,736
Reinsurance Receivables	-	-	172,699	172,699
Premium Receivables	-	-	4,988	4,988
Staff and Advisor Loans	-	248,130	-	248,130
Amounts due from Related Parties	-	-	7,286	7,286
Cash and Cash Equivalents	-	-	393,522	393,522
Total Financial Assets	-	21,951,980	1,329,646	23,281,626
Financial Liabilities				
Reinsurance Creditors	-	-	290,916	290,916
Lease Creditors	-	377,746	-	377,746
Other Liabilities	185,738	-	277,464	463,202
Bank Overdrafts	-	53,904	-	53,904
Total Financial Liabilities	185,738	431,650	568,380	1,185,768

The Company has no significant concentration of interest rate risk during the reporting period.

b) Equity Price Risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity prices other than those arising due to interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Risk Response Strategies

- Group's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure in order to manage the equity price risk.
- Equity portfolios are reviewed by the Investment Committee on a quarterly basis.

- Impact from the market movement is monitored on a daily basis by the Chief Investment Officer.
- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits.
- Equity investments are made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the investment management team.

Following table shows the equity portfolio diversification of the Group and the Company.

Equity Portfolio Diversification

As at 31st December,	Group				Company			
	2021 Rs.'000	%	2020 Rs.'000	%	2021 Rs.'000	%	2020 Rs.'000	%
Industry								
Banks, Finance and Insurance	63,312	28.99	60,187	39.7	63,312	29.42	60,187	40.3
Manufacturing	112,563	51.52	64,303	42.5	109,318	50.79	62,080	41.6
Diversified Holdings	32,670	14.95	19,216	12.7	32,670	15.18	19,216	12.9
Land and Property	9,344	4.28	7,008	4.6	9,344	4.34	7,008	4.7
Beverage, Food and Tobacco	577	0.26	696	0.5	577	0.27	696	0.5
Total	218,466	100	151,410	100	215,221	100	149,187	100

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The sensitivity analysis below is performed for reasonably possible movements in All Share Price Index with all other variables held constant, showing the impact on profit before tax.

Percentage Change in Benchmark Index (ASPI)

As at 31st December,	Group				Company			
	2021	2020	2021	2020	2021	2020	2021	2020
	Impact on PBT		Impact on OCI		Impact on PBT		Impact on OCI	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
10 per cent increase in equity prices	14,158	10,081	7,688	5,060	13,834	9,859	7,688	5,060
10 per cent decrease in equity prices	(14,158)	(10,081)	(7,688)	(5,060)	(13,834)	(9,859)	(7,688)	(5,060)

The Group has no significant concentration of equity price risk during the reporting period.

c) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets.

Risk Response Strategies

The Group's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

Sensitivity to Foreign Currency Risk

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Amount in Foreign Currency	LKR Amount	Amount in Foreign Currency	LKR Amount	Amount in Foreign Currency	LKR Amount	Amount in Foreign Currency	LKR Amount
	USD'000	Rs.'000	USD'000	Rs.'000	USD'000	Rs.'000	USD'000	Rs.'000
Assets	2,390	474,332	1,720	316,765	677	134,424	659	121,249
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
5% strengthening of rupee	(23,717)	(18,025)	(15,838)	(11,404)	(6,721)	(5,108)	(6,062)	(4,365)
5% weakening of rupee	23,717	18,025	15,838	11,404	6,721	5,108	6,062	4,365
+/- % impact on Profit	1.36%	1.47%	0.97 %	0.97 %	0.46%	0.51%	0.61 %	0.60 %

Year end closing exchange rate 1\$ = Rs. 198.50 (2020: Rs. 184.12)

The Group has no significant concentration of currency risk during the reporting period.

Risk Sensitivity of Financial Assets

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on Profit Before Tax (due to changes in fair value of financial assets whose fair values movements are recorded in the Statement of Profit or Loss and Other Comprehensive Income) and equity.

An analysis of the sensitivity of financial assets and liabilities of the Group and the Company to the key impacting variables are set out in the table below.

Sensitivity on Overall Finance Assets

As at 31st December,		Group				Company			
		2021		2020		2021		2020	
		Impact on PBT Rs.'000	Impact on Equity Rs.'000	Impact on PBT Rs.'000	Impact on Equity Rs.'000	Impact on PBT Rs.'000	Impact on Equity Rs.'000	Impact on PBT Rs.'000	Impact on Equity Rs.'000
Exchange rate	5% strengthening of rupee	(23,717)	(18,025)	(15,838)	(11,404)	(6,721)	(5,108)	(6,062)	(4,365)
Yield curve	+100 basis points	-	(261,671)	-	(285,667)	-	(238,313)	-	(259,543)
ASPI	10% increase	14,158	18,448	10,081	7,258	13,834	18,202	9,859	7,098
Total		(9,559)	(261,248)	(5,757)	(289,813)	7,113	(225,219)	3,797	(256,810)
Exchange rate	5% weakening of rupee	23,717	18,025	15,838	11,404	6,721	5,108	6,062	4,365
Yield curve	-100 basis points	-	279,627	-	309,662	-	255,109	-	282,085
ASPI	10% decrease	(14,158)	(18,448)	(10,081)	(7,258)	(13,834)	(18,202)	(9,859)	(7,098)
Total		9,559	279,204	5,757	313,808	(7,113)	242,015	(3,797)	279,352

Note 1 : The correlation of variables will have a significant effect in determining the ultimate impact of exchange rate, interest rate and equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Note 2 : It should be noted that movements in these variables are nonlinear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

4.3.4 Operational Risk

Operational risk is the possibility of incurring losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes fraud, business interruptions, inaccurate processing of transactions, non-compliance regulations etc.

Risk Response Strategies

- The management is responsible for the monitoring and control of operational risk. Compliance is monitored through monthly checklist filled and signed by Heads of Divisions, a summary of which is presented to the Audit Committee.
- Risk and Compliance division monitors compliance with regulations through a monthly checklist a summary of which is tabled at the Board meeting on a monthly basis.
- Each employee is required to adhere to Financial Authority Manual in entering into transactions and discharge of duties.

- Divisional procedure manuals including branch procedure manuals are in place for the employees to follow.
- Staff are trained on the company policies and procedure on a regular basis.
- The Group has a Business Continuity Plan and annual tests are carried out.
- Employee code of business conduct, integrity reporting policy and share trading policy are in place for the guidance of staff and streamline controls.
- Segregation of duties is incorporated into each operational area to the highest practicable level.
- Internal audit reviews the internal controls of the Group through audits carried out and shares the findings with the Audit Committee. Corrective actions/implementation of recommendations are also monitored.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT

ACCOUNTING POLICY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable, willing parties in an arm's length transaction at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or;
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. External professional valuers are involved for valuation of significant assets such as land and buildings.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments.

When available, 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 ask price), without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

• Level 2

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using:

- quoted prices in active markets for similar instruments,
- quoted prices for identical or similar instruments in markets that are considered to be less active, or
- other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

• Level 3

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds and Treasury Bills	Valued using the market yields obtained from the "Two Way Quotes" report published by the Central Bank of Sri Lanka (CBSL) on www.cbsl.gov.lk	Level 1
Investment in Shares		
Listed Shares	Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the Colombo Stock Exchange (CSE) on www.cse.lk	Level 1
Investment in Units		
Unlisted redeemable Units	Valued using the Published Net Asset Value of each Unit Trust Fund	Level 2
Corporate Debt		
Listed/Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Two Way Quotes" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the instrument	Level 2
Fixed and Term Deposits		
Deposits more than one year	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Two Way Quotes" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the institution	Level 2
Other Financial Assets		
Staff and Advisor Loans	The fair value of the State and Advisor loans have been computed based on the interest rates prevailed at reporting date	Level 2

Listed Corporate Debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even if such instruments are listed. Therefore, when calculating the fair value, published market prices are not used.

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short- term in nature or re-priced to current market rates frequently:

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

ACCOUNTING POLICY	
Assets	Liabilities
Cash and Cash Equivalents/Term Deposits less than one year	Reinsurance Creditors
Repo	Lease Creditors
Loans to Life Policyholders	Other Liabilities
Reinsurance Receivables	Bank Overdrafts
Sri Lanka Development Bonds	
Premium Receivables	
Co-Insurance Receivables	
Amounts due from related parties	

Transfer between levels

There were no transfers made in between the levels in 2021 (2020:Nil).

5.1. Accounting Classifications and Fair Value - Group

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

5.1.a Financial Assets

As at 31st December,		2021					
		Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repos	10.2	-	5,644,673	-	-	5,644,673	5,644,673
Term Deposit	10.2.1	-	7,252,633	-	-	7,252,633	7,214,859
Debentures	10.2.2	-	7,210,837	-	-	7,210,837	7,204,800
Treasury Bonds	10.1 & 10.3	317,803	-	7,375,342	-	7,693,145	7,688,807
Sri Lanka Development Bonds	10.2.3	-	182,209	-	-	182,209	182,209
Equity Shares	10.3.1 & 10.4.1	-	-	76,883	141,583	218,466	218,466
Treasury Bills	10.3	-	-	746,686	-	746,686	746,686
Investment in Units	10.4.2	-	-	-	193,585	193,585	193,585
Loans to Life Policyholders	12	-	403,452	-	-	403,452	403,452
Reinsurance Receivables	13	-	1,072,206	-	-	1,072,206	1,072,206
Premium Receivables	14	-	1,247,997	-	-	1,247,997	1,247,997
Staff and Advisor Loans	15.2	-	324,786	-	-	324,786	324,786
Co - Insurance Receivable	15	-	9,270	-	-	9,270	9,270
Cash and Cash Equivalents	17.1	-	2,112,745	-	-	2,112,745	2,112,745
Total Financial Assets		317,803	25,460,808	8,198,911	335,168	34,312,690	34,264,541

5.1.b Financial Liabilities

As at 31st December,		2021		
		Other Financial Liabilities	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000
Reinsurance Creditors	28	1,085,512	1,085,512	1,085,512
Lease Creditors	29	421,838	421,838	421,838
Other Financial Liabilities	30	867,143	867,143	867,143
Bank Overdrafts	17.2	111,665	111,665	111,665
Total Financial Liabilities		2,486,158	2,486,158	2,486,158

5.1.c Financial Assets

As at 31st December,		2020					
		Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repos	10.2	-	2,827,051	-	-	2,827,051	2,827,051
Term Deposit	10.2.1	-	10,399,344	-	-	10,399,344	9,942,693
Debentures	10.2.2	-	6,190,127	-	-	6,190,127	5,448,960
Treasury Bonds	10.3	-	-	7,120,330	-	7,120,330	7,120,330
Sri Lanka Development Bonds	10.2.3	-	33,470	-	-	33,470	33,470
Equity Shares	10.3.1 & 10.4.1	-	-	50,600	100,810	151,410	151,410
Investment in Units	10.4.2	-	-	-	842,694	842,694	842,694
Loans to Life Policyholders	12	-	379,736	-	-	379,736	379,736
Reinsurance Receivables	13	-	771,776	-	-	771,776	771,776
Premium Receivables	14	-	1,111,594	-	-	1,111,594	1,111,594
Staff and Advisor Loans	15.2	-	449,423	-	-	449,423	449,423
Co - Insurance Receivable	15	-	8,216	-	-	8,216	8,216
Cash and Cash Equivalents	17.1	-	711,111	-	-	711,111	711,111
Total Financial Assets		-	22,881,848	7,170,930	943,504	30,996,282	29,798,464

5.1.d Financial Liabilities

As at 31st December,		2020		
		Other Financial Liabilities	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000
Reinsurance Creditors	28	700,105	700,105	700,105
Lease Creditors	29	393,145	393,145	393,145
Other Financial Liabilities	30	729,994	729,994	729,994
Bank Overdrafts	17.2	124,305	124,305	124,305
Total Financial Liabilities		1,947,549	1,947,549	1,947,549

5.1.e The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 4.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

5.2 Accounting Classifications and Fair Value - Company

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

5.2.a Financial Assets

As at 31st December,		2021					
		Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repos	10.2	-	4,636,918	-	-	4,636,918	4,636,918
Term Deposit	10.2.1	-	5,974,450	-	-	5,974,450	5,936,903
Debentures	10.2.2	-	6,347,588	-	-	6,347,588	6,339,921
Treasury Bonds	10.1 & 10.3	317,803	-	6,636,808	-	6,954,611	6,950,273
Sri Lanka Development Bonds	10.2.3	-	40,231	-	-	40,231	40,231
Equity Shares	10.3.1 & 10.4.1	-	-	76,883	138,338	215,221	215,221
Treasury Bills	10.3	-	-	547,635	-	547,635	547,635
Loans to Life Policyholders	12	-	403,452	-	-	403,452	403,452
Reinsurance Receivables	13	-	317,009	-	-	317,009	317,009
Premium Receivables	14	-	7,822	-	-	7,822	7,822
Staff and Advisor Loans	15.2	-	176,032	-	-	176,032	176,032
Amounts due from Related Parties- HNB General Insurance Limited	15	-	13,548	-	-	13,548	13,548
Cash and Cash Equivalents	17.1	-	1,575,931	-	-	1,575,931	1,575,931
Total Financial Assets		317,803	19,492,981	7,261,326	138,338	27,210,448	27,160,896

5.2.b Financial Liabilities

As at 31st December,		2021		
		Other Financial Liabilities	Total Fair Value	Carrying Value
	Note	Rs.'000	Rs.'000	Rs.'000
Reinsurance Creditors	28	453,054	453,054	453,054
Lease Creditors	29	390,374	390,374	390,374
Other Financial Liabilities	30	568,461	568,461	568,461
Bank Overdrafts	17.2	53,364	53,364	53,364
Total Financial Liabilities		1,465,253	1,465,253	1,465,253

5.2.c Financial Assets

As at 31st December,		2020					
		Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Fair Value	Carrying Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repos	10.2	-	2,011,243	-	-	2,011,243	2,011,243
Term Deposit	10.2.1	-	8,566,301	-	-	8,566,301	8,143,522
Debentures	10.2.2	-	5,576,066	-	-	5,576,066	4,902,208
Treasury Bonds	10.3	-	-	6,263,397	-	6,263,397	6,263,397
Sri Lanka Development Bonds	10.2.3	-	3,744	-	-	3,744	3,744
Equity Shares	10.3.1 & 10.4.1	-	-	50,600	98,587	149,187	149,187
Investment in Units	10.4.2	-	-	-	601,964	601,964	601,964
Loans to Life Policyholders	12	-	379,736	-	-	379,736	379,736
Reinsurance Receivables	13	-	172,699	-	-	172,699	172,699
Premium Receivables	14	-	4,988	-	-	4,988	4,988
Staff and Advisor Loans	15.2	-	248,130	-	-	248,130	248,130
Amounts due from Related Parties- HNB General Insurance Limited	15	-	7,286	-	-	7,286	7,286
Cash and Cash Equivalents	17.1	-	393,522	-	-	393,522	393,522
Total Financial Assets		-	17,363,715	6,313,997	700,551	24,378,263	23,281,626

5.2.d Financial Liabilities

As at 31st December,		2020		
		Other Financial Liabilities	Total Fair Value	Carrying Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reinsurance Creditors	28	290,916	290,916	290,916
Lease Creditors	29	377,746	377,746	377,746
Other Financial Liabilities	30	463,202	463,202	463,202
Bank Overdrafts	17.2	53,904	53,904	53,904
Total Financial Liabilities		1,185,768	1,185,768	1,185,768

5.2.e The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 4.

5.3. Fair Value Measurement Hierarchy

The table below analyses fair value measurement of financial assets by valuation method, in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

5.3.1 Fair Value Measurement Hierarchy - Group

As at 31st December,		2021			
		Fair Value Measurement Disclosed Using			Total Fair Value
Note	Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Rs.'000	
	Rs.'000	Rs.'000	Rs.'000		
Held To Maturity					
Treasury Bonds	10.1	317,803	-	-	317,803
Total (a)		317,803	-	-	317,803
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	141,583	-	-	141,583
Investment in Units	10.4.2	-	193,585	-	193,585
Total (b)		141,583	193,585	-	335,168
Available for Sale					
Treasury Bonds	10.3	7,375,342	-	-	7,375,342
Treasury Bills	10.3	746,686	-	-	746,686
Equity Shares	10.3.1	76,883	-	-	76,883
Total (c)		8,198,911	-	-	8,198,911
Loans and Receivable					
Term Deposit (More than one year)		-	5,719,910	-	5,719,910
Debentures	10.2.2	-	7,210,837	-	7,210,837
Staff and Advisor Loans	15.2	-	324,786	-	324,786
Total (d)		-	13,255,533	-	13,255,533
Total Financial Assets (a+b+c+d)		8,658,297	13,449,118	-	22,107,415

As at 31st December,		2020			
		Fair Value Measurement Disclosed Using			Total Fair Value
Note	Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Rs.'000	
	Rs.'000	Rs.'000	Rs.'000		
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	100,810	-	-	100,810
Investment in Units	10.4.2	-	842,694	-	842,694
Total (a)		100,810	842,694	-	943,504
Available For Sale					
Treasury Bonds	10.3	7,120,330	-	-	7,120,330
Equity Shares	10.3.1	50,600	-	-	50,600
Total (b)		7,170,930	-	-	7,170,930
Loans and Receivable					
Term Deposit (More than one year)		-	5,709,934	-	5,709,934
Debentures	10.2.2	-	6,190,127	-	6,190,127
Staff and Advisor Loans	15.2	-	449,423	-	449,423
Total (c)		-	12,349,484	-	12,349,484
Total Financial Assets (a+b+c)		7,271,740	13,192,178	-	20,463,918

5.3.2 Fair Value Measurement Hierarchy - Company

As at 31st December,		2021			
		Fair Value Measurement Disclosed Using			Total Fair Value
Note	Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Rs.'000	
	Rs.'000	Rs.'000	Rs.'000		
Held To Maturity					
Treasury Bonds	10.1	317,803	-	-	317,803
Total (a)		317,803	-	-	317,803
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	138,338	-	-	138,338
Total (b)		138,338	-	-	138,338
Available For Sale					
Treasury Bonds	10.3	6,636,808	-	-	6,636,808
Treasury Bills	10.3	547,635	-	-	547,635
Equity Shares	10.3.1	76,883	-	-	76,883
Total (c)		7,261,326	-	-	7,261,326
Loans and Receivable					
Term Deposit (More than one year)		-	5,180,609	-	5,180,609
Debentures	10.2.2	-	6,347,588	-	6,347,588
Staff and Advisor Loans	15.2	-	176,032	-	176,032
Total (d)		-	11,704,229	-	11,704,229
Total Financial Assets (a+b+c+d)		7,717,467	11,704,229	-	19,421,696

As at 31st December,		2020			
		Fair Value Measurement Disclosed Using			Total Fair Value
Note	Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Rs.'000	
	Rs.'000	Rs.'000	Rs.'000		
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	98,587	-	-	98,587
Investment in Units	10.4.2	-	601,964	-	601,964
Total (a)		98,587	601,964	-	700,551
Available For Sale					
Treasury Bonds	10.3	6,263,397	-	-	6,263,397
Equity Shares	10.3.1	50,600	-	-	50,600
Total (b)		6,313,997	-	-	6,313,997
Loans and Receivable					
Term Deposit (More than one year)		-	5,050,484	-	5,050,484
Debentures	10.2.2	-	5,576,066	-	5,576,066
Staff and Advisor Loans	15.2	-	248,130	-	248,130
Total (c)		-	10,874,680	-	10,874,680
Total Financial Assets (a+b+c)		6,412,584	11,476,644	-	17,889,228

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING

ACCOUNTING POLICY

An operating segment is a component of the Group 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 Group's other components, whose operating results are reviewed regularly by the chief operating decision maker. The Board of Directors is identified as the Chief Operating Decision Maker who makes decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available. The Group's primary format for segmental reporting is business segments. The business segments are determined based on the Group's management and internal reporting structure.

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows;

Reportable Operating Segment	Category of Information	Details
Life Insurance	Nature of Products	Protection and other Long-Term Insurance contracts both with and without discretionary Participating features.
	Classification of Products	Comprises a wide range of term assurance, guaranteed pensions, endowment products and annuity products.
	Revenue derived from	Insurance premium and fees charged from policyholders, Reinsurance Commission Income, Investment Income and Fair Value Gains and Losses on Investments.
General Insurance	Nature of Products	Comprises General insurance contracts to individuals and businesses which are Short-Term in nature.
	Classification of Products	Mainly classified into Motor and Non motor segments, and Non motor segment consist of Fire, Accident and Liability, Marine and Workmen Compensation.
	Revenue derived from	Insurance premium and fees charged from policyholders, Reinsurance Commission Income, Investment Income and Fair Value Gains and Losses on Investments.

GEOGRAPHIC INFORMATION

Activities of the Group are located within the country. The economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

MAJOR CUSTOMERS

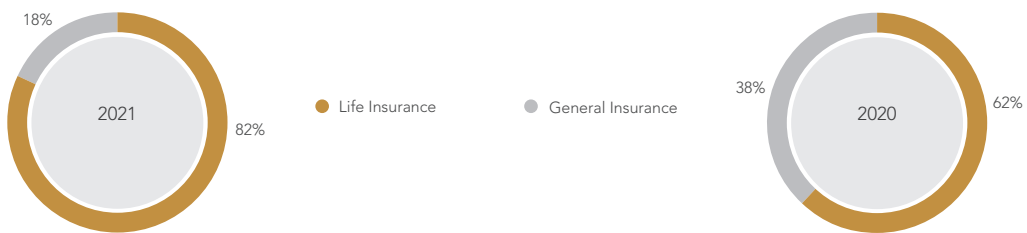
The company does not have any major customers.

SEGMENTAL PERFORMANCE HIGHLIGHT

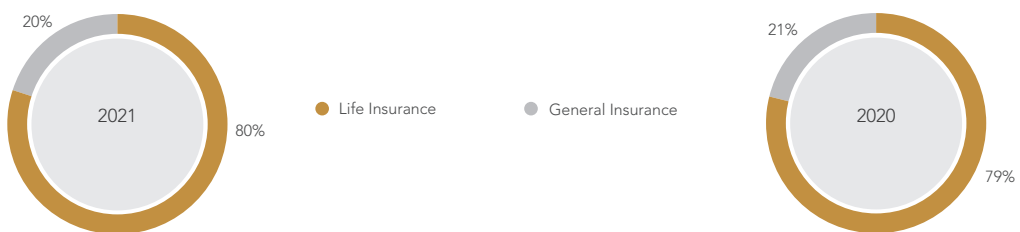
Gross Written Premium



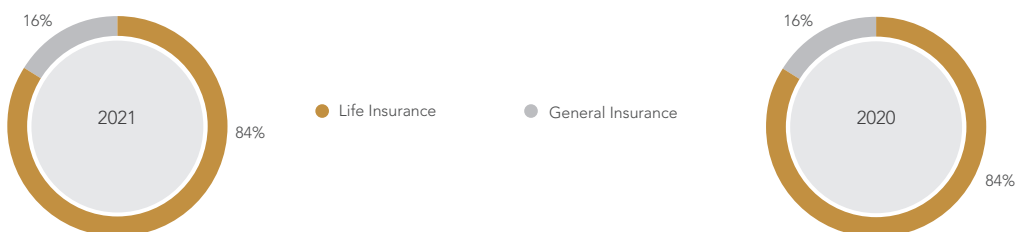
Segment - Profitability



Total Assets



Insurance Contract Liabilities



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.1 Statement of Financial Position - Segmental Review - 2021

As at 31st December 2021,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	141,390	141,494	-	282,884
Right of Use Assets	362,336	32,812	-	395,148
Intangible Assets	57,839	5,341	-	63,180
Deferred Tax Assets	273,543	18,289	-	291,832
Financial Investments	24,667,102	4,426,983	-	29,094,085
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	403,452	-	-	403,452
Reinsurance Receivables	317,009	755,197	-	1,072,206
Premium Receivables	7,822	1,240,175	-	1,247,997
Other Assets	507,528	253,966	(13,548)	747,946
Insurance Contract - Deferred Expenses	-	157,710	-	157,710
Cash and Cash Equivalents	1,575,931	536,814	-	2,112,745
Total Assets	29,463,952	7,568,781	(1,163,548)	35,869,185
Equity and Liabilities				
Equity Attributable to the Equity Holders				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	5,548,813	1,095,867	-	6,644,680
Available For Sale Reserve	4,446	(437)	-	4,009
Other Reserve	(6,614)	(4,807)	-	(11,421)
Life Policyholders' Available For Sale Reserve Fund	(67,291)	-	-	(67,291)
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders	7,032,385	2,240,623	(1,150,000)	8,123,008
Non-Controlling Interest	-	-	-	-
Total Equity	7,032,385	2,240,623	(1,150,000)	8,123,008
Liabilities				
Insurance Contract Liabilities - Life Insurance	20,342,757	-	-	20,342,757
Insurance Contract Liabilities - General Insurance	-	3,735,922	-	3,735,922
Employee Defined Benefit Liabilities	137,328	101,839	-	239,167
Current Tax Liabilities	19,871	42,297	-	62,168
Reinsurance Creditors	453,054	632,458	-	1,085,512
Lease Creditors	390,374	31,464	-	421,838
Other Liabilities	1,034,819	725,877	(13,548)	1,747,148
Bank Overdrafts	53,364	58,301	-	111,665
Total Liabilities	22,431,567	5,328,158	(13,548)	27,746,177
Total Equity and Liabilities	29,463,952	7,568,781	(1,163,548)	35,869,185

6.1.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

As at 31st December 2021,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Property, Plant and Equipment Additions	68,629	108,652	177,281
Intangible Assets Additions	16,904	-	16,904

6.2 Statement of Financial Position - Segmental Review - 2020

As at 31st December 2020,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	116,740	53,048	-	169,788
Right of Use Assets	380,105	14,332	-	394,437
Intangible Assets	62,240	6,618	-	68,858
Deferred Tax Assets	725,255	13,466	-	738,721
Financial Investments	22,075,265	4,291,343	-	26,366,608
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	379,736	-	-	379,736
Reinsurance Receivables	172,699	599,077	-	771,776
Premium Receivables	4,988	1,106,606	-	1,111,594
Other Assets	582,321	289,379	(7,286)	864,414
Insurance Contract - Deferred Expenses	-	163,619	-	163,619
Cash and Cash Equivalents	393,522	317,589	-	711,111
Total Assets	26,042,871	6,855,077	(1,157,286)	31,740,662
Equity and Liabilities				
Equity Attributable to the Equity Holders				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	4,968,314	872,718	-	5,841,032
Available For Sale Reserve	15,626	78,128	-	93,754
Other Reserve	(33,916)	(17,604)	-	(51,520)
Life Policyholders' Available For Sale Reserve Fund	757,933	-	-	757,933
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders	7,260,988	2,083,242	(1,150,000)	8,194,230
Non-Controlling Interest	-	-	-	-
Total Equity	7,260,988	2,083,242	(1,150,000)	8,194,230
Liabilities				
Insurance Contract Liabilities - Life Insurance	17,064,089	-	-	17,064,089
Insurance Contract Liabilities - General Insurance	-	3,309,149	-	3,309,149
Employee Defined Benefit Liabilities	150,729	103,709	-	254,438
Current Tax Liabilities	12,301	138,792	-	151,093
Reinsurance Creditors	290,916	409,189	-	700,105
Lease Creditors	377,746	15,399	-	393,145
Other Liabilities	832,198	725,196	(7,286)	1,550,108
Bank Overdrafts	53,904	70,401	-	124,305
Total Liabilities	18,781,883	4,771,835	(7,286)	23,546,432
Total Equity and Liabilities	26,042,871	6,855,077	(1,157,286)	31,740,662

6.2.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

As at 31st December 2020,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Property, Plant and Equipment Additions	64,610	18,294	82,904
Intangible Assets Additions	31,557	5,146	36,703

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.3 Statement of Profit or Loss - Segmental Review - 2021

For the Year Ended 31st December 2021,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	7,091,470	5,648,578	(93,101)	12,646,947
Premium Ceded to Reinsurers	(355,537)	(1,293,324)	-	(1,648,861)
Net Written Premium	6,735,933	4,355,254	(93,101)	10,998,086
Net Change in Reserves for Unearned Premium	-	(242,252)	-	(242,252)
Net Earned Premium	6,735,933	4,113,002	(93,101)	10,755,834
Other Revenue				
Interest and Dividend Income	2,311,120	359,154	(115,000)	2,555,274
Net Realised Gains	50,109	2,812	-	52,921
Net Fair Value Gains	49,484	29,644	-	79,128
Fee and Commission Income	77,025	181,325	(32,612)	225,738
Other Income	2,766	10,568	-	13,334
Total Other Revenue	2,490,504	583,503	(147,612)	2,926,395
Net Income	9,226,437	4,696,505	(240,713)	13,682,229
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,638,904)	(2,458,369)	1,553	(4,095,720)
Net Change in Insurance Claims Outstanding	(7,184)	(120,386)	-	(127,570)
Change in Contract Liabilities - Life Fund	(3,249,356)	-	-	(3,249,356)
Other Operating and Administration Expenses	(1,694,018)	(1,304,301)	105,495	(2,892,824)
Underwriting and Net Acquisition Costs	(1,098,207)	(376,716)	18,665	(1,456,258)
Finance and Other Insurance Related Costs	(86,557)	(25,566)	-	(112,123)
Total Benefits, Claims and other Expenses	(7,774,226)	(4,285,338)	125,713	(11,933,851)
Profit Before Taxation	1,452,211	411,167	(115,000)	1,748,378
Income Tax Expense	(451,712)	(73,018)	-	(524,730)
Profit for the Year	1,000,499	338,149	(115,000)	1,223,648

6.3.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

For the year ended 31st December 2021,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Intersegment GWP	54,769	38,332	93,101
External Customers GWP	7,036,701	5,610,246	12,646,947
Interest Income	2,186,492	358,991	2,545,483
Interest Expenses of Lease Creditors	46,300	2,896	49,196
Depreciation on Property, Plant and Equipment	42,229	19,566	61,795
Amortisation on Intangible Assets	21,305	1,277	22,582
Depreciation on Right of Use Assets	122,825	7,934	130,759

6.4 Statement of Profit or Loss - Segmental Review - 2020

For the Year Ended 31st December 2020,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	5,487,039	4,997,728	(85,775)	10,398,992
Premium Ceded to Reinsurers	(265,164)	(1,042,814)	-	(1,307,978)
Net Written Premium	5,221,875	3,954,914	(85,775)	9,091,014
Net Change in Reserves for Unearned Premium	-	(164,257)	-	(164,257)
Net Earned Premium	5,221,875	3,790,657	(85,775)	8,926,757
Other Revenue				
Interest and Dividend Income	2,125,362	367,955	-	2,493,317
Net Realised Gains	44,909	8,725	-	53,634
Net Fair Value Gains	12,987	4,709	-	17,696
Fee and Commission Income	34,945	137,055	(31,157)	140,843
Other Income	5,747	9,223	-	14,970
Total Other Revenue	2,223,950	527,667	(31,157)	2,720,460
Net Income	7,445,825	4,318,324	(116,932)	11,647,217
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,428,349)	(1,969,932)	42	(3,398,239)
Net Change in Insurance Claims Outstanding	(65,832)	(94,570)	-	(160,402)
Change in Contract Liabilities - Life Fund	(2,576,169)	-	-	(2,576,169)
Other Operating and Administration Expenses	(1,430,742)	(1,212,747)	97,280	(2,546,209)
Underwriting and Net Acquisition Costs	(888,527)	(366,529)	19,610	(1,235,446)
Finance and Other Insurance Related Costs	(56,843)	(43,413)	-	(100,256)
Total Benefits, Claims and other Expenses	(6,446,462)	(3,687,191)	116,932	(10,016,721)
Profit Before Taxation	999,363	631,133	-	1,630,496
Income Tax Expense	(275,418)	(179,855)	-	(455,273)
Profit for the Year	723,945	451,278	-	1,175,223

6.4.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

For the year ended 31st December 2020,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Intersegment GWP	48,196	37,579	85,775
External Customers GWP	5,438,843	4,960,149	10,398,992
Interest Income	2,120,053	367,897	2,487,950
Interest Expenses of Lease Creditors	43,121	2,582	45,703
Depreciation on Property, Plant and Equipment	38,287	15,713	54,000
Amortisation on Intangible Assets	19,147	485	19,632
Depreciation on Right of Use Assets	115,293	15,400	130,693

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.5 Statement of Cash Flows - Segmental Review - 2021

For the Year Ended 31st December 2021,		Life Insurance	General Insurance	Intersegment Adjustment	Total
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash Flows From Operating Activities					
Profit Before Taxation		1,452,211	411,167	(115,000)	1,748,378
Adjustments for:					
Interest Income		(2,186,492)	(358,991)	-	(2,545,483)
Dividend Income		(124,628)	(163)	115,000	(9,791)
Amortisation of Intangible Assets		21,305	1,277	-	22,582
Depreciation of Property, Plant and Equipment		42,229	19,566	-	61,795
Net Depreciation of Right of Use Assets		122,825	7,934	-	130,759
Interest Expense of Lease Creditors		46,300	2,896	-	49,196
Provision for Employee Benefits		25,301	20,679	-	45,980
Net Realised Gains		(50,109)	(2,812)	-	(52,921)
Net Fair Value Gains		(49,484)	(29,644)	-	(79,128)
Losses/(Gains) on Disposal of Property, Plant and Equipment		289	(69)	-	220
Gains on Disposal of Right of Use Assets		(620)	-	-	(620)
		(700,873)	71,840	-	(629,033)
Net Change in Operating Assets	A	(96,044)	(248,641)	13,548	(331,137)
Net Change in Operating Liabilities	B	3,650,997	650,700	(13,548)	4,288,149
Cash Flows from Operating Activities		2,854,080	473,899	-	3,327,979
Gratuity Paid		(11,423)	(5,688)	-	(17,111)
Income Tax Paid		-	(169,374)	-	(169,374)
Net Cash Generated From Operating Activities (a)		2,842,657	298,837	-	3,141,494
Cash Flows from Investing Activities					
Acquisition of Financial Investments		(169,673,417)	(48,635,104)	-	(218,308,521)
Proceeds from Maturity of Financial Investments		165,602,038	48,300,231	-	213,902,269
Proceeds from Sale of Financial Investments		853,655	123,294	-	976,949
Interest Received		2,075,569	380,091	-	2,455,660
Dividend Received		124,628	163	(115,000)	9,791
Acquisition of Intangible Assets		(16,904)	-	-	(16,904)
Acquisition of Property, Plant and Equipment		(68,629)	(108,652)	-	(177,281)
Proceeds from the Disposal of Property, Plant and Equipment		1,461	709	-	2,170
Advance Paid to Right of Use Assets		(16,722)	(3,796)	-	(20,518)
Net Cash Used in Investing Activities (b)		(1,118,321)	56,936	(115,000)	(1,176,385)
Cash Flows from Financing Activities					
Dividend Paid		(420,000)	(115,000)	115,000	(420,000)
Payment of Lease Liabilities		(121,387)	(9,448)	-	(130,835)
Net Cash Used in Financing Activities (c)		(541,387)	(124,448)	115,000	(550,835)
Net Increase in Cash and Cash Equivalents (a+b+c)		1,182,949	231,325	-	1,414,274
Cash and Cash Equivalents at the Beginning of the Year		339,618	247,188	-	586,806
Cash and Cash Equivalents at the End of the Year	17	1,522,567	478,513	-	2,001,080
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Decrease in Deferred Expenses		-	5,909	-	5,909
Increase in Loans to Life Policyholders		(23,716)	-	-	(23,716)
Increase in Reinsurance Receivables		(144,310)	(156,120)	-	(300,430)
Increase in Premium Receivables		(2,834)	(133,569)	-	(136,403)
Decrease in Other Assets		74,816	35,139	13,548	123,503
Net Change in Operating Assets		(96,044)	(248,641)	13,548	(331,137)
B. Change in Operating Liabilities					
Increase/(Decrease) in Other Liabilities		202,621	658	(13,548)	189,731
Increase in Insurance Contract Liabilities (Before Tax) - Life Insurance		3,286,238	-	-	3,286,238
Increase in Insurance Contract Liabilities - General Insurance		-	426,773	-	426,773
Increase in Reinsurance Creditors		162,138	223,269	-	385,407
Net Change in Operating Liabilities		3,650,997	650,700	(13,548)	4,288,149

6.6 Statement of Cash Flows - Segmental Review - 2020

For the Year Ended 31st December 2020,					
	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total Rs.'000
Cash Flows From Operating Activities					
Profit Before Taxation		999,363	631,133	-	1,630,496
Adjustments for:					
Interest Income		(2,120,053)	(367,897)	-	(2,487,950)
Dividend Income		(5,309)	(58)	-	(5,367)
Amortisation of Intangible Assets		19,147	485	-	19,632
Depreciation of Property, Plant and Equipment		38,287	15,713	-	54,000
Net Depreciation of Right of Use Assets		115,293	15,400	-	130,693
Interest Expense of Lease Creditors		43,121	2,582	-	45,703
Provision for Employee Benefits		26,945	20,367	-	47,312
Net Realised Gains		(44,909)	(8,725)	-	(53,634)
Net Fair Value Gains		(12,987)	(4,709)	-	(17,696)
Gains on Disposal of Property, Plant and Equipment		(3,242)	(97)	-	(3,339)
(Gains)/Losses on Disposal of Right of Use Assets		(475)	241	-	(234)
		(944,819)	304,435	-	(640,384)
Net Change in Operating Assets	A	(48,747)	(320,603)	7,286	(362,064)
Net Change in Operating Liabilities	B	2,791,079	663,492	(7,286)	3,447,285
Cash Flows from Operating Activities		1,797,513	647,324	-	2,444,837
Gratuity Paid		(3,694)	(1,293)	-	(4,987)
Economic Service Charges (ESC) Paid		-	(6,137)	-	(6,137)
Income Tax Paid		-	(73,109)	-	(73,109)
Capital Gain Tax Paid		-	(1,213)	-	(1,213)
Net Cash Generated From Operating Activities (a)		1,793,819	565,572	-	2,359,391
Cash Flows from Investing Activities					
Acquisition of Financial Investments		(112,016,270)	(49,523,587)	-	(161,539,857)
Proceeds from Maturity of Financial Investments		108,179,859	48,647,417	-	156,827,276
Proceeds from Sale of Financial Investments		301,267	90,503	-	391,770
Interest Received		2,001,689	370,549	-	2,372,238
Dividend Received		5,309	58	-	5,367
Acquisition of Intangible Assets		(31,557)	(5,146)	-	(36,703)
Acquisition of Property, Plant and Equipment		(59,114)	(18,294)	-	(77,408)
Proceeds from the Disposal of Property, Plant and Equipment		18,531	799	-	19,330
Advance Paid to Right of Use Assets		(8,487)	-	-	(8,487)
Net Cash Used in Investing Activities (b)		(1,608,773)	(437,701)	-	(2,046,474)
Cash Flows from Financing Activities					
Dividend Paid		(300,000)	-	-	(300,000)
Payment of Lease Liabilities		(147,090)	(14,228)	-	(161,318)
Net Cash Used in Financing Activities (c)		(447,090)	(14,228)	-	(461,318)
Net (Decrease)/Increase in Cash and Cash Equivalents (a+b+c)		(262,044)	113,643	-	(148,401)
Cash and Cash Equivalents at the Beginning of the Year		601,662	133,545	-	735,207
Cash and Cash Equivalents at the End of the Year	17	339,618	247,188	-	586,806
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(24,997)	-	(24,997)
Increase in Loans to Life Policyholders		(54,429)	-	-	(54,429)
Increase in Reinsurance Receivables		(27,984)	(98,381)	-	(126,365)
Decrease/(Increase) in Premium Receivables		4,470	(169,414)	-	(164,944)
Decrease/(Increase) in Other Assets		29,196	(27,811)	7,286	8,671
Net Change in Operating Assets		(48,747)	(320,603)	7,286	(362,064)
B. Change in Operating Liabilities					
Increase/(Decrease) in Other Liabilities		29,633	232,071	(7,286)	254,418
Increase in Insurance Contract Liabilities (Before Tax) - Life Insurance		2,595,681	-	-	2,595,681
Increase in Insurance Contract Liabilities - General Insurance		-	437,733	-	437,733
Increase/(Decrease) in Reinsurance Creditors		165,765	(6,312)	-	159,453
Net Change in Operating Liabilities		2,791,079	663,492	(7,286)	3,447,285

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE)

ACCOUNTING POLICY

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on “Property, Plant and Equipment”;

BASIS OF RECOGNITION

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the assets can be measured reliably.

BASIS OF MEASUREMENT

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes,

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- the costs of dismantling and removing the items and restoring at the site on which they are located;
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of such 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.

COST MODEL

The Group applies the cost model to Property, Plant and Equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

REVALUATION MODEL

The Company applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Freehold land and buildings of the Group are revalued at least once in every three years on a roll over basis, to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity, under revaluation reserve, or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the income statement. In this circumstance, the increase is recognized as income to the extent of the previous write down. Any decrease in the carrying amount is recognized as an expense in the income statement or debited in the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under revaluation reserves.

Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

SUBSEQUENT COSTS

The cost of replacing a component of an item of Property, Plant and 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of Property, Plant and Equipment are recognised in Profit or Loss as incurred.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to Profit or Loss 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 Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

DEPRECIATION

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Profit or Loss.

The estimated useful economic lives, depreciation rates and residual values for the current and comparative years are as follows:

Class of Asset	Useful Economic Life	Depreciation percentage per annum (%)	Residual Value
Freehold Buildings	40 years	2.5	Nil
Computer Equipment	6 years	16.67	Nil
Motor Vehicles	4 years	25	Nil
Office Equipment	5 years	20	Nil
Furniture and Fittings	10 years	10	Nil
Fixtures	Based on Lease Agreement period or useful life of asset whichever is lower		Nil

*Depreciation is not provided for freehold Land.

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e., when it is in the location and 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 together with other relevant information are given below on pages 263 to 266. The Group reviews the residual values, useful lives and methods of depreciation at each reporting date. Management exercises judgement in the estimation of these values, rates, methods and hence those are subject to uncertainty.

DE-RECOGNITION

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of an item of Property, Plant and Equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Profit or Loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

CAPITAL WORK-IN-PROGRESS

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in Property, Plant and Equipment, waiting for capitalisation.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

ACCOUNTING POLICY

BORROWING COSTS

Borrowing Cost that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of the asset as per the Sri Lanka Accounting Standard - LKAS 23 Borrowing Costs. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the Profit or Loss in the period in which they occur.

Valuation techniques used in measuring freehold land and buildings

Type	Valuation Technique	Inter-relationship between significant unobservable inputs and fair value measurement
Property Plant and Equipment	Depreciated replacement cost basis	Significant increase/(decrease) in estimated price per perch, price per sq.ft and depreciation rate would result in a significantly higher/(lower) fair value.
	Market comparable method	Market comparable method considers the selling price of a similar property within a reasonable period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustment for differences in size, nature, location and condition of the specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are compensated for, since the price may not adequately reflect the fair market value.
	Investment method	Significant increase/(decrease) in rent per sq.ft, outgoing expenses and number of years since purchase would result in a significantly higher/(lower) fair value.

The fair values of the Group's freehold land and buildings are determined by independent valuers at least once in every three years according to the Group's policy.

7.1 Movement of Property, Plant and Equipment (PPE) - Group

	Land and Buildings	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost							
Balance as at 01st January 2020	-	225,576	5,450	66,386	68,842	112,241	478,495
Additions during the year	-	41,593	25,071	3,466	2,965	9,809	82,904
Disposals during the year	-	(5,346)	(14,993)	(4,094)	(2,058)	(11,718)	(38,209)
Balance as at 31st December 2020 (a)	-	261,823	15,528	65,758	69,749	110,332	523,190
Balance as at 01st January 2021	-	261,823	15,528	65,758	69,749	110,332	523,190
Additions during the year	68,639	77,848	4,000	7,470	4,050	15,274	177,281
Disposals during the year	-	(1,110)	(173)	(3,127)	(2,063)	(7,673)	(14,146)
Balance as at 31st December 2021 (b)	68,639	338,561	19,355	70,101	71,736	117,933	686,325
Accumulated Depreciation							
Balance as at 01st January 2020	-	149,638	4,123	46,631	42,107	73,625	316,124
Depreciation for the year	-	25,356	2,178	6,951	5,061	14,454	54,000
Depreciation on Disposals	-	(336)	(494)	(3,222)	(1,281)	(11,389)	(16,722)
Balance as at 31st December 2020 (c)	-	174,658	5,807	50,360	45,887	76,690	353,402
Balance as at 01st January 2021	-	174,658	5,807	50,360	45,887	76,690	353,402
Depreciation for the year	248	33,195	3,210	6,737	4,838	13,567	61,795
Depreciation on disposals	-	(1,108)	(173)	(2,749)	(1,415)	(6,311)	(11,756)
Balance as at 31st December 2021 (d)	248	206,745	8,844	54,348	49,310	83,946	403,441
Carrying Value as at 31st December 2020 (a-c)	-	87,165	9,721	15,398	23,862	33,642	169,788
Carrying Value as at 31st December 2021 (b-d)	68,391	131,816	10,511	15,753	22,426	33,987	282,884

7.1.a Acquisition of Property, Plant and Equipment during the Year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 177.28 Million (2020 - Rs. 82.9 Million). Cash payments amounting to Rs. 177.28 Million (2020 - Rs. 77.4 Million) were made by the Group during the year to purchase of PPE.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

7.2 Movement of Property, Plant and Equipment (PPE) - Company

	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 01st January 2020	157,892	5,450	53,074	43,052	82,937	342,405
Additions during the year	28,353	24,481	2,772	1,716	7,288	64,610
Disposals during the year	(4,853)	(14,993)	(3,115)	(839)	(1,788)	(25,588)
Balance as at 31st December 2020 (a)	181,392	14,938	52,731	43,929	88,437	381,427
Balance as at 01st January 2021	181,392	14,938	52,731	43,929	88,437	381,427
Additions during the year	50,958	-	4,442	2,798	10,431	68,629
Disposals during the year	(1,110)	(173)	(1,934)	(986)	(6,905)	(11,108)
Balance as at 31st December 2021 (b)	231,240	14,765	55,239	45,741	91,963	438,948
Accumulated Depreciation						
Balance as at 01st January 2020	111,050	4,123	36,513	26,100	53,417	231,203
Depreciation for the year	16,289	2,123	5,726	3,078	11,071	38,287
Depreciation on Disposals	(252)	(494)	(2,242)	(342)	(1,473)	(4,803)
Balance as at 31st December 2020 (c)	127,087	5,752	39,997	28,836	63,015	264,687
Balance as at 01st January 2021	127,087	5,752	39,997	28,836	63,015	264,687
Depreciation for the year	20,984	2,829	5,660	2,969	9,787	42,229
Depreciation on Disposals	(1,108)	(173)	(1,630)	(741)	(5,706)	(9,358)
Balance as at 31st December 2021 (d)	146,963	8,408	44,027	31,064	67,096	297,558
Carrying Value as at 31st December 2020 (a-c)	54,305	9,186	12,734	15,093	25,422	116,740
Carrying Value as at 31st December 2021 (b-d)	84,277	6,357	11,212	14,677	24,867	141,390

7.2.a Acquisition of Property, Plant and Equipment during the Year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 68.6 Million (2020 - Rs. 64.6 Million). Cash payments amounting to Rs. 68.6 Million (2020 - Rs. 59.1 Million) were made by Company during the year to purchase of PPE.

7.3 Maturity Analysis of Property, Plant and Equipment is given in Note 47 on page 327.

7.4 Apportionment of Depreciation between the Company and the Subsidiary

	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Amount Recognised in Company	11,093	1,122	4,339	3,009	7,914	27,477
Amount Transferred to HNB General Insurance Limited	5,196	1,001	1,387	69	3,157	10,810
Total Depreciation for 2020	16,289	2,123	5,726	3,078	11,071	38,287
Amount Recognised in Company	15,277	1,644	4,382	2,705	7,717	31,725
Amount Transferred to HNB General Insurance Limited	5,707	1,185	1,278	264	2,070	10,504
Total Depreciation for 2021	20,984	2,829	5,660	2,969	9,787	42,229

7.5 Information on Freehold Land and Buildings of the Group - Extents and Locations

The fair value of property which consists of Land and two Buildings was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

Details of Group's land and buildings stated at valuation are indicated below;

Entity	Property	Name of the Chartered Valuation Surveyor	*Method of Valuation	Estimates for unobservable input		Fair Value Hierarchy
				**Estimated price per perch (Rs.)	*Estimated price per square feet (Rs.)	
HNB General Insurance Limited	No. 44D, Polhena Road, Devalapola, Minuwangoda.	K L S Karunathilaka (F.I.V)	Market Comparable Method	233,997	2,971	Level 3

*Method of valuation – Market Comparable method

Comparison method for valuation of land considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets making appropriate adjustments for differences in size, nature, location, condition of specific property.

** Estimated prices comprises of purchase price and non-refundable purchase taxes.

7.6 Fully Depreciated Property, Plant and Equipment in Use

PPE includes fully depreciated assets which are in the use of ordinary cause of business activities. The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows :

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Computer Equipment	114,819	95,558	88,976	74,927
Motor Vehicles	3,450	3,623	3,450	3,623
Office Equipment	33,665	33,657	26,073	25,528
Furniture and Fittings	24,250	22,731	16,370	15,495
Fixtures	43,980	28,201	37,094	24,998
Total	220,164	183,770	171,963	144,571

7.7 Property, Plant and Equipment Pledged as Security for Liabilities

There were no items of PPE in the Group and Company, pledged as securities for liabilities during the year. (2020 - Nil)

7.8 Title Restriction on Property, Plant and Equipment

There are no restrictions that existed on the title of the PPE of the Group and Company as at the reporting date. (2020 - No Title Restriction)

7.9 Assessment of Impairment of Property, Plant and Equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31st December 2021. 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. (2020 - No Impairment of PPE)

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

7.10 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. (2020 - Nil)

7.11 Temporarily idle Property, Plant and Equipment

There were no temporarily idle properties as at the year ended 31st December 2021. (2020 - Nil)

7.12 Amount of Contingent Commitment for acquisition of Property, Plant and Equipment

Commitments for the acquisition of Property, Plant and Equipment of the Group Rs. 26.2 Million as at the reporting date. (2020 - Rs. 10.5 Million)

7.13 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, loss or given up.

8. RIGHT OF USE ASSETS

ACCOUNTING POLICY

Recognition

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a Right of Use Assets and a lease liability at the lease commencement date. The Right of Use Asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The Right of Use Assets is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the Right of Use Assets reflects that the Group will exercise a purchase option. In that case the Right of Use Assets will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the Right of Use Asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Depreciation expenses has been charged to income statement under other operating and administration expenses.

Short-term leases and leases of low-value assets

The Group has elected not to recognise Right of Use Assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The Group recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of 'other income'.

8.1 Leases as lessee

The Group has number of lease contracts for properties and motor vehicles typically made in between 2 to 10 years of lease term and have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

8.1.a The movement of Right of Use Assets of the Group is as follows;

As at 31st December,	2021			2020		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 01st January	589,940	30,729	620,669	450,802	29,367	480,169
Day One Loss of Refundable Deposit on Fair Valuation	-	-	-	13,980	-	13,980
Additions during the Year	110,149	3,462	113,611	152,639	13,550	166,189
Advances Paid during the Year	20,518	-	20,518	8,487	-	8,487
Disposals during the Year	(49,757)	(6,397)	(56,154)	(35,968)	(12,188)	(48,156)
Total Cost of Right of Use Asset (a)	670,850	27,794	698,644	589,940	30,729	620,669
Accumulated Depreciation and Amortisation						
Balance of as at 01st January	215,463	10,769	226,232	127,681	8,751	136,432
Depreciation for the Year	111,186	7,535	118,721	115,765	8,926	124,691
Day One Loss of Refundable Deposit on Fair Valuation	2,135	-	2,135	5,993	-	5,993
Amortisation of Rent Payable Under LKAS 17	-	-	-	(4,730)	-	(4,730)
Amortisation of Rent Advance	9,903	-	9,903	4,739	-	4,739
Depreciation on Disposals	(47,098)	(6,397)	(53,495)	(33,985)	(6,908)	(40,893)
Total Accumulated Depreciation and Amortisation (b)	291,589	11,907	303,496	215,463	10,769	226,232
Net Right of Use Assets as at 31st December (a-b)	379,261	15,887	395,148	374,477	19,960	394,437

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

8. RIGHT OF USE ASSETS (CONTD.)

8.1.b The movement of Right of Use Assets of the Company is as follows;

As at 31st December,	2021			2020		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 01st January	585,612	10,782	596,394	426,137	22,970	449,107
Day One Loss of Refundable Deposit on Fair Valuation	-	-	-	13,980	-	13,980
Additions during the Year	87,532	3,462	90,994	152,639	-	152,639
Advances Paid during the Year	16,722	-	16,722	8,487	-	8,487
Disposals during the Year	(48,570)	-	(48,570)	(15,631)	(12,188)	(27,819)
Total Cost of Right of Use Asset (a)	641,296	14,244	655,540	585,612	10,782	596,394
Accumulated Deprecation and Amortisation						
Balance of as at 01st January	212,516	3,773	216,289	117,310	6,225	123,535
Depreciation for the Year	107,819	3,166	110,985	108,163	4,456	112,619
Day One Loss of Refundable Deposit on Fair Valuation	2,135	-	2,135	5,993	-	5,993
Amortisation of Rent Payable Under LKAS 17	-	-	-	(4,170)	-	(4,170)
Amortisation of Rent Advance	9,705	-	9,705	851	-	851
Depreciation on Disposals	(45,910)	-	(45,910)	(15,631)	(6,908)	(22,539)
Total Accumulated Deprecation and Amortisation (b)	286,265	6,939	293,204	212,516	3,773	216,289
Net Right of Use Assets as at 31st December (a-b)	355,031	7,305	362,336	373,096	7,009	380,105

8.2 Amount recognised in Profit or Loss

For the year ended 31st December,	Group		Company	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Depreciation for the Year	118,721	124,691	110,985	112,619
Day One Loss of Refundable Deposit on Fair Valuation	2,135	5,993	2,135	5,993
Amortisation of Rent Payable Under LKAS 17	-	(4,730)	-	(4,170)
Amortisation of Rent Advance	9,903	4,739	9,705	851
Net Depreciation	130,759	130,693	122,825	115,293

8.3 Amount recognised in Statement of Cash flows

For the year ended 31st December,	Group		Company	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Advance paid to Right of Use Asset	20,518	8,487	16,722	8,487
Payment of Lease Liabilities	130,835	161,318	121,387	147,090

8.4 Amendment to SLFRS 16 - COVID-19 Related Rent Concessions

The Group has elected to apply the Amendment to SLFRS 16 - COVID-19 Related Rent Concessions issued by the Institute of Chartered Accountants of Sri Lanka and the Group has concluded that all of the following conditions are met as a direct consequence of the COVID-19 pandemic:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30th June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

Accordingly, the Group and Company have recognised rent concessions of Rs. 0.13 Million and Rs. 0.06 Million respectively in Profit or Loss (2020: Group - Rs. 2.1 Million and Company - Rs. 1.2 Million).

8.5 Extension options

Property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

8.6 Maturity Analysis of Right of Use Assets is given in Note 47 on page 327.

8.7 Short-term Leases and Leases of Low-Value Assets

Group has recognised following amounts in respect of Short term and Low value leases in Profit or Loss.

For the year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Short term and Low Value Leases	5,326	4,394	2,856	2,439

8.8 Apportionment of Depreciation between the Company and the Subsidiary

For the year ended 31st December,	Company	
	2021 Rs.'000	2020 Rs.'000
Amount Recognised in Company	71,205	64,240
Amount Transferred to HNB General Insurance Limited	51,620	51,053
Total Depreciation under Right of Use Assets	122,825	115,293

8.9 Lease Creditors

The Details of Lease Creditors in relation to Right of Use Assets are disclosed in Note 29 on page 307.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

ACCOUNTING POLICY

The Group's Intangible Assets include the value of Computer Software.

RECOGNITION AND MEASUREMENT

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard LKAS 38 - Intangible Assets.

Software

Software acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the statement of financial position at cost, less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

SUBSEQUENT EXPENDITURE

Subsequent expenditure on software assets is 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.

USEFUL ECONOMIC LIFE AND AMORTISATION

Amortisation is calculated to write off the cost of intangible assets over their estimated useful lives and is generally recognised in profit or loss. The estimated useful life, residual value and the amortisation method of Intangible Assets for the current and comparative periods are as follows;

Intangible Assets	Useful Economic Life	Residual Value	Amortisation Method
Computer Software	6 Years	Nil	Straight-line basis over the estimated useful life of the software, from the date that it is available for use

Amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Changes in the expected useful life or the expected pattern of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method as appropriate and are treated as changes in accounting estimates.

DE-RECOGNITION

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de- recognition of such Intangible Assets is included in Profit or Loss when the item is de-recognised.

RESEARCH AND DEVELOPMENT COST

Expenditure on research activities is recognised in Profit or Loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in Profit or Loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

9.1 Movement of Intangible Assets

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Computer Software				
Cost				
Balance as at 01st January	284,591	247,888	276,763	245,206
Acquisition/Capitalisation during the Year	16,904	36,703	16,904	31,557
Balance as at 31st December (a)	301,495	284,591	293,667	276,763
Accumulated Amortisation				
Balance as at 01st January	215,733	196,101	214,523	195,376
Amortisation for the Year	22,582	19,632	21,305	19,147
Balance as at 31st December (b)	238,315	215,733	235,828	214,523
Carrying Amount as at 31st December (a-b)	63,180	68,858	57,839	62,240

9.2 Maturity Analysis of Intangible Assets is given in Note 47 on page 327.

9.3 Apportionment of Depreciation between the Company and the Subsidiary

For the year ended 31st December,	Company	
	2021 Rs.'000	2020 Rs.'000
Amount Recognised in Company	16,089	13,281
Amount Transferred to HNB General Insurance Limited	5,216	5,866
Total Depreciation for the year	21,305	19,147

9.4 Acquisition of Intangible Assets during the Year

During the financial year, the Group acquired/Capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 16.9 Million (2020 - Rs. 36.7 Million) where the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 16.9 Million (2020 - Rs. 31.6 Million).

Cash payments of the Group amounting to Rs. 16.9 Million (2020 - Rs. 36.7 Million) were made during the year for purchase of Intangible Assets. Cash payments of the Company amounting to Rs. 16.9 Million (2020 - Rs. 31.6 Million) were made during the year for purchase of Intangible Assets.

9.5 Fully Amortised Intangible Assets in Use

The Group's Intangible Assets includes fully amortised Computer software which are in the use of ordinary course of business activities having initial cost of Rs. 164.7 Million. (2020 - Rs. 156.9 Million)

9.6 Title Restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of the Group as at the reporting date. (2020 - No Title Restriction)

9.7 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at the reporting date. Based on the assessment, no impairment indicators were identified. (2020 - No Impairment of Intangible Assets)

9.8 Amount of Contingent Commitment for acquisition of Intangible Assets

Commitments for the acquisition of Computer Software of the Group is Rs. 22.85 Million as at the reporting date. (2020 - Rs. 13.6 Million)

9.9 Intangible Assets pledged as Security

There were no items of Intangible assets in the Group pledged as securities for liabilities during the year. (2020 - Nil)

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS

ACCOUNTING POLICY

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

NON-DERIVATIVE FINANCIAL ASSETS

INITIAL RECOGNITION OF FINANCIAL ASSETS

The Group initially recognises Loans and Receivables and debt securities issued on the date when they are originated. All other financial assets are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

CLASSIFICATION OF FINANCIAL ASSETS

The Group determines the classification of its financial assets at initial recognition and classifies them into one of the following categories:

1. Held to Maturity (HTM);
2. Loans and Receivables (L&R);
3. Available For Sale (AFS);
4. Fair Value Through Profit or Loss (FVTPL). ; and within this category as,
 - Held for Trading; or
 - Designated at Fair Value Through Profit or Loss ;

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on ability. Financial assets are classified as Fair Value Through Profit or Loss where the Group investment strategy is to manage financial investments on a fair value basis. The Available For Sale and Held to Maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise/de-recognise the asset.

MEASUREMENT OF FINANCIAL ASSETS

Initial and subsequent measurement of each classes of financial assets are disclosed in respective sub-notes.

DE-RECOGNITION OF FINANCIAL ASSETS

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or, when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or, in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position.

On de-recognition 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 consideration received (including any new asset obtained less any new liability assumed) is recognised in Profit or Loss.

De-recognition of each classes of financial assets are disclosed in respective sub-notes.

RE-CLASSIFICATION OF FINANCIAL ASSETS

The Group reclassifies non-derivative financial assets out of the held for trading category and into the AFS, L&R, or HTM categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the AFS category and into the L&R category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset with a fixed maturity reclassified out of the 'AFS' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the Profit or Loss.

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'L&R' category, if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the FVTPL category after initial recognition. Further, the Group does not reclassify any financial instrument out of the FVTPL category if upon initial recognition it was designated as fair value through profit or loss.

IMPAIRMENT OF FINANCIAL ASSETS

Accounting policy for impairment is disclosed in respective notes of these Financial Statements.

NON-DERIVATIVE FINANCIAL LIABILITIES

RECOGNITION AND MEASUREMENT OF FINANCIAL LIABILITIES

The Group classifies non derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise, reinsurance payables, other liabilities and bank overdrafts.

DERECOGNITION

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

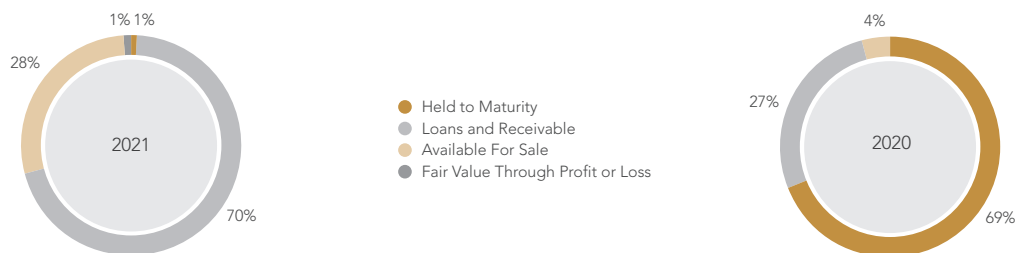
10. FINANCIAL INVESTMENTS (CONTD.)

The following table consists each class of financial investments together with their fair values and carrying values.

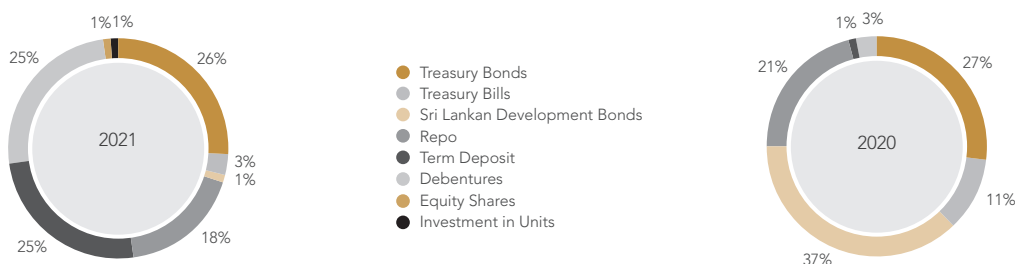
As at 31st December,	Note	Group				Company			
		2021		2020		2021		2020	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Held to Maturity	10.1	313,465	317,803	-	-	313,465	317,803	-	-
Loans and Receivables	10.2	20,246,541	20,290,352	18,252,174	19,449,992	16,953,973	16,999,187	15,060,717	16,157,354
Available For Sale	10.3	8,198,911	8,198,911	7,170,930	7,170,930	7,261,326	7,261,326	6,313,997	6,313,997
Fair Value Through Profit or Loss	10.4	335,168	335,168	943,504	943,504	138,338	138,338	700,551	700,551
Total Financial Investments		29,094,085	29,142,234	26,366,608	27,564,426	24,667,102	24,716,654	22,075,265	23,171,902

Maturity Analysis of Investment Assets is given in Note 47 on page 327.

Financial Investment Analysis Based on Reporting Category



Financial Investment Analysis Based on Asset Classes - Group



10.1 HELD TO MATURITY (HTM)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as Held to Maturity when the Group has the intention and ability to hold until maturity. HTM Financial Instruments are initially measured at fair value inclusive of transaction costs that are directly attributable to acquisition of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Held to Maturity financial assets are measured at amortised cost, using the Effective Interest Rate (EIR), less impairment. The EIR amortisation is included in 'Interest Income' in Profit or Loss.

AMORTISED COST

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.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Treasury Bonds	313,465	317,803	-	-	313,465	317,803	-	-
Total	313,465	317,803	-	-	313,465	317,803	-	-

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

Impairment of Financial Investments at HTM

The Group has not experienced any indication of impairment in respect of HTM financial investments and thus no impairment losses were recognised.

Re-Classification of Financial Investments at HTM

During the year the Group has not re-classified any financial investment under this category.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.2 LOANS AND RECEIVABLES (L & R)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Financial Instruments classified as loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Loans and Receivables are measured at amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Income' in Profit or Loss.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

As at 31st December,	Note	Group				Company			
		2021		2020		2021		2020	
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repo*		5,644,673	5,644,673	2,827,051	2,827,051	4,636,918	4,636,918	2,011,243	2,011,243
Term Deposit	10.2.1	7,214,859	7,252,633	9,942,693	10,399,344	5,936,903	5,974,450	8,143,522	8,566,301
Debentures**	10.2.2	7,204,800	7,210,837	5,448,960	6,190,127	6,339,921	6,347,588	4,902,208	5,576,066
Sri Lanka Development Bonds	10.2.3	182,209	182,209	33,470	33,470	40,231	40,231	3,744	3,744
Total		20,246,541	20,290,352	18,252,174	19,449,992	16,953,973	16,999,187	15,060,717	16,157,354

* HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through number of Bank and Non-Bank Primary Dealers approved by the Central Bank of Sri Lanka (CBSL). During the year, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. Investments in Repos are carried out on DVP/RVP basis. (Delivery versus Payment and Receive versus Payment)

Group has taken appropriate steps to secure these securities received on investments in Repo's through a custodian (Acuity Securities Limited - a related Company) and also by signing Master Repurchase Agreements (MRA) with all Primary Dealing Companies the Group deals with. MRA's provide the investor the ability to recover the money due by selling the collateral securities in the secondary market in the event of a default. As of the reporting date the Group held government securities as Collateral for Repos. Fair Value of such government securities are Rs. 6,117 Million (2020: 3,107 Million).

** Debentures - The Group classifies quoted Corporate Debt under Loans and Receivables category since there is no active market for these instruments even if such instruments are listed.

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

Impairment of Financial Investments at L & R

The Group has not experienced any indication of impairment in respect of L & R financial investments and thus no impairment losses were recognised.

Re-Classification of Financial Investments at L & R

During the year the Group has not re-classified any financial investment under this category.

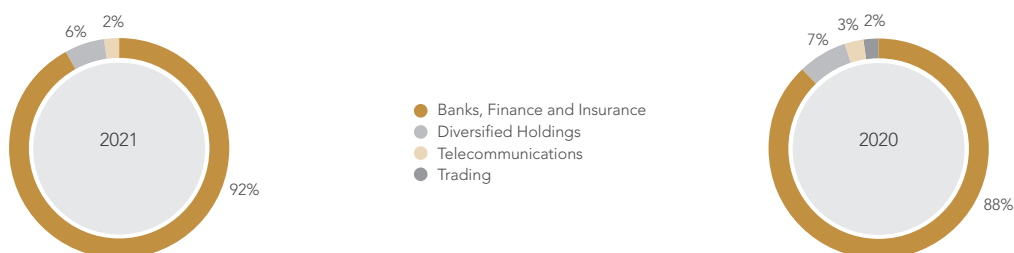
10.2.1 Term Deposits

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Licensed Commercial Banks								
Term Deposits with Related Parties - Hatton National Bank PLC	499,635	499,635	625,063	625,063	230,631	230,631	395,318	395,318
Other Banks	3,558,843	3,538,886	5,212,572	5,318,347	3,068,201	3,050,035	4,247,776	4,351,244
Total (a)	4,058,478	4,038,521	5,837,635	5,943,410	3,298,832	3,280,666	4,643,094	4,746,562
Licensed Specialised Banks	516,834	523,004	1,694,297	1,758,286	516,834	523,004	1,491,938	1,555,927
Total (b)	516,834	523,004	1,694,297	1,758,286	516,834	523,004	1,491,938	1,555,927
Licensed Finance Companies								
Term Deposits with Related Parties - HNB Finance PLC	175,434	176,320	50,076	55,215	175,434	176,320	50,076	55,215
Other Finance Companies	2,464,113	2,514,788	2,360,685	2,642,433	1,945,803	1,994,460	1,958,414	2,208,597
Total (c)	2,639,547	2,691,108	2,410,761	2,697,648	2,121,237	2,170,780	2,008,490	2,263,812
Total Investment In Term Deposit (a+b+c)	7,214,859	7,252,633	9,942,693	10,399,344	5,936,903	5,974,450	8,143,522	8,566,301

10.2.2 Debentures

As at 31st December,	Note	Group				Company			
		2021		2020		2021		2020	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Debentures - Quoted	10.2.2.a	6,344,050	6,396,573	5,031,857	5,736,380	5,594,508	5,641,301	4,516,929	5,157,523
Debentures - Unquoted	10.2.2.b	860,750	814,264	417,103	453,747	745,413	706,287	385,279	418,543
Total Investment In Debentures		7,204,800	7,210,837	5,448,960	6,190,127	6,339,921	6,347,588	4,902,208	5,576,066

Debenture Composition - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.2.2.a Debentures - Quoted

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Banks, Finance and Insurance								
Bank of Ceylon	-	-	40,044	42,504	-	-	40,044	42,504
Commercial Bank of Ceylon PLC	200,557	202,541	230,116	267,935	160,777	161,590	190,336	223,992
DFCC Bank PLC	1,198,566	1,224,763	1,208,743	1,408,984	1,154,728	1,179,601	1,164,904	1,360,790
Hatton National Bank PLC	240,113	222,812	268,725	290,147	240,113	222,812	268,725	290,147
National Development Bank PLC	830,152	832,720	312,568	348,061	710,501	712,917	243,519	271,602
Nations Trust Bank PLC	550,334	565,650	608,161	692,153	513,507	527,605	571,334	651,476
Sampath Bank PLC	600,139	627,266	600,139	678,432	544,293	568,128	544,293	613,882
Seylan Bank PLC	362,420	364,451	281,156	309,673	287,915	289,669	229,501	252,462
Commercial Leasing and Finance PLC	277,612	272,075	277,612	305,011	215,920	211,614	215,920	237,231
First Capital Holdings PLC	316,250	300,374	-	-	239,911	227,867	-	-
HNB Finance PLC	125,090	129,631	125,090	146,315	125,090	129,631	125,090	146,315
LB Finance PLC	17,125	17,610	17,124	18,847	9,066	9,323	9,066	9,978
LOLC Holdings PLC	731,189	741,008	290,932	356,231	641,190	647,472	238,980	292,618
People's Leasing & Finance PLC	352,923	335,350	122,068	132,231	279,157	264,786	95,070	102,652
Siyapatha Finance PLC	16,548	17,414	41,898	45,627	16,548	17,414	41,898	45,627
Sector Total (a)	5,819,018	5,853,665	4,424,376	5,042,151	5,138,716	5,170,429	3,978,680	4,541,276
Diversified Holdings								
Hayleys PLC	376,920	391,025	376,870	421,889	307,680	318,989	307,638	343,907
Sector Total (b)	376,920	391,025	376,870	421,889	307,680	318,989	307,638	343,907
Telecommunications								
Sri Lanka Telecom PLC	148,112	151,883	148,112	186,424	148,112	151,883	148,112	186,424
Sector Total (c)	148,112	151,883	148,112	186,424	148,112	151,883	148,112	186,424
Trading								
Singer (Sri Lanka) PLC	-	-	82,499	85,916	-	-	82,499	85,916
Sector Total (d)	-	-	82,499	85,916	-	-	82,499	85,916
Total Investment In Quoted Debentures (a+b+c+d)	6,344,050	6,396,573	5,031,857	5,736,380	5,594,508	5,641,301	4,516,929	5,157,523

10.2.2.b Debentures - Unquoted

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Banks, Finance and Insurance								
DFCC Bank PLC	260,976	259,864	260,974	288,675	229,149	228,174	229,150	253,471
People's Bank	156,129	149,122	156,129	165,072	156,129	149,122	156,129	165,072
Nations Trust Bank PLC	443,645	405,278	-	-	360,135	328,991	-	-
Total Investment In Unquoted Debentures	860,750	814,264	417,103	453,747	745,413	706,287	385,279	418,543

10.2.3 Sri Lanka Development Bonds

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Year of Maturity								
2021	-	-	3,777	3,777	-	-	1,888	1,888
2022	182,209	182,209	29,693	29,693	40,231	40,231	1,856	1,856
Total Investment in Sri Lanka Development Bonds	182,209	182,209	33,470	33,470	40,231	40,231	3,744	3,744

10.3 Available For Sale (AFS)

ACCOUNTING POLICY

INITIAL MEASUREMENT

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 need for liquidity or in response to changes in the market conditions. AFS Financial Instruments are initially measured at fair value plus transaction costs that are directly attributable to acquisition.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Available For Sale financial assets are measured at fair value, with unrealised gains or losses recognised through Other Comprehensive Income (OCI) in the Available For Sale reserve.

Fair value changes of Available For Sale financial assets of life insurance related assets are included under life policyholders' Available For Sale reserve fund through OCI in equity. Refer Note 22.

Interest earned whilst holding Available For Sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available For Sale investments are recognised in Profit or Loss as 'Dividend Income' when the right of the payment has been established.

DE-RECOGNITION

When the asset is de-recognised, the cumulative gain or loss is recycled to Profit or Loss as 'Realised gains or losses'.

As at 31st December,	Note	Group				Company			
		2021		2020		2021		2020	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Treasury Bonds		7,375,342	7,375,342	7,120,330	7,120,330	6,636,808	6,636,808	6,263,397	6,263,397
Treasury Bills		746,686	746,686	-	-	547,635	547,635	-	-
Equity Shares	10.3.1	76,883	76,883	50,600	50,600	76,883	76,883	50,600	50,600
Total		8,198,911	8,198,911	7,170,930	7,170,930	7,261,326	7,261,326	6,313,997	6,313,997

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

Impairment of Financial Investments at AFS

If the asset is determined to be impaired, the cumulative loss is recognised in the Profit or Loss and removed from the Available For Sale reserve.

At the reporting date Group has not recognised any impairment losses for equity instruments (2020 - Rs. 2.5 Million). Refer Note 37 of these Financial Statements.

The Group has not experienced any indication of impairment for debt instruments, categorised under AFS. Hence, no impairment is recognised for such instruments.

Re-Classification of Financial Investments at AFS

During the year Group has not re-classified any financial investment under this category.

10.3.1 Equity Shares

As at 31st December,	Group						Company					
	2021			2020			2021			2020		
	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value
	Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000	
Banks, Finance and Insurance												
Seylan Bank PLC (Non-Voting)	298,359	12,259	9,935	278,729	11,827	9,783	298,359	12,259	9,935	287,729	11,827	9,783
Sampath Bank PLC	124,146	7,220	6,468	41,382	7,220	5,611	124,146	7,220	6,468	41,382	7,220	5,611
Central Finance Company PLC	142,285	17,090	13,233	140,201	16,921	11,637	142,285	17,090	13,233	140,201	16,921	11,637
Sector Total (a)			29,636			27,031			29,636			27,031
Diversified Holdings												
Melstacorp PLC	39,532	2,343	2,218	39,532	2,343	2,056	39,532	2,343	2,218	39,532	2,343	2,056
Sector Total (b)			2,218			2,056			2,218			2,056
Manufacturing												
Tokyo Cement Company (Lanka) PLC	71,002	886	4,246	71,002	886	5,410	71,002	886	4,246	71,002	886	5,410
Royal Ceramics Lanka PLC	400,000	4,854	31,240	50,000	6,067	8,855	400,000	4,854	31,240	50,000	6,067	8,855
Sector Total (c)			35,486			14,265			35,486			14,265
Beverage, Food and Tobacco												
Distilleries Company of Sri Lanka PLC	11,713	-	199	11,713	-	240	11,713	-	199	11,713	-	240
Sector Total (d)			199			240			199			240
Land and Property												
Overseas Realty (Ceylon) PLC	486,679	12,453	9,344	486,679	12,453	7,008	486,679	12,453	9,344	486,679	12,453	7,008
Sector Total (e)			9,344			7,008			9,344			7,008
Total Investment In Equity Shares (AFS) (a+b+c+d+e)			76,883			50,600			76,883			50,600

10.4 Fair Value Through Profit or Loss (FVTPL)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Financial assets at Fair Value Through Profit or Loss include financial assets held for trading and those designated upon initial recognition at Fair Value Through Profit or Loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

Financial Instruments classified as FVTPL are initially measured at fair value and transaction cost that are directly attributable to acquisition of such instrument are charged to Profit or Loss.

For investments designated as Fair Value Through Profit or Loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis, or
- Assets and liabilities are part of a Group of financial assets, financial liabilities or both, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group investment strategy.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, these investments are re-measured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in Profit or Loss.

DE-RECOGNITION

Gains and Losses are recognised in Profit or Loss when assets are disposed.

Portfolio of Equity Investments (FVTPL) - Group



As at 31st December,	Note	Group				Company			
		2021		2020		2021		2020	
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Equity Shares	10.4.1	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Investment in Units	10.4.2	141,583	141,583	100,810	100,810	138,338	138,338	98,587	98,587
		193,585	193,585	842,694	842,694	-	-	601,964	601,964
Total		335,168	335,168	943,504	943,504	138,338	138,338	700,551	700,551

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.4.1 Equity Shares

As at 31st December,	Group						Company					
	2021			2020			2021			2020		
	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000
Banks, Finance and Insurance												
Sampath Bank PLC	193,902	12,527	10,102	64,634	12,527	8,764	193,902	12,527	10,102	64,634	12,527	8,764
Nations Trust Bank PLC	91,471	6,258	5,031	91,471	6,258	5,488	91,471	6,258	5,031	91,471	6,258	5,488
People's Leasing & Finance PLC	543,212	9,452	5,812	513,583	9,067	6,368	543,212	9,452	5,812	513,583	9,067	6,368
Seylan Bank PLC - (Non Voting)	382,293	12,547	12,730	368,673	11,994	12,535	382,293	12,547	12,730	368,673	11,994	12,535
Sector Total (a)			33,675			33,155			33,675			33,155
Diversified Holdings												
John Keells Holdings PLC	29,670	3,679	4,451	29,670	3,679	4,439	29,670	3,679	4,451	29,670	3,679	4,439
Richard Pieris and Company PLC	312,851	4,351	7,696	312,851	4,351	4,661	312,851	4,351	7,696	312,851	4,351	4,661
Vallibel One PLC	209,638	4,000	15,220	200,000	3,600	5,200	209,638	4,000	15,220	200,000	3,600	5,200
Melstacorp PLC	55,000	3,260	3,086	55,000	3,260	2,860	55,000	3,260	3,086	55,000	3,260	2,860
Sector Total (b)			30,453			17,160			30,453			17,160
Beverage Food and Tobacco												
Distilleries Company of Sri Lanka PLC	22,222	-	378	22,222	-	456	22,222	-	378	22,222	-	456
Sector Total (c)			378			456			378			456
Manufacturing												
Royal Ceramics Lanka PLC	280,000	4,318	21,868	28,000	4,318	4,959	280,000	4,318	21,868	28,000	4,318	4,959
Dipped Products PLC	334,000	10,355	16,934	38,400	11,906	13,338	270,000	8,371	13,689	32,000	9,921	11,115
ACL Cables PLC	190,400	3,016	19,087	95,200	3,016	7,292	190,400	3,016	19,087	95,200	3,016	7,292
Tokyo Cement Company (Lanka) PLC	320,869	11,938	19,188	320,869	11,938	24,450	320,869	11,938	19,188	320,869	11,938	24,450
Sector Total (d)			77,077			50,039			73,832			47,816
Total Investment In Equity Shares (FVTPL) (a+b+c+d)			141,583			100,810			138,338			98,587

10.4.2 Investments in Units

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	No. of Units	Carrying/Fair Value Rs.'000	No. of Units	Carrying/Fair Value Rs.'000	No. of Units	Carrying/Fair Value Rs.'000	No. of Units	Carrying/Fair Value Rs.'000
Unquoted								
NDB Wealth Money Plus Fund	-	-	9,026,249	211,674	-	-	6,447,170	151,191
JB Vantage Money Market Fund	2,189,530	64,340	7,665,171	210,303	-	-	5,475,641	150,231
Capital Alliance Investment Grade Fund	3,043,832	64,453	10,655,914	210,347	-	-	7,612,082	150,262
Capital Alliance Income Fund	2,934,718	64,792	10,274,098	210,370	-	-	7,339,379	150,280
Total Investment in Unquoted Units (FVTPL)		193,585		842,694		-		601,964

10.5 Movement in the Carrying Values of Financial Investments - Group

	Held to Maturity	Loans and Receivable	Available for Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 01st January 2020	-	14,830,486	6,293,764	77,824	21,202,074
Purchases	-	159,639,585	1,017,696	882,576	161,539,857
Maturities	-	(156,428,562)	(398,714)	-	(156,827,276)
Disposals	-	-	(360,572)	(31,198)	(391,770)
Fair Value Gains/(Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	6,251	(2,516)	13,962	17,697
Amortisation Adjustment/Accrued Interest	-	204,414	(88,515)	-	115,899
Realised Gains Recorded in Profit or Loss	-	-	53,106	340	53,446
Net Fair Value Gains Recorded in Other Comprehensive Income	-	-	656,681	-	656,681
Total as at 31st December 2020	-	18,252,174	7,170,930	943,504	26,366,608
As at 01st January 2021	-	18,252,174	7,170,930	943,504	26,366,608
Purchases	308,476	209,761,021	8,027,685	211,338	218,308,520
Maturities	-	(207,858,495)	(6,043,774)	-	(213,902,269)
Disposals	-	-	(59,335)	(917,614)	(976,949)
Fair Value Gains and Foreign Currency Translation Recorded in Profit or Loss	-	24,457	-	54,508	78,965
Amortisation Adjustment/Accrued Interest	4,989	67,384	17,613	-	89,986
Realised Gains Recorded in Profit or Loss	-	-	9,490	43,432	52,922
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(923,698)	-	(923,698)
Total as at 31st December 2021	313,465	20,246,541	8,198,911	335,168	29,094,085

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.6 Movement in the Carrying Values of Financial Investments - Company

	Held to Maturity	Loans and Receivable	Available for Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 01st January 2020	-	12,065,489	5,634,097	77,824	17,777,410
Purchases	-	110,625,897	759,782	630,591	112,016,270
Maturities	-	(107,828,744)	(351,115)	-	(108,179,859)
Disposals	-	-	(280,155)	(21,112)	(301,267)
Fair Value Gains/(Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	2,509	(2,516)	12,994	12,987
Amortisation Adjustment/Accrued Interest	-	195,566	(77,201)	-	118,365
Realised Gains Recorded in Profit or Loss	-	-	44,655	254	44,909
Net Fair Value Gains Recorded in Other Comprehensive Income	-	-	586,450	-	586,450
Total as at 31 December 2020	-	15,060,717	6,313,997	700,551	22,075,265
As at 01st January 2021	-	15,060,717	6,313,997	700,551	22,075,265
Purchases	308,476	162,739,860	6,473,743	151,338	169,673,417
Maturities	-	(160,949,522)	(4,652,516)	-	(165,602,038)
Disposals	-	-	(59,335)	(794,320)	(853,655)
Fair Value Gains and Foreign Currency Translation Recorded in Profit or Loss	-	9,301	-	40,150	49,451
Amortisation Adjustment/Accrued Interest	4,989	93,617	12,351	-	110,957
Realised Gains Recorded in Profit or Loss	-	-	9,490	40,619	50,109
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(836,404)	-	(836,404)
Total as at 31st December 2021	313,465	16,953,973	7,261,326	138,338	24,667,102

11. INVESTMENT IN SUBSIDIARY - COMPANY

ACCOUNTING POLICY

INITIAL MEASUREMENT

Recognition and measurement

Subsidiaries are entities controlled by the Group. The Group "controls" an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commenced until the date on which control ceases.

Investments in subsidiaries are recognised at cost of acquisition and thereafter it is carried at cost less any impairment losses in the separate Financial Statements of the Company. The net assets of each subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31st December, Unquoted	Principal Activity	2021			2020		
		No. of Shares	Holding	Cost	No. of Shares	Holding	Cost
		Rs.'000			Rs.'000		
HNB General Insurance Limited	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Total Investment In Subsidiary		1,150,000			1,150,000		

The Company incorporated a fully owned Subsidiary, HNB General Insurance Limited on 30th January 2014 in order to transfer the General Insurance business w.e.f. 1st January 2015 to be in line with the requirement to segregate Life and General Insurance businesses as required by the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011.

11.1 Impairment of Investment in Subsidiary

The Board of Directors has assessed the potential impairment loss of Investment in Subsidiary as at 31st December 2021. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of such investment.

12. LOANS TO LIFE POLICYHOLDERS

ACCOUNTING POLICY

Policyholder Loans are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 276 for Accounting Policy of Loans and Receivables.

Policyholder Loans are granted up to 90% of the surrender value of a Life Insurance Policy at a rate equivalent to market rate. Policyholder Loans are initially measured at Fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder demises before the full repayment of the loan, the loan balance is deducted from the death benefit. If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to Policy Loans. Policyholder Loans are reviewed for impairment at each reporting date.

As at 31st December,	Group/Company	
	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	303,481	269,579
Loans Granted during the Year	109,292	120,711
Repayments during the year	(100,298)	(86,809)
Balance as at 31st December	312,475	303,481
Interest Receivable	90,977	76,255
Total Loans to Life Policyholders	403,452	379,736

12.1 Maturity Analysis of Loans to Life Policyholders is given in Note 47 on page 327.

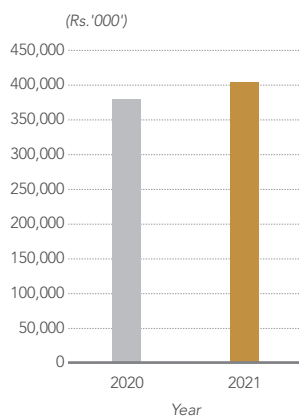
12.2 Collateral Details

The surrender value of the policies for which Policyholder Loans have been granted as at 31st December 2021 amounted to Rs. 677.9 Million (2020 - Rs. 626.7 Million).

12.3 Number of Policyholder Loans

Number of Policy Loans due as at 31st December 2021 was 3,438 (2020 - 3,652).

Loans to Life Policyholders



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

12. LOANS TO LIFE POLICYHOLDERS (CONTD.)

12.4 Fair Value Measurement

The Company grants Policyholder Loans at a rate equivalent to the market rate; hence carrying amount is a reasonable approximation of fair value.

12.5 Impairment Losses on Policyholder Loans

Policyholder Loans are reviewed for impairment at each reporting date. The Board of Directors has assessed the potential impairment loss of Loans to Policyholder Loans as at 31st December 2021. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Policyholder Loans.

12.6 Financial Risk Disclosure on Policyholder Loans

The Group's exposure to interest rate risk of policyholder loans, risk management initiatives and a sensitivity analysis is disclosed in Note 4 of these financial statements.

13. REINSURANCE RECEIVABLES

ACCOUNTING POLICY

Reinsurance Receivables are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 276 for Accounting policy of Loans and Receivables.

The Group cedes insurance risk in the normal course of business with recognised reinsurers through formal reinsurance arrangements.

Reinsurance receivables include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. 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.

Gross Reinsurance is recorded in the Statement of Financial Position unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group 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 Group will receive from the reinsurer. The impairment loss, if any is recorded in Profit or Loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to Policyholders.

Reinsurance assets are de-recognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Reinsurance Receivable on Outstanding Claims	13.3	580,745	491,630	77,128	35,129
Reinsurance Receivable on Settled Claims	13.4	491,461	280,146	239,881	137,570
Total Reinsurance Receivables		1,072,206	771,776	317,009	172,699

13.1 Maturity Analysis of Reinsurance Receivable is given in Note 47 on page 327.

13.2 Collateral Details

The Group does not hold any collateral as security against potential default by reinsurers.

13.3 Reinsurance Receivables on Outstanding Claims

The reinsurance portion of the outstanding claims has not been materialised, since the insurance claim has not been paid as at the reporting date.

13.4 Reinsurance Receivables on Settled Claims

The age analysis of the reinsurance receivable on settled claims is as follows:

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Up to 30 days	76,685	50,028	24,799	9,049
31 to 60 days	49,798	22,310	19,795	2,865
61 to 90 days	37,178	44,657	18,820	24,407
91 to 180 days	95,508	40,794	52,538	26,098
Over 181 days	232,292	122,357	123,929	75,151
Total	491,461	280,146	239,881	137,570

13.5 Fair Value Measurement

The carrying value of reinsurance receivables approximates the fair value at the reporting date.

13.6 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2021. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

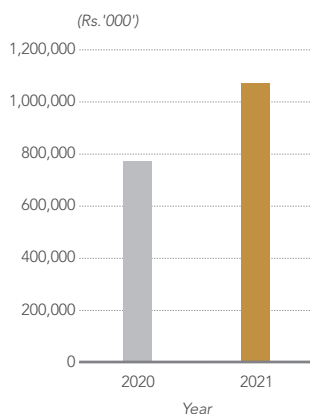
13.6.1 Reinsurance Receivables Past Due but Not Impaired (On Settled Claims)

As at 31 December 2021, Reinsurance Receivables of the Group and Company amounted to Rs. 123 Million and Rs. 77 Million were past due but not impaired respectively (2020 - Group - Rs. 63 Million/Company - Rs. 45 Million). These relate to parties where there was no recent history of default.

13.7 Financial Risk Disclosure on Reinsurance Receivables

Refer Note 4 (Page 219) for Group's exposure to credit risk of reinsurance receivables and risk management initiatives.

Reinsurance Receivables - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

14. PREMIUM RECEIVABLES

ACCOUNTING POLICY

Premium Receivables are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 276 for Accounting policy of Loans and Receivables.

Premium Receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of Premium Receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in Profit or Loss.

Life Insurance premiums for policies within the 30-day grace period are considered as due premium, except for group life which is considered up to 90 days subject to a provision for premium default. Premium Default Ratio is computed by analysing the default history. Premium will be reversed if those premiums are not settled during the stipulated time, and thus the policies will be lapsed as per the Company policy.

Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) ruling issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), all General Insurance policies are issued subject to PPW and are cancelled upon the expiry of 60-days if not settled.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Premium Receivable From;					
Life Insurance					
Policyholders		12,342	10,007	12,342	10,007
Provision for Impairment loss on Premium Default		(4,520)	(5,019)	(4,520)	(5,019)
		7,822	4,988	7,822	4,988
General Insurance					
Policyholders		623,478	545,523	-	-
Related Parties	14.1	10,350	1,004	-	-
Agents, Brokers and Intermediaries		606,347	560,079	-	-
		1,240,175	1,106,606	-	-
Total	14.2	1,247,997	1,111,594	7,822	4,988

14.1 Premium Receivable from Related Parties

As at 31st December,		Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
General Insurance					
Hatton National Bank PLC		65	56	-	-
HNB Finance PLC		9,506	397	-	-
Acuity Stockbrokers (Pvt) Ltd		188	83	-	-
Acuity Partners (Pvt) Ltd		307	304	-	-
Acuity Securities Ltd		284	164	-	-
Total		10,350	1,004	-	-

14.2 Age Analysis of Premium Receivables

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Life Insurance				
Up to 30 days	5,106	4,988	5,106	4,988
31 to 60 days	2,337	-	2,337	-
Over 60 days	379	-	379	-
	7,822	4,988	7,822	4,988
General Insurance				
Up to 30 days	912,346	807,974	-	-
31 to 60 days	327,829	298,632	-	-
	1,240,175	1,106,606	-	-
Total Premium Receivables	1,247,997	1,111,594	7,822	4,988

14.3 Maturity Analysis of Premium Receivable is given in Note 47 on page 327.

14.4 Collateral Details

The Group does not hold any collateral as security against potential default by Policyholders.

14.5 Fair Value Measurement

Carrying value of premium receivable is approximation of fair value due to short-term nature.

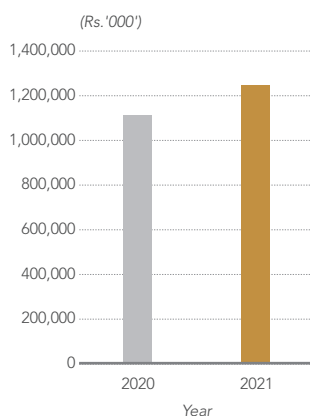
14.6 Provision for Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivable as at 31st December 2021. Since the subsidiary company has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Regulatory Commission of Sri Lanka, no long outstanding balances are left in Premium Receivables. Thus, there is no need for an additional impairment loss provision other than amounts provided.

14.7 Financial Risk Disclosure on Premium Receivables

Refer Note 4 (Page 219) for Group's exposure to credit risk of Premium Receivables and risk management initiatives.

Premium Receivables - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

15. OTHER ASSETS

ACCOUNTING POLICY

STAFF AND ADVISOR LOANS

Staff Loans and Advisor Loans are recognised as financial assets and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 276 for Accounting policy of Loans and Receivables.

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criteria. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

INVENTORIES

Inventories include all consumable items which are stated at lower of cost and net realisable value.

OTHER ASSETS

All Other Assets including Receivables and dues from Related Parties are recognised at cost less accumulated impairment losses.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Financial Assets					
Staff and Advisor Loans	15.2	324,786	449,423	176,032	248,130
Amounts due from Related Parties- HNB General Insurance Limited		-	-	13,548	7,286
Co - Insurance Receivables		9,270	8,216	-	-
Total Financial Assets (a)		334,056	457,639	189,580	255,416
Non-Financial Assets					
Advance Payments		186,838	165,095	114,161	108,075
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	15.3	214,232	227,331	198,351	211,175
Inventories		3,386	3,610	1,314	1,652
Other Receivables		9,434	10,739	4,122	6,003
Total Non-Financial Assets (b)		413,890	406,775	317,948	326,905
Total Other Assets (a+b)		747,946	864,414	507,528	582,321

15.1 Maturity Analysis of Other Assets is given in Note 47 on page 327.

Other Assets Composition - Group



15.2 Staff and Advisor Loans

Loans to Staff and Advisor portfolio mainly consists of vehicle loans (95%) which are given to selected categories of Staff and Advisors. These loans are secured with guarantors, mortgage or promissory note. Movement of these loans are given in below table.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Staff Loans	15.2.a	296,242	405,961	148,519	208,639
Advisor Loans	15.2.b	28,544	43,462	27,513	39,491
Total		324,786	449,423	176,032	248,130

15.2.a Staff Loans

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		397,403	388,050	202,659	205,254
Loans granted during the year		102,926	193,846	46,546	94,930
Loans Recovered during the year		(212,890)	(184,493)	(105,264)	(97,525)
		287,439	397,403	143,941	202,659
Allowance for Impairment Losses	15.2.a.2	(3,071)	(6,287)	(2,353)	(2,400)
Fair Value Adjustment on Staff Loan		11,874	14,845	6,931	8,380
Balance as at 31st December		296,242	405,961	148,519	208,639

15.2.a.1 No loans have been granted to the Directors of the Group.

15.2.a.2 Allowance for Impairment Movement of Staff Loans

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	(6,287)	(3,256)	(2,400)	(1,506)
Reversal/(allowance) for Impairment Losses	3,216	(3,031)	47	(894)
Balance as at 31st January	(3,071)	(6,287)	(2,353)	(2,400)

15.2.b Advisor Loans

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		44,249	60,261	40,169	55,006
Loans granted during the year		44,346	55,590	41,967	51,378
Loans Recovered during the year		(59,229)	(71,602)	(53,800)	(66,215)
		29,366	44,249	28,336	40,169
Allowance for Impairment Losses	15.2.b.1	(703)	(753)	(670)	(720)
Fair Value Adjustment on Advisor Loan		(119)	(34)	(153)	42
Balance as at 31st December		28,544	43,462	27,513	39,491

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

15. OTHER ASSETS (CONTD.)

15.2.b.1 Allowance for Impairment Movement of Advisor Loans

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	(753)	(700)	(720)	(667)
Reversal/(allowance) for Impairment Losses	50	(53)	50	(53)
Balance as at 31st December	(703)	(753)	(670)	(720)

15.2.c Fair Value Measurement

The carrying value of the Staff and Advisor loans has been computed based on the market interest rates which prevailed at the time of granting such loan, and the fair value of the same has been computed based on the interest rates prevailed as at the reporting date.

15.2.d Impairment Losses on Staff and Advisor Loans

The Board of Directors has assessed potential impairment loss of Staff and Advisor loans as at 31st December 2021. Based on the assessment, no additional impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Staff and Advisor loans, other than the amounts provided.

15.2.e Collateral Details

Loans of Staff and Advisor portfolio mainly consists of vehicle loans which are given to selected categories of Staff and Advisors. These loans are secured with guarantors, mortgage or promissory note.

15.2.f. Financial Risk Disclosure on Staff and Advisor Loans

Refer Note 4 (Page 219) for Group's exposure to credit risk of Staff and Advisor Loans and risk management initiatives.

15.3 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Withholding Tax Recoverable	214,232	225,924	198,351	209,768
Value Added Tax Recoverable	-	1,407	-	1,407
Balance as at 31st December	214,232	227,331	198,351	211,175

15.4 The Value of inventories written off by the Group and Company as an expense amounted to Rs. 21.4 Million for the Financial Year 2021. (2020 - 0.6 Million)

16. INSURANCE CONTRACT - DEFERRED EXPENSES

ACCOUNTING POLICY

DEFERRED ACQUISITION COSTS (DAC)

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenue earned.

In accordance with the available regulatory guidelines of the IRCSL, the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The DAC for reinsurers is amortised in the same manner as the underlying asset and amortisation is recorded in the statement of Profit or Loss.

An impairment review of DAC 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 Profit or Loss.

DAC is de-recognised when the related contracts are either settled or cancelled.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 01st January		253,586	237,571	-	-
Increase in Deferred Acquisition Expenses	43.1	6,828	16,015	-	-
Balance as at 31st December (a)		260,414	253,586	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 01st January		(89,967)	(98,949)	-	-
(Increase)/Decrease in Deferred Reinsurance commission	43.1	(12,737)	8,982	-	-
Balance as at 31st December (b)		(102,704)	(89,967)	-	-
Total Insurance Contract - Deferred Expenses (a+b)		157,710	163,619	-	-

16.1 Maturity Analysis of Deferred Expenses is given in Note 47 on page 327.

16.2 Impairment of Deferred Expenses

The Board of Directors has assessed potential impairment loss of deferred expenses as at 31st December 2021. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

17. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and Cash Equivalents comprise cash in hand, cash at bank, demand deposits and Short-Term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, which form an integral part of cash management, are included as a component of Cash and Cash Equivalents in the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
17.1 Cash and Cash Equivalents				
Cash in Hand	2,617	2,463	1,850	1,696
Cash at Bank with Related Parties - Hatton National Bank PLC	560,157	684,642	333,220	382,135
Cash at Bank with Related Parties - HNB Finance PLC	139	66	139	66
Cash at Bank with Other Licensed Commercial Banks & Financial institutions	25,997	23,940	6,788	9,625
	588,910	711,111	341,997	393,522
Short Term Deposits				
Short term Deposits with Commercial Banks and Financial institutions	1,523,835	-	1,233,934	-
Total Cash and Cash Equivalents in Statement of Financial Position (a)	2,112,745	711,111	1,575,931	393,522
17.2 Bank Overdrafts				
Bank Overdrafts with Related Parties - Hatton National Bank PLC	(111,665)	(124,305)	(53,364)	(53,904)
Total Bank Overdrafts (b)	(111,665)	(124,305)	(53,364)	(53,904)
Total Cash and Cash Equivalents in Statement of Cash flows (a+b)	2,001,080	586,806	1,522,567	339,618

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND CASH EQUIVALENTS (CONTD.)

17.3 Maturity Analysis of Cash and Cash Equivalents is given in Note 47 on page 327.

17.4 Cash Pledged as Security for Liabilities

Company

The Company has obtained Bank Guarantee facilities from Hatton National Bank PLC for sum of Rs. 118.81 Million (2020: Rs. 26.69 Million), being the 25% of sum assessed by the Commissioner General of Inland Revenue. This facility was secured against Cash/fixed deposits.

Subsidiary

The subsidiary company has obtained performance bond for sum of Rs. 0.9 Million (2020: Rs. 0.9 Million) and bid bonds for sum of Rs. 4.3 Million (2020: Rs. 3.1 Million) from Hatton National Bank PLC. This was secured by equivalent cash margin lying to the credit in the account No. 701020060189.

18. STATED CAPITAL

ACCOUNTING POLICY

The Company has issued Ordinary shares that are classified as equity instruments. Ordinary shares of the Company are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	No. of Shares	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	150,000,000	1,171,875	1,171,875	1,171,875	1,171,875
Balance as at 31st December	150,000,000	1,171,875	1,171,875	1,171,875	1,171,875

Stated Capital of the Company as at 31 December 2021 was Rs. 1,171,875,000 comprising 150,000,000 fully paid ordinary shares. (2020: Stated Capital - Rs. 1,171,875,000, No. of Shares – 150,000,000).

At the meeting of the Board of Directors of the Company held on 5th November 2020, the Board of Directors approved a subdivision of the Company shares, whereby one (1) existing share was sub divided to three (3), thereby increasing the ordinary shares in issue from 50,000,000 to 150,000,000 ordinary shares. This has not altered the stated capital of the Company. Subdivision was based on the shareholding as at end of trading on 1st December 2020.

18.1 Rights of Ordinary Shareholders

The shares of HNB Assurance PLC are quoted in the Colombo Stock Exchange-Main Board. All issued shares are fully paid. The Ordinary Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

19. RETAINED EARNINGS

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		5,841,032	4,965,809	4,968,314	4,544,369
Profit for the Year		1,223,648	1,175,223	1,000,499	723,945
Dividend Paid to Equity Holders	46	(420,000)	(300,000)	(420,000)	(300,000)
Balance as at 31st December		6,644,680	5,841,032	5,548,813	4,968,314

20. AVAILABLE FOR SALE RESERVE

	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
As at 31st December,				
Balance as at 01st January	93,754	24,801	15,626	9,881
Other Comprehensive Income for the Year	(914,969)	649,658	(836,404)	586,450
Transferred to Life Policyholders Reserve Fund	825,224	(580,705)	825,224	(580,705)
Balance as at 31st December	4,009	93,754	4,446	15,626

20.1 Nature and Purpose of Reserve

Available For Sale Reserve comprise of the impact arising from the changes in market values of financial assets classified under the category of Available For Sale.

21. OTHER RESERVE

	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
As at 31st December,				
Balance as at 01st January	(51,520)	(6,525)	(33,916)	(6,514)
Actuarial Gains/(Losses) - Gratuity	40,099	(44,995)	27,302	(27,402)
Balance as at 31st December	(11,421)	(51,520)	(6,614)	(33,916)

21.1 Nature and Purpose of Reserve

Other Reserves comprises of the actuarial gains/(losses) arising from valuation of gratuity liability as required by LKAS 19 - "Employee Benefits".

22. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
As at 31st December,				
Balance as at 01st January	757,933	177,228	757,933	177,228
Other Comprehensive Income for the Year	(825,224)	580,705	(825,224)	580,705
Balance as at 31st December	(67,291)	757,933	(67,291)	757,933

22.1 Nature and Purpose of Reserve

The Life Policyholders' Available For Sale Reserve Fund includes the fair value gains/(losses) recorded under Other Comprehensive Income arising from life insurance related financial assets categorised under Available For Sale.

23. RESTRICTED REGULATORY RESERVE

	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
As at 31st December,				
Balance as at 31st December	381,156	381,156	381,156	381,156

23.1 Surplus Created due to Change in Valuation Method

As required by the IRCSL, every registered insurer was required to apply Solvency Margin (Risk Based Capital) Rules with effect from 1st January 2016. According to the Risk Based Capital rules, all Insurers are required to value Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and valuation rules and methodologies stipulated by the IRCSL. The change in the valuation method from NPV to GPV resulted in a release in Life Policyholder Liabilities of the Company as of 1st January 2016.

The IRCSL had directed insurance Companies to maintain this One-off Surplus arising from change in the policy liability valuation within the Long-Term Insurance Fund/Insurance Contract Liabilities separately in the name of "Surplus created due to change in valuation method from NPV to GPV" and not to transfer/distribute any part of the surplus until specific instructions are issued in this regard.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

23. RESTRICTED REGULATORY RESERVE (CONTD.)

Description	Participating	Non -	Total
	Fund	Participating	Fund
	Rs.'000	Rs.'000	Rs.'000
Value of Insurance contract liability based on NPV as at 31st December 2015 (a)	2,988,500	3,856,964	6,845,464
Value of Insurance contract liability based on GPV 31st December 2015 (b)	3,015,001	3,475,808	6,490,809
Zeroisation of Negative Surplus as per Direction No.16 (c)	26,501	-	26,501
Surplus Created due to Change in Valuation Method - One-Off Surplus as at 1st January 2016 (a-b+c)	-	381,156	381,156

Subsequently the IRCSL, through the Direction No 16 issued on 20th March 2018 on "Directions for identification and treatment of One-Off Surplus" Life Insurance Companies were directed to Transfer One-Off Surplus attributable to Policyholders' Non-Participating Fund to Shareholders' Fund in the relevant period. The transfer has been presented as a separate line item in the Profit or Loss as "Change in contract Liability due to transfer of One-Off Surplus" and as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with Direction. As required by the said Direction, the Company received the approval of the IRCSL for this transfer on 11th May 2018.

Further, distribution of One-Off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released as dividends upon receiving approval from the IRCSL. The One-Off surplus in the Shareholders' Fund will remain invested in Term deposits as disclosed in Note No. 23.2 as per the directions of IRCSL.

The Financial ratios presented in these Annual Financial Statements have been determined in accordance with Sri Lanka Accounting Standards. Additionally, the Company has voluntarily presented financial ratios without One-Off surplus impact. As per the Direction One-Off Surplus in respect of participating business is to be held within the participating fund as part of the unallocated valuation surplus and may only be transferred to the Shareholders' Fund by means of bonuses to policyholders in line with Section 38 of the "Regulation of Insurance Industry, Act No. 43 of 2000".

23.2 Composition of Investments Supporting the Restricted Regulatory Reserve

Based on the Direction issued by IRCSL following Instruments have been marked to support the Restricted Regulatory Reserve of the Company.

As at 31st December,	Group/Company	
	2021	2020
Asset Category	Fair Value	Fair Value
	Rs.'000	Rs.'000
Term Deposits	396,174	384,662

23.3 Distribution of One-Off Surplus

The IRCSL will consider the distribution of One-Off Surplus when the RBC rules are revised. The distribution of one-off surplus to shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below. Further these policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by the IRCSL from time to time.

- Expense allocation policy setting out basis of allocation of expenses between the Shareholders' Fund and the Policyholders' Fund as well as between different lines of business within the Policyholders' Fund, particularly Participating and Non-participating.
- Dividend declaration policy for universal life business.
- Bonus policy for the participating business, which should include treatment of One-Off Surplus for the purpose of bonus declaration.
- Asset Liability Management policy.
- Policy on internal target Capital Adequacy Ratio.
- Considerations for transfer of funds from Policyholders' Fund to Shareholders' Fund.

24. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE

ACCOUNTING POLICY

INSURANCE PROVISION - LIFE INSURANCE

BASIS OF RECOGNITION AND MEASUREMENT

Life Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expense, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

Refer Note 2.2.3.7 and 2.6 for Discretionary participation features (DPF) and product classifications respectively.

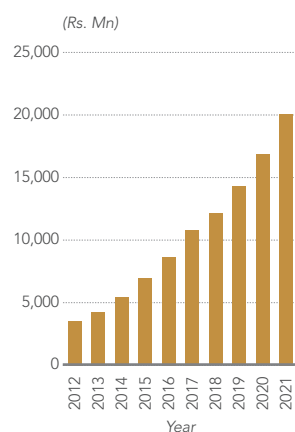
DE-RECOGNITION

The liability is de-recognised when the contract expires, discharged or cancelled. At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a Liability Adequacy Test.

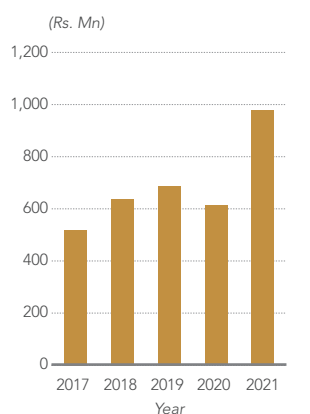
LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 - Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance Contract Liabilities with the assistance of an External Actuary. In performing the LAT, 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. Number of valuation techniques are applied including discounting cash flows, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is sufficient to meet future benefits and expenses.

Insurance Contract Liabilities - Life Fund



Surplus distribution to shareholders



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (CONTD.)

As at 31st December,	Note	Group/Company					
		2021			2020		
		Participating	Non - Participating	Total	Participating	Non - Participating	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Insurance Contract Liabilities							
Life Insurance Fund	24.1	4,322,060	15,740,475	20,062,535	4,301,910	12,531,140	16,833,050
Claims Outstanding		51,739	228,483	280,222	62,823	168,216	231,039
Total Insurance Contract Liabilities - Life Insurance		4,373,799	15,968,958	20,342,757	4,364,733	12,699,356	17,064,089

24.1 Life Insurance Fund - Composition and Movement

As at 31st December,	Note	2021			2020		
		Gross Insurance Contract Liabilities	Reinsurance	Net Insurance Contract Liabilities	Gross Insurance Contract Liabilities	Reinsurance	Net Insurance Contract Liabilities
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January		17,192,529	(359,479)	16,833,050	14,450,559	(181,377)	14,269,182
Premiums received/Reinsurance expenses		7,091,470	(355,537)	6,735,933	5,487,039	(265,164)	5,221,875
Liabilities released for payments on Death, Surrender and Other terminations in the year		(1,851,246)	205,157	(1,646,089)	(1,556,535)	62,354	(1,494,181)
Net Finance and Other Income		1,948,031	45,934	1,993,965	1,811,515	9,022	1,820,537
Expenses		(2,878,619)	24,166	(2,854,453)	(2,375,545)	15,686	(2,359,859)
Increase in Life Insurance Fund Before Surplus							
Distribution to Shareholders		4,309,636	(80,280)	4,229,356	3,366,474	(178,102)	3,188,372
Surplus Distributed to Shareholders		(980,000)	-	(980,000)	(612,203)	-	(612,203)
Increase in Life Insurance Fund		3,329,636	(80,280)	3,249,356	2,754,271	(178,102)	2,576,169
Effect of Taxation on surplus/Bonus transferred to Policyholders	24.4	(19,871)	-	(19,871)	(12,301)	-	(12,301)
Balance as at 31st December		20,502,294	(439,759)	20,062,535	17,192,529	(359,479)	16,833,050

24.2 Maturity Analysis of Life Insurance Fund is given in Note 47 on page 327.

24.3 Valuation of Life Insurance Fund

The valuation of the Life Insurance fund as at 31st December 2021 was carried out by the Appointed Actuary, Mr. Abhishek Chadha, FIA, FIAI for and on behalf of Willis Towers Watson India Private Limited (2020 - valuation was carried out by Mr. Hassan Scott Odierno, FSA, for and on behalf of Ms. Actuarial Partners Consulting Sdn Bhd). Valuation of Life Insurance fund is performed on a semi-annual basis. According to the Appointed Actuary's report, the reserve for the year amounted to Rs. 19,706 Million (2020 - Rs. 16,779 Million). In opinion of the Appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance fund.

As recommended by the Appointed Actuary a sum of Rs. 980 Million (2020 - Rs. 612.2 Million) has been transferred from the Life Insurance Fund to the Shareholders' Fund for the year 2021. Refer paragraph 6 of the Actuarial report provided in page 192.

24.4 Effects of Taxation on Surplus/Bonus Transferred to Policyholders

According to the section 67 (2) of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, the surplus distributed to a life insurance policyholder who shares the profit of a person engaged in the business of life insurance, as provided in the Regulation of Insurance Industry Act No. 43 of 2000, shall be deemed as gains and profits of the business and shall be taxed at a concessionary rate of 14% for three years of assessment after the commencement of the Act. However, due to completion of stipulated concessionary period, Company will be liable to tax at the rate of 24% on bonus/surplus transferred to policyholders from the year 2021 onwards. As recommended by the Appointed Actuary, (Refer paragraph 6 of the Actuarial report provided in page 192) the Company declared a bonus of Rs. 82.8 Million (2020- Rs. 87.9 Million) to Life Insurance policyholders, participating in the profits of the Life Insurance business. The Company has charged a tax of Rs. 19.87 Million (2020 - Rs. 12.3 Million) on the said bonus which is payable to the Department of Inland Revenue as of the reporting date. Refer paragraph 7 of the Actuarial report provided in page 192.

24.5 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for Life Insurance contract Liability was carried out by Mr. Abhishek Chadha, FIA, FIAI on behalf of Willis Towers Watson India Private Limited, as at 31st December 2021 as required by SLFRS 4 - Insurance Contracts (2020 - valuation was carried out by Mr. Hassan Scott Odierno, FSA, for and on behalf of Messrs Actuarial Partners Consulting Sdn Bhd). When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. According to the Appointed Actuary's Report, assets are sufficiently adequate as compared to the discounted cash flow reserves. No additional provision was required against the LAT as at 31st December 2021. Refer paragraph 8 of Actuarial Report provided by the Appointed Actuary for LAT in page 192.

24.6 Methodology used in determination of Market Value of Liability

A discounted cash flow approach, equivalent to a gross premium valuation methodology, has been used for calculating the liabilities for the existing business as at 31st December 2021. Gross and net of reinsurance liabilities have been calculated as required in the RBC submission template. In determining the policy liabilities provisions for reinsurance have been allowed for according to the applicable reinsurance terms as per the current agreements.

In accordance with the RBC guidelines, negative policy reserves for long term insurance contracts are acceptable and the value of the liabilities held have been floored to zero at a policy level for Privileged Life, riders attaching to Privileged Life product, Supreme Health Max rider and Super CI rider attaching to all base products.

There are no implicit or explicit surrender value floor has been assumed for the value of liabilities for a contract. Instead, in accordance with the guidelines, the impact of surrender value deficiency is captured in the risk charge capital calculation through the Surrender Value Capital Charge (SVCC).

24.6.1 Details of calculation of policy liability and net cash flows are provided in following table for each class of products;

Details of product category	Basis of determinants of policy liability	Basis of calculating Net Cash flows
Individual traditional Non-Participating products	Discounting "Net Cash Flows" at the risk free interest rate curve	Future Premium Income (-) Death benefit Outgo (+) Rider benefit Outgo (+) Surrender benefit Outgo (+) Maturity benefit Outgo (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Individual traditional Participating products	Max (Guaranteed benefit liability, Total benefit liability)	Same as above
individual universal Non-Participating products	Privileged Life Product-Discounting "Net Cash Flows" at the risk free interest rate curve Products except Privileged Life- Max (Discounting "Net Cash Flows" at the risk free interest rate curve, Fund Value)	Future Premium Income (-) Death benefit Outgo inclusive of dividend accumulations (+) Rider benefit Outgo (+) Surrender benefit Outgo inclusive of dividend accumulations (+) Maturity benefit Outgo inclusive of dividend accumulations (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Group Traditional Non-participating products	Policy liability has been set equal to UPR	Not Applicable

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (CONTD.)

24.7 Key Assumptions Used in determinations of Best Estimate Liability (BEL)

Details of key assumptions used and basis of arriving for the same are summarised in following table;

Assumption	Basis of Estimation																						
Economic Assumption																							
Risk Free Rate	The risk free rates have been set based on Sri Lankan Government Bond yields issued by IRCSL for the industry as at 31st December 2021. <table border="1"> <thead> <tr> <th>Year</th> <th>Spot Rate</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>8.20%</td> </tr> <tr> <td>2</td> <td>8.86%</td> </tr> <tr> <td>3</td> <td>9.51%</td> </tr> <tr> <td>4</td> <td>10.87%</td> </tr> <tr> <td>5</td> <td>11.45%</td> </tr> <tr> <td>6</td> <td>11.71%</td> </tr> <tr> <td>7</td> <td>12.18%</td> </tr> <tr> <td>8</td> <td>12.34%</td> </tr> <tr> <td>9</td> <td>12.60%</td> </tr> <tr> <td>10 onwards</td> <td>11.88%</td> </tr> </tbody> </table>	Year	Spot Rate	1	8.20%	2	8.86%	3	9.51%	4	10.87%	5	11.45%	6	11.71%	7	12.18%	8	12.34%	9	12.60%	10 onwards	11.88%
Year	Spot Rate																						
1	8.20%																						
2	8.86%																						
3	9.51%																						
4	10.87%																						
5	11.45%																						
6	11.71%																						
7	12.18%																						
8	12.34%																						
9	12.60%																						
10 onwards	11.88%																						
Participating Fund Yield	Based on the weighted average of projected asset mix and based on the expected yields for various asset types.																						
Operating Assumptions																							
Mortality Rate	Experience calibrated for the best estimate assumptions of mortality and morbidity is based on mortality rates and reinsurance morbidity rates.																						
Morbidity Rates																							
Expenses	Best estimate expense assumption is based on the Company specific expenses. For the purpose of the expense study, a functional split of expenses between acquisition or maintenance costs have been identified. These have been further identified as either fixed or variable based on the nature of expenses to determine a unit cost loading for use in the valuation.																						
Expense inflation	This is derived based on the weighted salary increment experience and the CPI inflation for non-salary expense items.																						
Bonus Rates	Bonus rate scale assumption has been arrived based on bonus declared for the latest year, based on the Company management's views on policyholder reasonable expectations. This assumes that Company is at least expecting to maintain the current bonus levels into the future.																						
Lapse Ratio	Lapse assumption of the Company is based on the experience analysis and historical trends during intervals of the policy tenure.																						

24.8 Sensitivity Analysis

Sensitivity Analysis of Life Insurance Contract Liability is provided in Note 4.

24.9 Solvency Margin

As per the Report of the Life Actuary, the Company's Capital Adequacy Ratio (CAR) is 277% (2020 - 338%), well above the minimum requirement of 120%. Please refer paragraph 3 of the Actuarial report provided in page 192.

25. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE

ACCOUNTING POLICY

BASIS OF RECOGNITION AND MEASUREMENT

General Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

CLAIMS LIABILITIES

Claims Liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation of the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. This include provision for claims reported, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) together with related claims handling costs.

PREMIUM LIABILITIES

Premium Liabilities are the higher of the aggregate of the Unearned Premium Reserve (UPR) and the best estimate value of the insurer's Unexpired Risk Reserves (URR) at the valuation date and the Provision of Risk Margins for Adverse Deviation (PRAD) calculated at line of business level.

The provision for unearned premium represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 - "Insurance Contracts", the Group performs a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities with the assistance of the External Actuary.

TITLE INSURANCE RESERVE

Title Insurance reserve is maintained by the Group 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 in the first year of the policy given the higher probability of claims occurring in the first year. From the 2nd year onwards, profit is recognised by amortising the premium received over a five-year period using the straight-line method. Profit in the first year will be recognised in the 2nd year and thereafter it will be periodically recognised.

The General Insurance reserves as shown in the Statement of Financial Position represents the following:

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Reserves for Net Unearned Premium	25.1	2,343,472	2,108,020	-	-
Reserves for Title Insurance	25.2	63,531	56,731	-	-
Reserves for Gross Outstanding Claims	25.3	1,328,919	1,144,398	-	-
Total Insurance Contract Liabilities - General Insurance		3,735,922	3,309,149	-	-

Maturity Analysis of General Insurance Fund is given in Note 47 on page 327.

25.1 Reserves for Net Unearned Premium

25.1.a Reserves for Unearned Premium

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	2,505,096	2,367,660	-	-
Increase in Reserve for Unearned Premium	321,687	137,436	-	-
Balance as at 31st December (a)	2,826,783	2,505,096	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (CONTD.)

25.1.b Reserves for Unearned Reinsurance Premium

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	(397,076)	(420,688)	-	-
Decrease/(Increase) in Reserve for Unearned Reinsurance Premium	(86,235)	23,612	-	-
Balance as at 31st December (b)	(483,311)	(397,076)	-	-
Total Reserves for Net Unearned Premium (a+b)	2,343,472	2,108,020	-	-

25.2 Reserves for Title Insurance

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January (a)		56,731	53,522	-	-
Transfer to Title Insurance Reserve (b)		27,702	21,486	-	-
Recognition of Title Insurance Profit (c)	25.5	(20,902)	(18,277)	-	-
Transfer to Title Insurance Reserves (d=b+c)		6,800	3,209	-	-
Total Reserves for Title Insurance as at 31st December (a+d)		63,531	56,731	-	-

25.3 Reserves for Gross Outstanding Claims

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		950,111	716,944	-	-
Claims Incurred during the Year		2,865,311	2,516,650	-	-
Claims Paid during the Year		(2,669,957)	(2,283,483)	-	-
Balance as at 31st December (a)		1,145,465	950,111	-	-
IBNR/IBNER balance as at 01st January		194,287	153,978	-	-
Increase in IBNR/IBNER		(10,833)	40,309	-	-
IBNR/IBNER balance as at 31st December (b)	25.7	183,454	194,287	-	-
Total Reserves for Gross Outstanding Claims (a+b)		1,328,919	1,144,398	-	-

25.4 Reconciliation between Insurance Contract Liabilities and Technical Reserves

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Insurance Contract Liabilities - General Insurance		3,735,922	3,309,149	-	-
Reserve for Net Deferred Acquisition Expenses	16	(157,710)	(163,619)	-	-
Reinsurance on Claims Reserves		(487,008)	(364,783)	-	-
Reinsurance on Claims Reserves IBNR/IBNER		(16,609)	(91,719)	-	-
Technical Reserves		3,074,595	2,689,028	-	-

25.5 Recognition of Title Insurance Profit

Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title Insurance policies. During the year, the Group recognised Rs. 20.9 Million (2020 - Rs. 18.28 Million) as profit from Title Insurance.

25.6 Assessment of Liabilities

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

25.7 Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2021 has been actuarially computed by the Appointed Actuary, Ms. Sipika Tandon Mathur, FIA, for and on behalf of Willis Towers Watson India Private Limited (2020 - valuation was carried out by Mr. Matthew Kung-Chuong Tiong, FIAA, for and on behalf of NMG Consulting). The valuation is based on internationally accepted actuarial methods and is performed on a semi-annual basis and ensured adequate reserves are maintained.

25.8 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Appointed Actuary, Ms. Sipika Tandon Mathur, FIA, as at 31st December 2021 for and on behalf of Willis Towers Watson India Private Limited as required by SLFRS 4 - Insurance Contracts (2020 - LAT was carried out by Mr. Matthew Kung-Chuong Tiong, FIAA, for and on behalf of NMG Consulting). The valuation is based on internationally accepted actuarial methods and is performed on semi-annual basis. According to the Appointed Actuary's report, HNB General Insurance Limited adequately satisfies the LAT as at 31st December 2021. No additional provision was required against the LAT as at 31st December 2021. Refer the page 193 for Actuarial Report provided by the Appointed Actuary for LAT.

25.9 Sensitivity Analysis

Sensitivity Analysis of General Insurance Contract Liability is provided in Note 4.

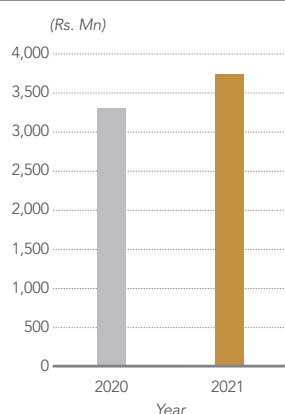
25.10 Solvency Margin

As per the Report of the General Actuary, the subsidiary's Capital Adequacy Ratio (CAR) is 260% (2020 - 255%), well above the minimum requirement of 120%.

25.11 Key Assumptions

Details of key assumptions used are provided in Note 4.

Insurance Contract Liabilities - General Insurance



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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26. EMPLOYEE DEFINED BENEFIT LIABILITIES

ACCOUNTING POLICY

MEASUREMENT

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. Under the Payment of Gratuity Act, No. 12 of 1983, the liability to pay the gratuity to an employee arises only on completion of 5 years of continued service. The liability is not externally funded.

RECOGNITION

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income. Interest cost, past service cost and current service cost are recognised in Profit or Loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relates to the past service or the gain or loss on curtailment is recognized immediately in the profit or loss. The Group recognizes gain or loss on the settlement of a defined plan when the settlement occurs.

VALUATION OF EMPLOYEE DEFINED BENEFIT LIABILITY

The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - "Employee Benefits". The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

26.1 Defined Benefit Plans - Provision for Employee Defined Benefit Liabilities

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Present Value of Unfunded Obligation	26.2	239,167	254,438	137,328	150,729

26.2 Movement in the Present Value of the Employee Defined Benefit Liability

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		254,438	167,118	150,729	100,076
Expenses Recognised in Profit or Loss during the year	26.2.1	45,980	47,312	25,301	26,945
Actuarial (Gains)/Losses recognised in Other Comprehensive Income during the Plan Year	26.2.2	(44,140)	44,995	(27,302)	27,402
		256,278	259,425	148,728	154,423
Payments made during the Year		(17,111)	(4,987)	(11,423)	(3,694)
Adjustment due to transfer of employees from Subsidiary Company		-	-	23	-
Balance as at 31st December		239,167	254,438	137,328	150,729

26.2.1 Expenses Recognised in Profit or Loss

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Current Service Cost	28,726	30,601	14,750	16,937
Interest on Obligation	17,254	16,711	10,551	10,008
Total	45,980	47,312	25,301	26,945

26.2.2 Actuarial (Gains)/Losses Recognised in Other Comprehensive Income

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Actuarial Gains due to Changes in demographic Assumptions	(3,223)	(26,674)	(1,210)	(15,561)
Actuarial (Gains)/Losses due to Changes in Financial Assumptions	(64,721)	69,185	(40,039)	40,875
Actuarial Losses due to Changes in Experience	23,804	2,484	13,947	2,088
Actuarial (Gains)/Losses during the Plan Year	(44,140)	44,995	(27,302)	27,402

As at 31st December 2021, the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Consultant Actuary Mr. Pushpakumar Gunasekera (Actuary/Associate of Institute of Actuaries of Australia) of Messrs. Smiles Global (Pvt) Ltd. The valuation is performed annually and have ensured adequate reserves are maintained.

26.3 Maturity Analysis of the Liability

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Within next 12 Months	-	8,089	-	7,543
Between 1 to 2 Years	1,235	7,621	-	1,359
Between 2 to 5 Years	19,479	51,970	10,476	30,967
Between 5 to 10 Years	85,796	139,471	45,772	65,085
Beyond 10 years	132,657	47,287	81,080	45,775
Total	239,167	254,438	137,328	150,729

26.4 Principal Assumptions Used

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Financial Assumptions				
(a) Discount Rate	11.0%	7.0%	11.0%	7.0%
(b) Future Salary Increase Rate	9.5%	8.5%	9.5%	8.5%
Demographic Assumptions				
(c) Early Withdrawal Through Resignations				
- Less than 5 years	17% - 31%	20% - 32%	31%	32%
- More than 5 years	6%	9% - 7%	6%	7%
(d) Expected Future Working Lift time	7.39 - 7.82 years	5.97 - 6.13 years	7.39 years	6.13 years
(e) Maximum Retirement Age	60 years	55 years	60 years	55 years
(f) Mortality - in Service	A1967/70 Ultimate Mortality table has used			

During the year 2021, the retirement age of the employees were revised to comply with the new legal requirements in the Country. As result of this Amendment to the plan, the defined benefit obligation of the Group and the Company decreased by Rs. 4.5 Million and Rs. 3.2 Million respectively.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

26. EMPLOYEE DEFINED BENEFIT LIABILITIES (CONTD.)

26.5 Sensitivity Effect on Statement of Financial Position

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Discount Rate				
1% Increase in Discount Rate	(18,578)	(17,441)	(10,842)	(10,683)
1% Decrease in Discount Rate	21,362	19,804	12,482	12,187
Salary Increment Rate				
1% Increase in Salary	22,571	20,474	13,177	12,561
1% Decrease in Salary	(19,920)	(18,367)	(11,614)	(11,216)

26.6 Method and Assumptions Used in Preparing the Sensitivity Analysis

The above sensitivity analyses are based on a change in significant assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method "Projected Unit Credit method (PUC)" has been applied as when calculating the defined benefit liability recognised in the balance sheet as at the reporting date.

The methods and types of assumptions used in preparing the sensitivity did not change compared to the prior period. However, the discount rate has changed from 7% to 11% during the year to reflect the increment in market interest rates and future salary increment rate has changed from 8.5% to 9.5% to be inline with the economic variables.

26.7 Apportionment of Provision for Employee Defined Benefit Liabilities between the Company and the Subsidiary

As at 31st December,	Company	
	2021 Rs.'000	2020 Rs.'000
Amount Recognised in Company	22,281	23,243
Amount Transferred to HNB General Insurance Limited	3,020	3,702
Total Provision for Employee Defined Benefit Liabilities	25,301	26,945

27. CURRENT TAX LIABILITIES

ACCOUNTING POLICY

Current tax liabilities consist of amounts expected to be paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		151,093	112,031	12,301	16,175
Current Tax for the Year		73,152	190,310	-	-
Capital Gain Tax for the Year		-	845	-	-
Effect of Taxation on Surplus/Bonus Transferred to Policyholders	24.4	19,871	12,301	19,871	12,301
Over Provision Pertaining to Previous Year		-	151	-	-
		244,116	315,638	32,172	28,476
Tax Set Off/Paid during the Year					
Withholding Tax Credits		(273)	(11,560)	-	-
Economic Service Charge		-	(36,196)	-	-
Notional Tax on Government Securities		(12,301)	(42,467)	(12,301)	(16,175)
Tax paid during the year		(169,374)	(73,109)	-	-
Capital Gain Tax Paid		-	(1,213)	-	-
Balance as at 31st December		62,168	151,093	19,871	12,301

27.1 Maturity Analysis of Current Tax liability is given in Note 47 on page 327.

28. REINSURANCE CREDITORS

ACCOUNTING POLICY

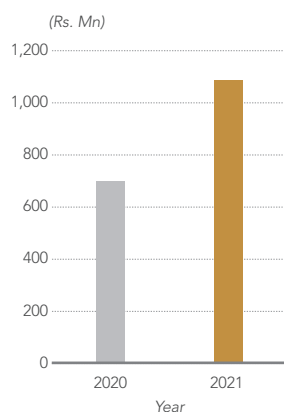
Reinsurance creditors are recognised as financial liabilities and categorised in the category of other financial liabilities. Please refer Note 10 of page 272 for Accounting policy of other financial liabilities.

Reinsurance creditors consist of premiums payable to reinsurers recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs in a manner consistent with the related reinsurance contract. Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	367,480	217,082	-	-
Foreign Reinsurers	718,032	483,023	453,054	290,916
Total Reinsurance Creditors	1,085,512	700,105	453,054	290,916

28.1 Maturity Analysis of Reinsurance Creditors is given in Note 47 on page 327.

Reinsurance Creditors - Group



29. LEASE CREDITORS

ACCOUNTING POLICY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease Payments included in the measurement lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the Right of Use Asset, or is recorded in profit or loss if the carrying amount of the Right of Use Asset has been reduced to zero.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

29. LEASE CREDITORS (CONTD.)

As at 31st December,	Group					
	2021			2020		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	371,891	21,254	393,145	328,727	21,362	350,089
Additions during the Year	110,149	3,463	113,612	152,639	13,550	166,189
Interest Expenses during the Year	46,609	2,587	49,196	42,049	3,654	45,703
Disposal of Lease Creditor upon termination of Contract	(3,280)	-	(3,280)	(1,762)	(5,756)	(7,518)
Rentals Paid during the Year	(121,171)	(9,664)	(130,835)	(149,762)	(11,556)	(161,318)
Balance as at 31st December	404,198	17,640	421,838	371,891	21,254	393,145

As at 31st December,	Company					
	2021			2020		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	370,014	7,732	377,746	317,482	17,350	334,832
Additions during the Year	87,532	3,463	90,995	152,639	-	152,639
Interest Expenses during the Year	45,135	1,165	46,300	41,203	1,918	43,121
Disposal of Lease Creditor upon termination of Contract	(3,280)	-	(3,280)	-	(5,756)	(5,756)
Rentals Paid during the Year	(117,273)	(4,114)	(121,387)	(141,310)	(5,780)	(147,090)
Balance as at 31st December	382,128	8,246	390,374	370,014	7,732	377,746

29.1 Maturity Analysis of Lease Creditors is given in Note 47 on page 327.

30. OTHER LIABILITIES

ACCOUNTING POLICY

FINANCIAL LIABILITIES

Please refer Note 10 of page 272 for Accounting policy of financial liabilities.

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

OTHER LIABILITIES

Other Liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

Other Liabilities Composition - Group



As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Financial Liabilities					
Payable to Policyholders		67,116	25,460	14,892	9,904
Acquisition Cost Payable		245,458	198,103	133,234	85,348
Advisor Terminal Benefit Payable	30.2	230,291	208,586	210,141	185,738
Amounts due to Related Parties	30.3	67,047	55,172	49,549	41,736
Co - Insurance Payable		38,647	27,052	-	-
Claims payable		2,632	3,311	-	-
Staff Related Payables		215,952	212,310	160,645	140,476
Total Financial Liabilities (a)		867,143	729,994	568,461	463,202
Non-Financial Liabilities					
Accrued Expenses		113,157	136,132	8,586	9,957
Policyholders Advance Payments		223,263	198,587	223,263	198,587
Government Levies	30.4	73,346	83,591	28,777	21,156
Advance for Future Utilisation and Other Liabilities		470,239	401,804	205,732	139,296
Total Non-Financial Liabilities (b)		880,005	820,114	466,358	368,996
Total Other Liabilities (a+b)		1,747,148	1,550,108	1,034,819	832,198

30.1 Maturity Analysis of Other Liabilities is given in Note 47 on page 327.

30.2 Advisor Terminal Benefit Payable

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Life Insurance	210,141	185,738	210,141	185,738
General Insurance	20,150	22,848	-	-
Total	230,291	208,586	210,141	185,738

30.3 Amounts due to Related Parties

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Hatton National Bank PLC	64,855	54,244	49,523	41,732
HNB Finance PLC	2,192	928	26	4
Total	67,047	55,172	49,549	41,736

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

30. OTHER LIABILITIES (CONTD.)

30.4 Government Levies

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Stamp Duty Payable	2,234	1,795	415	305
Value Added Tax (VAT) Payable	30,612	48,607	4,179	3,292
Cess Payable	8,918	6,992	3,998	3,158
Crop Insurance	8,884	5,813	8,119	4,540
Pay As You Earn (PAYE)	1,562	827	1,213	620
Employee Provident Fund Payable	16,812	14,573	9,437	8,036
Employee Trust Fund Payable	2,522	2,186	1,416	1,205
Contribution to Road Safety Fund Payable	239	101	-	-
Luxury tax Payable to Department of Motor Traffic	1,563	2,697	-	-
Total	73,346	83,591	28,777	21,156

31. GROSS WRITTEN PREMIUM (GWP)

ACCOUNTING POLICY

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured.

Life Insurance Business

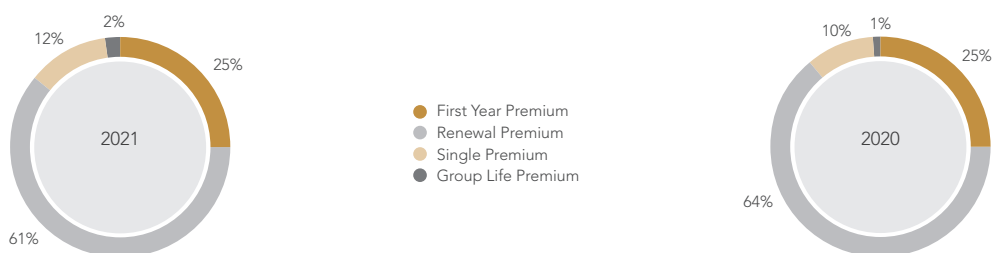
Gross Written Premiums on Life Insurance contracts are recognised as revenue when a premium is due from a Policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

General Insurance Business

Gross Written Premium on General Insurance comprises of the total premium received/receivable for the whole period of cover provided by contracts entered during the accounting period. Premium is generally recognised upon the inception of the policy as written and is earned primarily on a pro-rata basis over the term of the related policy coverage.

Gross Written Premium - Life Insurance



Gross Written Premium - General Insurance



For the Year Ended 31st December,	Group					
	2021			2020		
	Individual business	Corporate business	Total	Individual business	Corporate business	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance						
Renewal Premium	4,295,742	-	4,295,742	3,536,462	-	3,536,462
Single Premium	916,307	-	916,307	499,288	-	499,288
First Year Premium	1,750,236	-	1,750,236	1,386,401	-	1,386,401
Group Life Premium	-	129,185	129,185	-	64,888	64,888
Adjustment for Intercompany Premiums	-	(54,769)	(54,769)	-	(48,196)	(48,196)
Gross Written Premium - Life Insurance (a)			7,036,701			5,438,843

For the Year Ended 31st December,	2021			2020		
	GWP before Co-insurance	*Co - Insurance Local	Total	GWP before Co-insurance	*Co - Insurance Local	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance						
Fire	815,741	(56,622)	759,119	680,370	(32,581)	647,789
Motor	3,867,773	(2,487)	3,865,286	3,583,251	(190)	3,583,061
Marine	83,345	(1,471)	81,874	55,011	(329)	54,682
Miscellaneous	943,042	(743)	942,299	712,196	-	712,196
Adjustment for Intercompany Premiums	(38,332)	-	(38,332)	(37,579)	-	(37,579)
Gross Written Premium - General Insurance (b)			5,610,246			4,960,149
Total Gross Written Premium (a+b)			12,646,947			10,398,992

For the Year Ended 31st December,	Company					
	2021			2020		
	Individual business	Corporate business	Total	Individual business	Corporate business	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance						
Renewal Premium	4,295,742	-	4,295,742	3,536,462	-	3,536,462
Single Premium	916,307	-	916,307	499,288	-	499,288
First Year Premium	1,750,236	-	1,750,236	1,386,401	-	1,386,401
Group Life Premium	-	129,185	129,185	-	64,888	64,888
Total Gross Written Premium			7,091,470			5,487,039

* Co-Insurance is an arrangement to share risks with domestic insurer under a special contract and the portion shared with the co-insurance partner is not considered as a part of Gross Written Premium.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

32. PREMIUM CEDED TO REINSURERS

ACCOUNTING POLICY

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Life Insurance				
Individual Policies	192,520	138,705	192,520	138,705
Single Premium	140,832	118,519	140,832	118,519
Corporate Policies	22,185	7,940	22,185	7,940
Total Life Insurance (a)	355,537	265,164	355,537	265,164
General Insurance				
Fire	732,462	632,873	-	-
Motor	175,612	152,229	-	-
Marine	76,423	52,840	-	-
Miscellaneous	308,827	204,872	-	-
Total General Insurance (b)	1,293,324	1,042,814	-	-
Total Premium Ceded to Reinsurers (a+b)	1,648,861	1,307,978	355,537	265,164

33. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

ACCOUNTING POLICY

Gross Written Premium of General business is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments there to, Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Group uses 1/24th basis to defer the GWP of all policies except for the Marine Insurance policies and Title Insurance policies, where Marine Insurance premiums are deferred based on 60 : 40 basis and total premiums on Title Insurance are transferred to Reserve for Title Insurance for the reporting period.

Similarly, Reinsurance Premiums attached to those policies are also deferred over the policies risk attached period using the same basis as mentioned above. Further, Title Insurance Reserve is maintained based on the net transfer of Net Written Premium after deducting acquisition cost and profit recognised during that period.

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
General Insurance					
Change in Reserve for Unearned Premium	25.1.a	(321,687)	(137,436)	-	-
Change in Reserve for Unearned Reinsurers Premium	25.1.b	86,235	(23,612)	-	-
Transfer to Reserve for Title Insurance	25.2	(6,800)	(3,209)	-	-
Total Net Change in Reserves for Unearned Premium		(242,252)	(164,257)	-	-

34. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2021			2020		
	Life Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000	Life Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000
Gross Written Premium	7,091,470	5,648,578	12,740,048	5,487,039	4,997,728	10,484,767
Adjustment for Intercompany Premiums	(54,769)	(38,332)	(93,101)	(48,196)	(37,579)	(85,775)
	7,036,701	5,610,246	12,646,947	5,438,843	4,960,149	10,398,992
Change in Reserve for Unearned Premium	-	(321,687)	(321,687)	-	(137,436)	(137,436)
Gross Earned Premium (a)	7,036,701	5,288,559	12,325,260	5,438,843	4,822,713	10,261,556
Premium Ceded to Reinsurance	(355,537)	(1,293,324)	(1,648,861)	(265,164)	(1,042,814)	(1,307,978)
Change in Reserve for Unearned Reinsurance Premium	-	86,235	86,235	-	(23,612)	(23,612)
Gross Reinsurance Premium (b)	(355,537)	(1,207,089)	(1,562,626)	(265,164)	(1,066,426)	(1,331,590)
Transfer to Title Insurance Reserve (c)	-	(6,800)	(6,800)	-	(3,209)	(3,209)
Total Net Earned Premium (a+b+c)	6,681,164	4,074,670	10,755,834	5,173,679	3,753,078	8,926,757

For the Year Ended 31st December,	Company	
	2021 Rs.'000	2020 Rs.'000
Gross Written Premium	7,091,470	5,487,039
Premium Ceded to Reinsurance	(355,537)	(265,164)
Total Net Earned Premium	6,735,933	5,221,875

35. INTEREST AND DIVIDEND INCOME

ACCOUNTING POLICY

Interest Income

Interest income is recognised in Profit or Loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction cost include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend Income

Dividend income is recognised when the right to receive income is established which is usually the ex-dividend date of equity securities.

Finance Income Composition - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

35. INTEREST AND DIVIDEND INCOME (CONTD.)

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Interest Income	35.1	2,545,483	2,487,950	2,186,492	2,120,053
Dividend Income	35.2	9,791	5,367	124,628	5,309
Total Interest and Dividend Income		2,555,274	2,493,317	2,311,120	2,125,362

Temporary Exemption from SLFRS 9

As explained in page 212, the Group has decided to take temporary exemption from SLFRS 9 as the Group's activities are predominantly connected with insurance activities and Group had not previously applied any version of SLFRS 9. This is further explained in Note 3.1.1. Therefore, interest and dividend income is presented in accordance with LKAS 39.

35.1 Interest Income

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Interest Income from Financial Investments - Held to Maturity				
Treasury Bonds	4,989	-	4,989	-
Total (a)	4,989	-	4,989	-
Interest Income from Financial Investments - Loans and Receivables				
Repurchase Agreements on Government Securities	220,768	114,090	172,577	75,843
Fixed Deposits	776,794	931,022	668,233	780,827
Debentures	732,965	633,791	651,915	567,561
Sri Lanka Development Bonds	9,130	339	1,640	67
Policy Loans	56,621	54,383	56,621	54,383
Staff and Advisor Loans	39,766	50,770	22,441	29,935
Total (b)	1,836,044	1,784,395	1,573,427	1,508,616
Interest Income from Financial Investments - Available For Sale				
Treasury Bonds	609,222	660,976	539,915	582,828
Treasury Bills	60,825	4,804	47,226	2,402
Total (c)	670,047	665,780	587,141	585,230
Interest Income from Cash and Cash Equivalents				
Short Term Deposits	7,024	13,372	4,493	12,250
Savings Accounts	27,379	24,403	16,442	13,957
Total (d)	34,403	37,775	20,935	26,207
Total Interest Income (a+b+c+d)	2,545,483	2,487,950	2,186,492	2,120,053

35.2 Dividend Income

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Equity Shares	9,791	5,367	9,628	5,309
Dividend Income from Investments in Subsidiary	-	-	115,000	-
Total Dividend Income	9,791	5,367	124,628	5,309

36. NET REALISED GAINS

ACCOUNTING POLICY

Net Realised Gains comprises gains and losses related to Financial Investments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original/fair value of prior year or amortised cost which are recorded on occurrence of the sale. On de-recognition of investments classified as AFS, the cumulative gain or loss previously recognised in OCI is recycled to Profit or Loss.

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Financial Investments - Available For Sale				
Realised Gains				
Treasury Bonds	5,874	53,106	5,874	44,655
Equity Shares	3,616	-	3,616	-
Total Net Realised Gains - Available For Sale (a)	9,490	53,106	9,490	44,655
Financial Investments - Fair Value Through Profit or Loss				
Realised Gains				
Investment in Units	43,043	280	40,231	194
Equity Shares	388	60	388	60
Total Net Realised Gains - Fair Value Through Profit or Loss (b)	43,431	340	40,619	254
Financial Investments - Loans and Receivables				
Realised Gains				
Foreign Exchange	-	188	-	-
Total Net Realised Gains - Loans and Receivables (c)	-	188	-	-
Total Net Realised Gains (a+b+c)	52,921	53,634	50,109	44,909

37. NET FAIR VALUE GAINS

ACCOUNTING POLICY

Net fair value gains and losses comprises fair value gains and Losses on financial assets at Fair Value Through Profit or Loss and any impairment loss of Available For Sales financial assets.

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Financial Investments at Fair Value Through Profit or Loss					
Unrealised Gains					
Investment in Units		13,337	2,694	-	1,964
Equity Securities		41,172	11,268	40,150	11,030
Total (a)		54,509	13,962	40,150	12,994
Financial Investments at Available For Sale					
Impairment of Available For Sale Financial Assets		-	(2,516)	-	(2,516)
Total (b)	37.1	-	(2,516)	-	(2,516)
Financial Investments at Loans & Receivables					
Unrealised Gains					
Foreign Exchange - Term Deposits		20,394	6,058	8,821	2,491
Sri Lanka Development Bonds		4,225	192	513	18
Total (c)		24,619	6,250	9,334	2,509
Total Net Fair Value Gains (a+b+c)		79,128	17,696	49,484	12,987

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

37. NET FAIR VALUE GAINS (CONTD.)

37.1 Impairment of Equity Shares - Available For Sale

There is no any impairment on equity shares during the year 2021. However, in the year 2020 Group has experienced a significant and prolonged decline in market price than cost of equity shares categorised under AFS category and accordingly impairment loss is recognised in Profit or Loss.

38. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as income upon receipt or when they become due.

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Profit Commission from Reinsurers	80,895	5,172	45,934	9,022
Fund Management Fee	-	-	13,947	11,547
Policy and Related Fee	144,843	135,671	17,144	14,376
Total Fee and Commission Income	225,738	140,843	77,025	34,945

39. OTHER INCOME

ACCOUNTING POLICY

Income earned on other sources, which are not directly related to the normal operations of the Group/Company are recognised as Sundry Income upon receipt or become due. Gains on disposal of Property, Plant and Equipment and Right of Use Assets are calculated as the excess over the net proceeds from disposal and carrying amount at the time of disposal and recognised under other income in Profit of Loss.

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Gain on Disposal of Property, Plant and Equipment	69	3,339	-	3,242
Gain on Disposal of Right of Use Assets	620	475	620	475
Sundry Income	12,645	11,156	2,146	2,030
Total Other Income	13,334	14,970	2,766	5,747

40. NET INSURANCE BENEFITS AND CLAIMS PAID

ACCOUNTING POLICY

Benefits and claims for 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 are recorded net of recoveries from Reinsurance on Claims.

BENEFITS AND CLAIMS PAID - LIFE INSURANCE

Claims on accident, hospitalisation, death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

BENEFITS AND CLAIMS PAID - GENERAL INSURANCE

General Insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

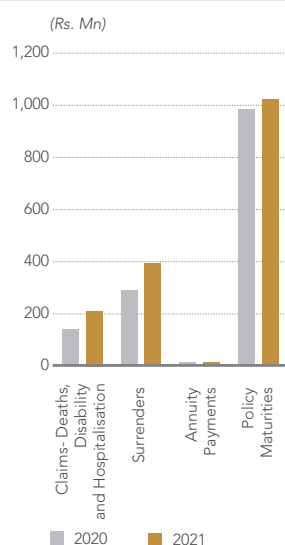
REINSURANCE ON CLAIMS

Reinsurance on Claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

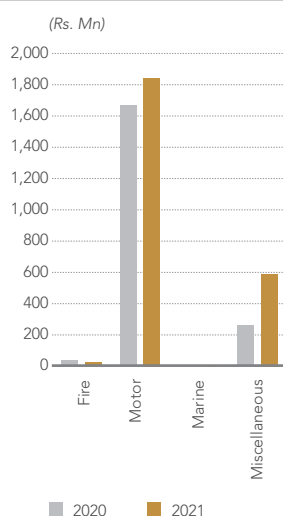
For the Year Ended 31st December,	Group					
	2021			2020		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	374,574	(163,159)	211,415	233,547	(92,500)	141,047
Surrenders	392,077	-	392,077	290,293	-	290,293
Annuity Payments	13,621	-	13,621	13,574	-	13,574
Policy Maturities	1,021,791	-	1,021,791	983,435	-	983,435
Net Life Insurance Claims (a)			1,638,904			1,428,349
General Insurance						
Fire	175,942	(151,934)	24,008	282,914	(246,467)	36,447
Motor	1,857,951	(16,389)	1,841,562	1,694,429	(27,123)	1,667,306
Marine	12,575	(10,219)	2,356	15,361	(13,179)	2,182
Miscellaneous	623,490	(33,047)	590,443	290,778	(26,781)	263,997
Net General Insurance Claims (b)			2,458,369			1,969,932
Adjustments for Intercompany Claims (c)			(1,553)			(42)
Total Net Insurance Benefits and Claims Paid (a+b+c)			4,095,720			3,398,239

For the Year Ended 31st December,	Company					
	2021			2020		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	374,574	(163,159)	211,415	233,547	(92,500)	141,047
Surrenders	392,077	-	392,077	290,293	-	290,293
Annuity Payments	13,621	-	13,621	13,574	-	13,574
Policy Maturities	1,021,791	-	1,021,791	983,435	-	983,435
Total Net Insurance Benefits and Claims Paid			1,638,904			1,428,349

Net Claims Paid - Life Insurance



Net Claims Paid - General Insurance



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

41. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

ACCOUNTING POLICY

Reinsurance claim recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Difference between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claim outstanding is recognised in Profit or Loss.

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	49,183	35,686	49,183	35,686
General Insurance				
Fire	140,431	(16,514)	-	-
Motor	73,423	96,919	-	-
Marine	1,754	(26,531)	-	-
Miscellaneous	(31,089)	219,602	-	-
Total General Insurance (b)	184,519	273,476	-	-
Total Gross Change in Insurance Claims Outstanding (c = a+b)	233,702	309,162	49,183	35,686
Gross Change in Reinsurance Recoverable on Claims Outstanding				
Life Insurance (d)	(41,999)	30,146	(41,999)	30,146
General Insurance				
Fire	(135,315)	6,433	-	-
Motor	13,724	(19,755)	-	-
Marine	(351)	26,292	-	-
Miscellaneous	57,809	(191,876)	-	-
Total General Insurance (e)	(64,133)	(178,906)	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f = d+e)	(106,132)	(148,760)	(41,999)	30,146
Total Net Change in Insurance Claims Outstanding (c+f)	127,570	160,402	7,184	65,832

42. OTHER OPERATING AND ADMINISTRATION EXPENSES

ACCOUNTING POLICY

Expenses are recognised in Profit or Loss 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 maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss.

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Directors' Fees and Remuneration		23,715	24,560	14,430	15,705
Staff Expenses	42.1	1,572,330	1,379,726	800,656	679,680
Administration and Establishment Expenses		448,999	434,460	322,349	298,489
Selling Expenses		625,218	513,202	432,746	344,404
Reversal of/Provision for Tax Credits		(884)	(16,175)	(884)	(16,175)
Amortisation of Intangible Assets		22,582	19,632	16,089	13,281
Depreciation of Property, Plant and Equipment		61,794	54,000	31,725	27,477
Net Depreciation of Right of Use Assets		130,759	130,693	71,205	64,240
Loss on Disposal of Property, Plant and Equipment		289	-	289	-
Loss on Disposal of Right of Use Assets		-	241	-	-
Auditor's Fees and Expenses	42.2	5,509	4,400	3,489	2,630
Legal Fees		1,763	970	1,174	511
Donations		750	500	750	500
Total Other Operating and Administration Expenses		2,892,824	2,546,209	1,694,018	1,430,742

42.1 Staff Expenses

ACCOUNTING POLICY

SHORT-TERM 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 or profit-sharing plans if the Group 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.

EMPLOYEE DEFINED CONTRIBUTION PLAN

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in Profit and Loss when incurred.

EMPLOYEE PROVIDENT FUND

All employees of the Group are members of the Employees' Provident Fund (EPF). The Group and employees contribute 12% and 8% respectively of the salary to EPF.

EMPLOYEES TRUST FUND

All employees of the Group are members of the Employees' Trust Fund (ETF). The Group contributes 3% of the salary of each employee to ETF.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

42. OTHER OPERATING AND ADMINISTRATION EXPENSES (CONTD.)

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Staff Salaries	981,531	842,137	477,184	412,807
Defined Contribution Plan Costs - EPF 12%	117,784	101,057	57,262	49,537
Defined Contribution Plan Costs - ETF 3%	29,446	25,264	14,316	12,384
Defined Benefit Plan Costs - Employee Benefits	45,980	47,312	22,281	23,243
Other Staff Costs	397,589	363,956	229,613	181,709
Total	1,572,330	1,379,726	800,656	679,680

42.2 Auditor's Fees and Expenses

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Audit Fees and Expenses	3,769	3,500	2,319	2,130
Audit Related Fees	1,160	900	590	500
Non-Audit Fees	580	-	580	-
Total	5,509	4,400	3,489	2,630

43. UNDERWRITING AND NET ACQUISITION COSTS

ACCOUNTING POLICY

Expenses for acquisition and maintenance of Life and General Insurance business are accounted for net of reinsurance commission on accrual basis. Reinsurance Commission Income is accrued according to the agreed terms with the reinsurers.

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Underwriting and Acquisition Costs		1,714,252	1,469,110	1,122,373	904,213
Reinsurance Commission		(263,903)	(208,667)	(24,166)	(15,686)
Decrease/(Increase) in Deferred Acquisition Expenses	43.1	5,909	(24,997)	-	-
Total Underwriting and Net Acquisition Costs		1,456,258	1,235,446	1,098,207	888,527

43.1 Decrease/(Increase) in Net Deferred Acquisition Expenses

For the Year Ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Decrease/(Increase) in Deferred Reinsurance Commission	12,737	(8,982)	-	-
Increase in Acquisition Cost	(6,828)	(16,015)	-	-
Total Decrease/(Increase) in Net Deferred Acquisition Expenses	5,909	(24,997)	-	-

44. INCOME TAX EXPENSE

ACCOUNTING POLICY

Income Tax Expense comprises current and Deferred Tax. Current and deferred taxes are recognised in Profit or Loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent assets.

CURRENT TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

The Government has announced a reduction of the income tax rate to 24% from 28% with effect from 1st January 2020.

From 1st April 2018 onwards the gains and the profits from the Life Insurance Business are ascertained in terms of Section 67 of the Inland Revenue Act No. 24 of 2017. As per this section, the gains and profits on which tax is payable is the aggregate of;

- Surplus distributed to shareholders from the Life Insurance Policyholders Fund as certified by the actuary at the rate of 24% (2020:28%);
- Investment income of the shareholder fund less any expenses incurred in the production of such income at the rate of 24% (2020:28%);
- Surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in the business of life insurance at the rate of 24% (2020:14%);

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in Equity or Other Comprehensive Income is recognised in Equity or Other Comprehensive Income and not in Profit or Loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

DEFERRED TAXATION

Deferred Taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Group has deferred tax liabilities arising from Property Plant and Equipment, Right of Use Assets and Available For Sale financial assets.

Temporary differences in relation to Right of Use Asset and a lease liabilities are regarded as a net package for the purpose of recognising deferred tax.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be fully utilised. Deferred tax assets, if any, are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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44. INCOME TAX EXPENSE (CONTD.)

ACCOUNTING POLICY

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside Profit or Loss, if any is recognised outside Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

CROP INSURANCE LEVY

The Crop Insurance Levy was introduced under the provisions of the Section 14 of the Finance Act No. 12 of 2013, and came in to effect from 1st April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit After Tax.

The major components of income tax expense for the year ended 31st December are as follows;

44.1.a Tax Recognised in Profit or Loss

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Income Tax					
Income Tax on Current Year's Profits		99,902	190,310	-	-
Under Provision of Current Taxes in Respect of Prior Years		437	151	-	-
Over Provision of Current Taxes due to tax rate change		(27,187)	-	-	-
Capital Gain Tax for the Year		-	845	-	-
Total Income Tax (a)		73,152	191,306	-	-
Deferred Tax					
Reversal of Deferred Tax Asset	44.2.a	452,407	265,012	451,712	275,418
Origination of Deferred Tax Liability	44.2.b	(829)	(1,045)	-	-
Deferred Taxation (b)		451,578	263,967	451,712	275,418
Total Tax Expense (a+b)		524,730	455,273	451,712	275,418

44.1.b Tax Recognised in Other Comprehensive Income

For the Year Ended 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Deferred Tax					
Deferred tax on Available For Sale Financial Assets		8,729	(7,023)	-	-
Deferred tax on Actuarial Gains on Defined Benefit Plans		(4,041)	-	-	-
Origination of Deferred Tax Asset/(Liability)	44.2	4,688	(7,023)	-	-

44.2 Deferred Taxation

As at 31st December,	Note	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Deferred Tax Asset	44.2.a	298,033	754,432	273,543	725,255
Deferred Tax Liability	44.2.b	(6,201)	(15,711)	-	-
Net Deferred Tax Asset		291,832	738,721	273,543	725,255

44.2.a Deferred Tax Assets

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Deferred tax asset as of 01st January (a)	754,432	1,019,444	725,255	1,000,673
Amount Reversed during the year in profit or loss	(344,631)	(265,012)	(348,104)	(275,418)
Effect of change in tax rates	(107,776)	-	(103,608)	-
Total amount Reversed during the year in profit or loss (b)	(452,407)	(265,012)	(451,712)	(275,418)
Amount Reversed during the year - recognised in other comprehensive income (c)	(3,992)	-	-	-
Deferred tax asset as of 31st December (a+b+c)	298,033	754,432	273,543	725,255

44.2.b Deferred Tax Liabilities

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Deferred tax liability as of 01st January (a)	15,711	9,733	-	-
Amount originated/(reversed) during the year in profit or loss	175	(1,045)	-	-
Effect of change in tax rates	(1,004)	-	-	-
Total amount reversed during the year in profit or loss (b)	(829)	(1,045)	-	-
Amount (reversed)/originated during the year - recognised in other comprehensive income (c)	(8,681)	7,023	-	-
Deferred tax liability as of 31st December (a+b+c)	6,201	15,711	-	-

44.2.c Deferred Tax movement in Statement of Financial Position

As at 31st December,	Group				Company			
	2021		2020		2021		2020	
	Temporary Difference Rs.'000	Tax Effect Assets/ (Liability) Rs.'000	Temporary Difference Rs.'000	Tax Effect Assets/ (Liability) Rs.'000	Temporary Difference Rs.'000	Tax Effect Assets/ (Liability) Rs.'000	Temporary Difference Rs.'000	Tax Effect Assets/ (Liability) Rs.'000
Deferred Tax Assets								
Employee Benefits	101,842	24,442	103,709	29,038	-	-	-	-
Brought Forward tax losses	1,139,763	273,543	2,590,197	725,255	1,139,763	273,543	2,590,197	725,255
Right of Use Asset	-	-	495	139	-	-	-	-
AFS Assets	480	48	-	-	-	-	-	-
Total Deferred Tax Assets	1,242,085	298,033	2,694,401	754,432	1,139,763	273,543	2,590,197	725,255
Deferred Tax Liability								
Property, Plant & Equipment	23,678	5,683	25,109	7,030	-	-	-	-
AFS Assets	-	-	86,809	8,681	-	-	-	-
Right of Use Asset	2,160	518	-	-	-	-	-	-
Total Deferred Tax Liability	25,838	6,201	111,918	15,711	-	-	-	-
Net Deferred Tax Asset		291,832		738,721		273,543		725,255

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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44. INCOME TAX EXPENSE (CONTD.)

As per Section 67 of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, the Company incurred a taxable income. The act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the Total Statutory Income. As at 31st December 2021, Life Insurance business has a cumulative tax loss of Rs. 1,140 Million (2020 - Rs. 2,590 Million) was incurred as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. The Company made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year Company utilised a tax loss of Rs. 1,449.54 Million against the taxable income generated for the year ended 31st December 2021 (2020 - Rs. 984.33 Million) this was resulted in a reversal of Deferred Tax Asset of Rs. 348.1 Million for the year ended 31st December 2021 (2020 - Rs. 275.42 Million). Further, due to reduction in tax rate from 28% to 24%, recorded deferred tax asset of the company reduced by Rs. 103.61 Million results total tax reversal of Rs. 451.7 Million.

The Subsidiary Company, HNB General Insurance Limited also recorded a Net Deferred Tax Asset amounted to Rs. 18.29 Million (2020 - Rs. 13.47 Million). The Group does not have unrecognised Deferred Tax Asset as at reporting date.

44.3 Effect of proposed Tax changes

As provided in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date. As the amendments referred to in the budget proposals presented during the year are yet to be approved by the Parliament and cannot be considered to be legislated, the proposed changes to the taxes have not been considered to be substantively enacted as at the reporting date.

44.4 The Company and its subsidiary are liable to pay income tax at the rate of 24% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017.

44.5 Reconciliation of Effective Tax rate

For the Year Ended 31st December,	Effective Tax Rate %	Group		Company	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Profit for the year		1,223,648	1,175,223	1,000,499	723,945
Income Tax Expenses		73,152	191,306	-	-
Deferred Taxation		451,578	263,967	451,712	275,418
Profit Before Tax		1,748,378	1,630,496	1,452,211	999,363
At the Statutory Income Tax Rate of 24% (2020:28%)	24%	419,611	456,539	348,531	279,822
Intercompany Dividend	2%	27,600	-	-	-
Capital gain tax at the rate of 10%	-	-	845	-	-
Over Provision of Current Taxes in Respect of Prior Years	(1.5%)	(26,536)	(43)	214	(194)
Income Exempt from Tax	(0.4%)	(7,816)	(10,568)	(3,851)	(4,671)
Aggregate Allowable Expenses	(0.4%)	(7,074)	(6,964)	-	-
Aggregate Disallowed Expenses	1%	15,257	27,109	2,996	655
Utilisation of Previous Tax Losses	(20%)	(347,890)	(275,612)	(347,890)	(275,612)
Reversal of Deferred Tax Assets	26%	451,578	263,967	451,712	275,418
Income Tax Expenses	30%	524,730	455,273	451,712	275,418

44.6 Tax Loss Analysis

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January	2,590,197	3,573,832	2,590,197	3,573,832
Prior Year Adjustments	(891)	693	(891)	693
Tax Losses Utilised Against Taxable Income during the Year	(1,449,543)	(984,328)	(1,449,543)	(984,328)
Balance as at 31st December	1,139,763	2,590,197	1,139,763	2,590,197

45. BASIC AND DILUTED EARNINGS PER SHARE

ACCOUNTING POLICY

The Group presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the Net Profit or Loss After Tax for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting Net Profit or Loss After Tax for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

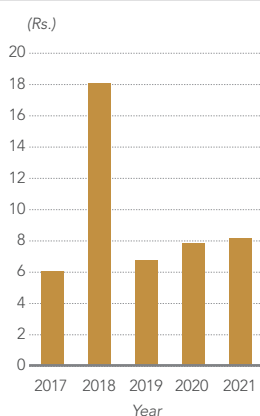
45.1 Basic Earnings Per Share (EPS)

For the Year Ended 31st December,	Note	Group		Company	
		2021	2020	2021	2020
Amounts Used as the Numerator:					
Net Profit Attributable to Ordinary Shareholders (Rs.'000)		1,223,648	1,175,223	1,000,499	723,945
Number of Ordinary Shares used as the Denominator:					
Weighted Average No. of Ordinary Shares as at 31st December ('000)	45.3	150,000	150,000	150,000	150,000
Basic Earnings Per Share (Rs.)		8.16	7.83	6.67	4.83

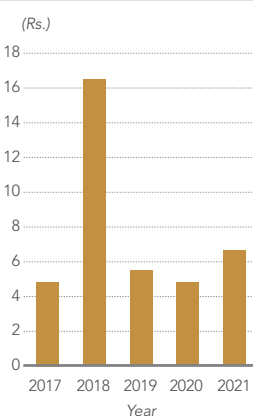
45.2 Diluted Earnings Per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, Diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

EPS Group



EPS Company



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

45. BASIC AND DILUTED EARNINGS PER SHARE (CONTD.)

45.3 Movement of Weighted Average Number of Ordinary Shares

	Group		Company	
	2021	2020	2021	2020
Ordinary Shares at the Beginning of the year ('000)	150,000	50,000	150,000	50,000
Ordinary Shares on Share split ('000)	-	100,000	-	100,000
Weighted Average Number of Ordinary Shares After Share Split ('000)	150,000	150,000	150,000	150,000

46. DIVIDEND PER SHARE (DPS)

ACCOUNTING POLICY

Dividend on Ordinary Shares are recognised as a liability and deducted from equity when they are approved by the Group's Board of Directors/Shareholders in accordance with the Articles of Association. As per the requirements of the regulator, IRCSL, required information is provided prior to declaration of dividend.

	Group/Company	
	2021	2020
For the Year Ended 31st December,		
Proposed Dividend per Share - First and Final (Rs.)	3.20	2.80
Total (Rs.)	3.20	2.80

46.1 Proposed Dividend

	Group/Company	
	2021	2020
For the Year Ended 31st December,	Rs.'000	Rs.'000
Dividends to Shareholders	480,000	420,000
Total	480,000	420,000

46.2 Proposed Dividend

The Board of Directors has recommended a payment of Rs. 3.20 per share as a first and final dividend on 18th February 2022 for the year ended 31st December 2021 (2020 - first and final dividend Rs. 2.80 per share) which is subject to the approval of the shareholders at the Annual General Meeting to be held on 31st March 2022.

In accordance with Sri Lanka Accounting Standards LKAS 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2021.

46.3 Compliance with the Section 56 and 57 of the Companies Act No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to the recommendation of the final dividend for the year ended 31st December 2021. A Statement of Solvency completed and duly signed by the Directors on 18th February 2022 has been audited by M/S. KPMG Sri Lanka.

46.4 Dividend Paid during the Year

	Group/Company	
	2021	2020
For the Year Ended 31st December,	Rs.'000	Rs.'000
First and Final Dividend for 2020: Rs. 2.80 per Share (Final Dividend for 2019: Rs. 6.00 per Share)	420,000	300,000
Total	420,000	300,000

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES

The Group carries out transactions in the ordinary course of its business with parties who are defined as related parties according to the Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures".

Transactions with related parties were made on the basis of the price in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

48.1 Recurrent or non-recurrent related party transactions

There were no recurrent related party transactions which exceeds 10% of the gross revenue or non-recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets which requires additional disclosures under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under the Securities and Exchange Commission Act.

Details of related party transactions and outstanding balances are reported below;

48.1.a Transactions and Outstanding Balances with Immediate and Ultimate Controlling Party - Hatton National Bank PLC

For the Year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Transactions				
Insurance Premium	84,119	10,888	-	-
Claims Incurred	16,529	22,836	-	-
Investment Income	84,246	84,826	60,807	64,266
Administration Expenses	399,485	334,218	287,773	229,114
Rent	9,152	8,869	5,913	5,586
Other Operational Expenses	6,130	1,468	3,395	939
Dividends Paid	251,941	179,958	251,941	179,958

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Outstanding Balances				
Investments (Includes Deposits and Debentures)	1,008,586	893,788	650,501	664,043
Cash at Bank Balances	448,493	560,336	279,857	328,230
Insurance Premium Receivable	65	56	-	-
Administration Expenses Payable	64,422	54,063	49,278	41,653
Rent and Other Operational Expenses Payable	433	181	245	79

48.1.b Transaction and Outstanding Balances with the Subsidiary Company - HNB General Insurance Limited

For the Year ended 31st December,		2021	2020
		Rs.'000	Rs.'000
Transactions			
Insurance Premium		54,769	48,196
Insurance Expenses		38,332	37,579
Claims Received		1,553	42
Claims Paid		7,400	3,600
Administrations Expenses Reimbursement			
- Reimbursement expenses relating to employees		96,175	100,729
- Other reimbursement expenses		185,017	171,091
Fund Management Fee Income		13,947	11,547
Profit Commission Expenses		18,665	19,610
Net Dividend Received		115,000	-
<hr/>			
As at 31st December,		2021	2020
		Rs.'000	Rs.'000
Outstanding Balances			
Receivable from HNB General Insurance Ltd		13,548	7,286

48.1.c Transactions and Outstanding Balances with Subsidiary Companies and Joint Ventures of the Ultimate Parent Hatton National Bank PLC

a) Sithma Development (Pvt) Ltd

For the Year ended 31st December,	Group		Company	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Transactions				
Insurance Premium	10,998	(2,783)	-	-
<hr/>				
As at 31st December,	Group		Company	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Outstanding Balances				
Insurance Premium Receivable	-	3,152	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

b) HNB Finance PLC

For the Year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Transactions				
Insurance Premium	18,874	10,921	-	-
Claims Incurred	886	1,933	-	-
Administration Expenses	5,650	5,828	87	66
Interest Income	24,375	24,079	24,375	24,079

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	9,506	397	-	-
Investment in Term Deposits	175,434	50,076	175,434	50,076
Investment in Debentures	125,090	125,090	125,090	125,090
Cash and Savings Account Balance	139	66	139	66
Administration Expenses Payable	2,192	928	26	4

c) Acuity Partners (Pvt) Ltd

For the Year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Transactions				
Insurance Premium	1,064	991	300	297
Claims Incurred	2,466	313	2,000	-

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	307	305	-	-

d) Acuity Stockbrokers (Pvt) Ltd

For the Year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Transactions				
Insurance Premium	2,630	537	-	-
Claims Incurred	520	209	-	-

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	188	83	-	-

e) Acuity Securities Ltd

For the Year ended 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Transactions				
Insurance Premium	715	618	-	-
Claims Incurred	413	609	-	-
Investment Income from REPO	139,463	114,089	109,772	75,843
Custodian fee	602	-	469	-

As at 31st December,	Group		Company	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	284	164	-	-
Investment in REPO	2,718,453	2,827,051	2,296,523	2,011,243

48.2 Transactions with Key Management Personnel of the Group or its Parent

According to Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Group have been classified as Key Management Personnel of the Group. In Addition, Chief Executive Officer, Chief Operating Officers and the Chief Financial Officer have also been classified as Key Management Personnel of the Group. Further immediate family members of Directors, Chief Executive Officer, Chief Operating Officers and Chief Financial Officer are also considered as related parties of the Group.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP for his/her financial needs.

Hatton National Bank PLC (Bank) is the ultimate parent of the Group, and the Board of Directors of the Bank has the authority and responsibility of planning, directing and controlling the activities of the Group. The Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Group.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

Fees and transactions carried out with the related parties are given below,

48.2.a Key Management Personnel Compensation

For the Year Ended 31st December,	2021 Rs.'000	2020 Rs.'000
Directors Fee	23,715	24,560
Short -Term Employee Benefits	7,373	61,930
Post - Employment Benefits	62,718	6,581
Outstanding Loan Balance Granted to KMPs (Other than Directors)	3,489	8,783

In addition to salaries, the Group also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of them.

No loans have been granted to the Directors of the Group.

48.2.b Other Transactions with Key Management Personnel

For the Year Ended 31st December,	2021 Rs.'000	2020 Rs.'000
Insurance Premium - Life Insurance	1,076	930
Insurance Premium - General Insurance	1,623	1,629
Claims Paid - General Insurance	-	1,805

48.2.c Following Directors were Appointed to the Board of HNB Assurance PLC and HNB General Insurance Limited

Name of the Director	Effective Date of Appointment
Mrs. L C Cooray*	17th March 2021
Mr. A Goonesekere**	31st December 2021

* Mrs. L C Cooray was appointed as a Director to the Board of HNB General Insurance Limited.

** Mr. A Goonesekere appointed as a Director to the Board of HNB Assurance PLC.

48.2.d Following Directors were Resigned and Retired from the Board of HNB Assurance PLC and HNB General Insurance Limited

Name of the Director	Effective Date of Resignation/Retirement
Mr. D P N Rodrigo*	17th March 2021
Mr. J A P M Jayasekara**	3rd December 2021

* Mr. D P N Rodrigo resigned from the Board of HNB General Insurance Limited having served as a Director for a period of 05 years.

** Mr. J A P M Jayasekara retired from the Board of HNB Assurance PLC having served as a Director for a period of 09 years.

48.2.e Retirement of Chief Executive Officer

Name of the Chief Executive Officer	Effective Date of Retirement
Mr. Prasantha Fernando	31st December 2021

Mr. Prasantha Fernando retired from the services of the HNB Assurance PLC and HNB General Insurance Limited.

48.2.f Transactions with Entities which are Controlled by the KMP or their Close Family Members (CFM)

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Group. Significant influence is presumed to be established if a Key Management Person of the Group has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel. Further significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of Transactions	Group		Company	
			2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Lanka Walltiles PLC		Insurance Premium	3,651	3,933	-	-
		Claims Incurred	2,266	275	-	-
Lanka Ceramic PLC		Insurance Premium	1,155	1,227	-	-
		Claims Incurred	737	340	-	-
Lanka Tiles PLC	Dr. S Selliah Mr. J A P M Jayasekara*	Insurance Premium	6,491	4,904	-	-
		Claims Incurred	583	587	-	-
Swisstek (Ceylon) PLC		Insurance Premium	1,482	1,396	-	-
		Claims Incurred	791	2	-	-
Swisstek Aluminium Ltd		Insurance Premium	233	-	-	-
		Claims Incurred	-	15	-	-
M N Properties (Pvt) Ltd	Mr. J A P M Jayasekara*	Insurance Premium	572	13	-	-
		Claims Incurred	63	141	-	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	15	11	-	-
Arunodhaya Industries (Pvt) Ltd		Insurance Premium	163	209	-	-
Andysel (Pvt) Ltd	Dr. S Selliah	Insurance Premium	78	78	-	-
Arunodhaya Investments (Pvt) Ltd		Insurance Premium	170	199	-	-
JAT Holdings PLC		Insurance Premium	-	698	-	-
Hemas Pharmaceuticals (Pvt) Ltd	Mr. S A Chapman	Insurance Premium	28,436	-	-	-
		Claims Incurred	12,251	-	-	-
Cargills Bank Limited	Mr. M O F Salieh	Administration Expenses	16	-	16	-

*Mr. J A P M Jayasekara retired from the Board of HNB Assurance PLC with effect from 3rd December 2021.

48.3 Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 25% of the voting rights of the Ultimate parent Company Hatton National Bank PLC as at 31st December 2021 and thus has significant influence over its operation and thereby holds an indirect control over the Group. Accordingly, the Group has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as Related Parties according to LKAS 24 - Related Party Disclosures.

During the year ended 31st December 2021, the Group has carried out transactions with the Government of Sri Lanka and other Government related entities in the ordinary course of its business where the aggregate amount of transactions has exceeded 10% of the Gross Written Premium. Details of transactions with the Government of Sri Lanka and its related entities are given below as per the Section 9.3.2b of the listing rules - "Related Party Transactions". All the transactions are carried out under the normal course of business at prevailing market prices.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

Name of the Company/Entity	Government and Government Related Financial Institutes	Nature of Transactions	Group		Company	
			2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Government of Sri Lanka		Investment balances as at 31st December	14,262,376	10,014,045	12,175,057	8,308,811
		Investment Income	904,933	780,208	766,346	661,140
Bank of Ceylon	Government Related Entity	Investment balances as at 31st December	-	218,355	-	40,044
		Investment Income	12,557	18,479	5,256	5,315
National Development Bank PLC	Government Related Entity	Investment balances as at 31st December	2,462,335	2,093,205	2,149,153	1,760,510
		Investment Income	177,059	180,941	153,401	157,255
People's Bank	Government Related Entity	Investment balances as at 31st December	1,824,864	1,890,438	1,536,176	1,742,902
		Investment Income	132,759	164,190	119,010	145,782
National Savings Bank	Government Related Entity	Investment balances as at 31st December	1,092,705	1,694,298	992,495	1,491,939
		Investment Income	104,357	152,508	96,331	127,608
Sri Lanka Telecom PLC	Government Related Entity	Investment balances as at 31st December	148,112	148,112	148,112	148,112
		Investment Income	18,408	18,459	18,408	18,459

Apart from the transactions listed above the Group has carried out transactions with other Government related entities in the form of premium income, reinsurance premium, claims, taxes, utility bills, regulatory charges etc. The total of such payments made during the year ended 31st December 2021 and 2020 are as follows:

For the year ended 31st December,	2021 Rs.'000	2020 Rs.'000
Transactions		
Premium Income from Government Related Entities	14,341	6,341
Claims Paid to Government Related Entities	1,595	1,918
Reinsurance Premium Net of Commission to Government Related Entities	364,105	342,836
Taxes Paid	560,201	409,653
Regulatory Charges	190,634	178,732
Utility Expenses	50,273	53,915
Media Expenses	837	504

49. EVENTS OCCURRING AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. Two types of events can be identified as events occurring after the balance sheet date:

- those that provide evidence of conditions that existed at the end of the reporting period.
- those that are indicative of conditions that arose after the reporting period.

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.

49.1 Appointment of Chief Executive Officers

Name of the Chief Executive Officer	Effective Date of Appointment
Mr. Lasitha Wimalaratne*	1st January 2022
Mr. Sithumina Jayasundara**	1st January 2022

* Mr. Lasitha Wimalaratne was appointed as the Chief Executive Officer of HNB Assurance PLC.

** Mr. Sithumina Jayasundara was appointed as the Chief Executive Officer of HNB General Insurance Limited.

49.2 Proposed Dividend

The Board of Directors has recommended a payment of Rs. 3.20 per share as first and final dividend on 18th February 2022 for the year ended 31st December 2021. The proposed dividend is subject to the approval of shareholders at the Annual General Meeting and to be paid on or before 26th April 2022.

49.3 Subsequent Tax Assessments

Subsequent to the reporting date Company received two tax assessments for VAT on Financial Services for the periods of 01.01.2017 to 31.12.2017 and 01.01.2018. to 31.12.2018 amounting to Rs. 63.84 Million and Rs. 98.86 Million respectively, including penalties.

49.4 Surcharge Tax

The Bill governing the imposition and administration of the Surcharge Tax was published in the Gazette on 7th February 2022. The Surcharge Tax was proposed in the Budget 2022, as a one-time tax. Surcharge Tax is payable by any individual, partnership, company or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold as specified in the Bill. There shall be levied a Surcharge Tax any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds rupees two thousand million, for the year of assessment commenced on 1st April 2020, at the rate of twenty five per centum on the taxable income of such individual, partnership or company, for such year of assessment. Although the Company/Group may not meet this threshold, there could be implications due as a result of being subsidiaries of Hatton National Bank PLC Group. The proposed surcharge tax has not been accounted for in these financial statements of the Company and the Group as at 31st December 2021 as the said Bill is not considered to be substantively enacted as per LKAS – 12 as at the reporting date.

Other than mentioned above there have been no material events occurred after the reporting date that require adjustments or disclosure in these Financial Statements.

50. COMMITMENTS

The Group has committed an expense of Rs. 49.1 Million for the purchase of computer hardware, software and equipment (2020 - Rs. 24.1 Million for the purchase of computer software and equipment). As at end of the financial year, other than the disclosed above no material capital expenditure approved by the Board of Directors and contracted for which no provision has been made in the annual Financial Statements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

GRI 207-3

51. COVID-19 PANDEMIC AND RELATED IMPLICATIONS

As of the reporting date the effects of COVID-19 continues to affect businesses both locally and globally. The Company and Subsidiary have implemented a work from home concept and necessary technological support and infrastructure to ensure business continuity. The Group continue to follow the health and safety guidelines issued by the Government of Sri Lanka and the management and the Board monitors the effects of the pandemic and its potential impact on the Group. The Board has assessed the potential implications of COVID-19 on the profitability, solvency and liquidity position of the Group. The Company/Group will not have any limitation in meeting future obligations and business continuity.

The Insurance Regulatory Commission of Sri Lanka (IRCSL) continues to monitor insurance companies through monthly monitoring of solvency related ratios. As per Direction 1 of 2021 issued by the IRCSL on 10th March 2021 and subsequent amendments, the Board of Directors of insurance companies are required to provide a confirmation to the IRCSL that COVID-19 impacts have been considered under stress scenarios along with solvency and other factors as specified in the Direction prior to declaration of any dividends.

The significant accounting estimates impacted by COVID-19 related forecasts and associated uncertainties are predominantly related to fair value measurement and the assessment of the recoverable amount of non- financial assets. Wherever necessary, the impact of the COVID-19 pandemic on estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

52. CONTINGENCIES

52.1 Assessment on Value Added Tax (VAT) on Reinsurance Claims

The Company received an Assessment on Value Added Tax (VAT) on Reinsurance Claims on 26th April 2013 from the IRD in respect of the Year of Assessment 2010/2011 for which the Company filed responses in consultation with Company's Tax Consultant to IRD and upon the receipt of determination from IRD, the Company made an appeal to the Tax Appeals Commission (TAC) of Sri Lanka. The TAC has granted their final determination on 26th March 2018 confirming the determination made by IRD and dismissed the appeal made by the Company. The Company has filed a case in the Court of Appeal with the consultation of Tax Consultant and Company's Lawyers and the case is yet to be determined by the Court. As the Company is of the strong view that the Company has followed the due process and acted in accordance with the prevailing laws in its tax compliance and therefore, the probability of the Company having to settle any of these tax assessments is very low. As an outflow of resources is not expected, no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 21.99 Million.

52.2 Assessment on VAT and NBT on Financial Services

The Company received three Notices of Assessment on VAT and NBT on Financial Services for the taxable periods 01.01.2014 to 31.12.2014, 01.01.2015 to 31.12.2015 and 01.01.2016 to 31.12.2016. The Company has duly appealed for all three assessments as the Company's stance is that, it is in the business of Insurance hence it is not liable for VAT or NBT on FS. Other insurers have also received similar assessments and have appealed against them. As an outflow of resources is not expected, no provision is made in the Financial Statements. The status of each assessment is provided in the table below.

Taxable Period	Date of Assessment	Status of Assessment	Tax Type	Measurement of Contingent Impact to the Company		
				Tax in Default (Rs. Mn)	Penalty (Rs. Mn)	Total (Rs. Mn)
2014.01.01-2014.12.31	2018.07.10	Pending decision from Tax Appeals Commission	VAT	21.06	10.53	31.59
			NBT	N/A	N/A	N/A
2015.01.01-2015.12.31	2019.04.08	Pending decision from Tax Appeals Commission	VAT	17.55	12.98	30.53
			NBT	2.83	1.41	4.24
2016.01.01-2016.12.31	2019.04.08	Pending decision from Tax Appeals Commission	VAT	24.86	12.43	37.29
			NBT	4.01	2.00	6.01
Total				70.31	39.35	109.66

52.3 Assessment on VAT

The Company and its Subsidiary have received VAT notice of assessments. The Company has duly appealed against these Assessments in consultation with the Tax Consultants on the basis that no proper reasons were communicated as to why the penalty and default notices were raised against the Company. However, Company has not received any communication from IRD yet. As such no provision has been made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 1.56 Million. Further, the subsidiary company, HNB General Insurance Limited, has received tax assessments and penalties amounting to Rs. 143.25 Million on VAT returns filed and the subsidiary has duly appealed against the assessments. As an outflow of resources is not expected, no provision is made in the Financial Statements.

52.4 Assessments for Income Tax on Life Insurance Taxation

The Company has received Income Tax Assessments for Life Insurance Taxation for the years of assessments 2011/2012, 2012/2013, 2013/2014, 2014/2015, 2015/2016, 2016/2017 and 2017/2018. In the view of the Company and its Tax Consultants, these Assessments do not conform to the description of requirements stated under the Section 92 of Inland Revenue Act, No. 10 of 2006. Further, the basis for these Income Tax Assessments has been same for all Life Insurance companies in the insurance industry. However, the management and the Company's Tax Consultant are of the view that the Company has followed the due process and acted in accordance with the prevailing laws in its tax Compliances and therefore, the probability of the Company having to settle any of these tax assessments is very low. As an outflow of resources is not expected, no provision is made in the Financial Statements.

The Company has duly appealed against these assessments in consultation with Tax Consultants and the status of each Assessment is provided in the table below.

Year of Assessment	Date of Assessment/ Intimation	Status of Assessment	Measurement of Contingent Impact to the Company	Total Additional Liability (Rs. Million)
2011/2012	2014.11.20	Pending decision from Tax Appeals Commission	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 310 Million	-
2012/2013	2015.11.30	Pending decision from Tax Appeals Commission	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 278 Million	-
2013/2014	2016.05.30	Pending decision from Tax Appeals Commission	An additional Tax Liability will arise	132
2014/2015	2017.05.30	Pending decision from Tax Appeals Commission	An additional Tax Liability will arise	136
2015/2016	2018.05.31	Pending decision from Commissioner General of Inland Revenue	An additional Tax Liability will arise	164
2016/2017	2019.01.29	Pending decision from Tax Appeals Commission	An additional Tax Liability will arise	290
2017/2018	2020.05.19	Pending decision from Commissioner General of Inland Revenue	An additional Tax Liability will arise	434
Total				1,156

53. LITIGATIONS AND CLAIMS

In the opinion of the Directors and in consultation with the Company lawyers, litigations currently pending against the Group and Company will not have a material impact on the reported financial results or future operations. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

54. COMPARATIVE INFORMATION

The presentation and classification of Notes to the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

55. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for these Financial Statements. Please refer to pages 189 to 190 of the Statement of Directors' Responsibility for Financial Reporting.

STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND - SUPPLEMENTAL

As at 31st December,			2021	2020
	Note	Page No.	Rs.'000	Rs.'000
Assets				
Financial Investments	A	340	20,282,953	17,690,083
Loans to Life Policyholders	B	345	403,452	379,736
Reinsurance Receivables	C	345	317,009	172,699
Premium Receivables	14	288	7,822	4,988
Other Assets	D	345	95,491	95,009
Cash and Cash Equivalents	E	346	878,280	319,267
Total Assets			21,985,007	18,661,782
Equity and Liabilities				
Life Policyholders' Available For Sale Reserve Fund	22	295	(67,291)	757,933
Total Equity			(67,291)	757,933
Liabilities				
Insurance Contract Liabilities - Life Insurance	24	297	20,342,757	17,064,089
Reinsurance Creditors	F	346	453,054	290,916
Other Liabilities	G	346	518,949	375,793
Bank Overdrafts	E	346	47,220	53,904
Payable to Life Shareholders			690,318	119,147
Total Liabilities			22,052,298	17,903,849
Total Equity and Liabilities			21,985,007	18,661,782

The Notes to the Supplemental Statement of Financial Position as set out on pages 340 to 346 form an integral part of these Financial Statements.

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

A. FINANCIAL INVESTMENTS

As at 31st December,	Note	2021 Rs.'000	2020 Rs.'000
Held to Maturity	A.1	261,698	-
Loans and Receivable	A.2	13,053,865	11,002,659
Available For Sale	A.3	6,829,052	6,147,274
Fair Value Through Profit or Loss	A.4	138,338	540,150
Total Financial Investments		20,282,953	17,690,083

The table below shows the carrying values of these Financial Instruments together with their fair values.

As at 31st December,	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held to Maturity	261,698	265,273	-	-
Loans and Receivable	13,053,865	13,111,840	11,002,659	11,951,982
Available For Sale	6,829,052	6,829,052	6,147,274	6,147,274
Fair Value Through Profit or Loss	138,338	138,338	540,150	540,150
Total Financial Investments	20,282,953	20,344,503	17,690,083	18,639,406

As at 31st December,	Note	2021		2020	
		Carrying value	Fair value	Carrying value	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.1 Held to Maturity					
Treasury Bonds		261,698	265,273	-	-
Total		261,698	265,273	-	-
A.2 Loans and Receivable					
Repos		3,116,806	3,116,806	1,311,326	1,311,326
Term Deposit	A.5	4,510,322	4,549,338	5,518,031	5,878,662
Corporate Debt	A.6	5,386,506	5,405,465	4,169,558	4,758,250
Sri Lanka Development Bonds		40,231	40,231	3,744	3,744
Total		13,053,865	13,111,840	11,002,659	11,951,982
A.3 Available for Sale					
Treasury Bonds		6,304,060	6,304,060	6,096,674	6,096,674
Treasury Bills		448,109	448,109	-	-
Equity Shares	A.7	76,883	76,883	50,600	50,600
Total		6,829,052	6,829,052	6,147,274	6,147,274
A.4 Fair Value Through Profit or Loss					
Investment in Units	A.8	-	-	441,563	441,563
Equity Shares	A.9	138,338	138,338	98,587	98,587
Total		138,338	138,338	540,150	540,150

As at 31st December,		2021		2020	
		Carrying value	Fair value	Carrying value	Fair value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.5 Term Deposits					
Long-Term and Medium-Term Deposits with,					
Licensed Commercial Banks	A.5.1.	2,289,339	2,280,181	3,181,337	3,274,075
Licensed Specialised Banks		425,600	430,744	706,875	760,047
Licensed Finance Companies	A.5.2.	1,795,383	1,838,413	1,629,819	1,844,540
Total		4,510,322	4,549,338	5,518,031	5,878,662
A.5.1. Licensed Commercial Banks					
Term Deposits with Related Parties - Hatton National Bank PLC		102,484	102,484	316,493	316,493
Other Banks		2,186,855	2,177,697	2,864,844	2,957,582
Total		2,289,339	2,280,181	3,181,337	3,274,075
A.5.2. Licensed Finance Companies					
Term Deposits with Related Parties - HNB Finance PLC		175,434	176,320	50,076	55,215
Other Finance Companies		1,619,949	1,662,093	1,579,743	1,789,325
Total		1,795,383	1,838,413	1,629,819	1,844,540

As at 31st December,		2021		2020	
		Carrying value	Fair value	Carrying value	Fair value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.6. Corporate Debt					
Debentures - Quoted	A.6.1	4,759,192	4,810,205	3,822,471	4,381,952
Debentures - Unquoted	A.6.2	627,314	595,260	347,087	376,298
Total		5,386,506	5,405,465	4,169,558	4,758,250

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

A. FINANCIAL INVESTMENTS (CONTD.)

As at 31st December,	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.6.1 Debentures - Quoted				
Bank of Ceylon	-	-	40,044	42,503
Commercial Bank of Ceylon PLC	160,778	161,590	174,643	207,605
Commercial Leasing and Finance PLC	164,511	161,229	164,511	180,748
DFCC Bank PLC	912,189	937,347	912,189	1,083,286
Hatton National Bank PLC	189,687	177,034	226,975	244,228
Hayleys PLC	307,680	318,989	307,638	343,907
First Capital Holdings PLC	191,621	182,002	-	-
HNB Finance PLC	100,072	103,704	100,072	117,052
LOLC Holdings PLC	533,925	540,427	207,808	254,450
LB Finance PLC	9,066	9,323	9,066	9,977
National Development Bank PLC	648,987	650,561	212,367	236,394
Nations Trust Bank PLC	391,367	402,161	434,199	494,943
People's Leasing & Finance PLC	238,150	227,150	89,990	97,311
Sri Lanka Telecom PLC	148,112	151,883	148,112	186,424
Sampath Bank PLC	473,344	493,536	473,344	532,790
Seylan Bank PLC	273,156	275,854	218,060	240,653
Singer (Sri Lanka) PLC	-	-	72,186	75,177
Siyapatha Finance PLC	16,548	17,414	31,267	34,504
Total Investment in Quoted Debentures	4,759,192	4,810,205	3,822,471	4,381,952

As at 31st December,	2021		2020	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.6.2 Debentures - Unquoted				
DFCC Bank PLC	190,958	190,145	190,958	211,226
Nations Trust Bank PLC	280,227	255,993	-	-
People's Bank	156,129	149,122	156,129	165,072
Total Investment in Unquoted Debentures	627,314	595,260	347,087	376,298

As at 31st December,	2021			2020		
	No. of Shares	Cost	Carrying Value/Fair Value	No. of Shares	Cost	Carrying Value/Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
A.7 Equity Shares - Available For Sale						
Banks, Finance and Insurance						
Seylan Bank PLC - (Non-Voting)	298,359	12,259	9,935	278,710	11,827	9,783
Sampath Bank PLC	124,146	7,220	6,468	41,382	7,220	5,611
Central Finance Company PLC	142,285	17,090	13,233	140,201	16,921	11,637
Sector Total (a)			29,636			27,031
Diversified Holdings						
Melstacorp PLC	39,532	2,343	2,218	39,532	2,343	2,056
Sector Total (b)			2,218			2,056
Manufacturing						
Tokyo Cement Company (Lanka) PLC	71,002	886	4,246	71,002	886	5,410
Royal Ceramics Lanka PLC	400,000	4,854	31,240	50,000	6,067	8,855
Sector Total (c)			35,486			14,265
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	11,713	-	199	11,713	-	240
Sector Total (d)			199			240
Land and Property						
Overseas Realty (Ceylon) PLC	486,679	12,453	9,344	486,679	12,453	7,008
Sector Total (e)			9,344			7,008
Carrying Value of Total Investment in Quoted Shares (a+b+c+d+e)			76,883			50,600

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

A. FINANCIAL INVESTMENTS (CONTD.)

As at 31st December,	2021		2020	
	No. of Units	Carrying Value/Fair Value Rs.'000	No. of Units	Carrying Value/Fair Value Rs.'000
A.8. Investment Units				
Unquoted				
NDB Wealth Money Plus Fund	-	-	4,734,335	111,024
JB Vantage Money Market Fund	-	-	4,015,147	110,160
Capital Alliance Investment Grade Fund	-	-	5,581,749	110,183
Capital Alliance Income Fund	-	-	5,381,752	110,196
Total Investment in Unquoted Units				441,563

As at 31st December,	2021			2020		
	No. of Shares	Cost Rs.'000	Carrying Value/Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying Value/Fair Value Rs.'000
A.9 Equity Shares - Fair Value Through Profit or Loss						
Banks, Finance and Insurance						
Sampath Bank PLC	193,902	12,527	10,102	64,634	12,527	8,764
Nations Trust Bank PLC	91,471	6,258	5,031	91,471	6,258	5,488
Peoples Leasing & Finance PLC	543,212	9,452	5,812	513,583	9,067	6,368
Seylan Bank PLC - (Non Voting)	368,673	12,547	12,730	368,673	11,994	12,535
Sector Total (a)			33,675			33,155
Diversified Holdings						
John Keells Holdings PLC	29,670	3,679	4,451	29,670	3,679	4,439
Richard Pieris and Company PLC	312,851	4,351	7,696	312,851	4,351	4,661
Vallibel One PLC	209,638	4,000	15,220	200,000	3,600	5,200
Melstacorp PLC	55,000	3,260	3,086	55,000	3,260	2,860
Sector Total (b)			30,453			17,160
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	22,222	-	378	22,222	-	456
Sector Total (c)			378			456
Manufacturing						
Royal Ceramic Lanka PLC	280,000	4,318	21,867	28,000	4,318	4,959
ACL Cables PLC	190,400	3,016	19,088	95,200	3,016	7,292
Tokyo Cement Company (Lanka) PLC	320,869	11,938	19,188	320,869	11,938	24,450
Dipped Products PLC	270,000	8,371	13,689	32,000	9,921	11,115
Sector Total (d)			73,832			47,816
Carrying Value of Total Investment in Quoted Shares (a+b+c+d)			138,338			98,587

As at 31st December,	Note	2021 Rs.'000	2020 Rs.'000
B. LOANS TO LIFE POLICYHOLDERS			
Balance as at 1st January		303,481	269,579
Loans Granted during the Year		109,292	120,711
Repayments during the year		(100,298)	(86,809)
		312,475	303,481
Interest Receivable		90,977	76,255
Balance as at 31st December		403,452	379,736
C. REINSURANCE RECEIVABLES			
Reinsurance Receivable on Outstanding Claims		77,128	35,129
Reinsurance Receivable on Settled Claims	C.1	239,881	137,570
Total Reinsurance Receivable		317,009	172,699
C.1 Reinsurance Receivable on Settled Claims			
The Age Analysis of the Reinsurance Receivable on Settled Claims is as Follows:			
Up to 30 days		24,799	9,049
31 to 60 days		19,795	2,865
61 to 90 days		18,820	24,407
91 to 180 days		52,538	26,098
Over 181 days		123,929	75,151
Total Reinsurance Receivable on Settled Claims		239,881	137,570
D. OTHER ASSETS			
Withholding Tax Recoverable from the Commissioner General of Inland Revenue		83,607	83,607
Other Receivables		11,884	11,402
Total Other Assets		95,491	95,009

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

As at 31st December,	Note	2021 Rs.'000	2020 Rs.'000
E. CASH AND CASH EQUIVALENTS			
Cash in Hand		1,686	1,532
Cash at Bank with Licensed Commercial Banks		6,787	9,625
Cash at Bank with Related Parties		278,084	308,110
		286,557	319,267
Short - Term Deposits	E.1	591,723	-
Cash and Cash Equivalents		878,280	319,267
Bank Overdrafts		(47,220)	(53,904)
Total Cash and Cash Equivalents		831,060	265,363
E.1 Short - Term Deposits			
Licensed Commercial Banks		591,723	-
Total Short - Term Deposits		591,723	-
F. REINSURANCE CREDITORS			
Foreign Reinsurer		453,054	290,916
G. OTHER LIABILITIES			
Policyholders Advance Payments		223,263	198,587
Acquisition Cost Payable		138,715	107,722
Taxes and Government Levies		23,870	15,459
Others		133,101	54,025
Total Other Liabilities		518,949	375,793

INSURANCE REVENUE ACCOUNT

For the Year Ended 31st December,	2021 Rs.'000	2020 Rs.'000
Life Insurance		
Gross Written Premium	7,091,470	5,487,039
Premium Ceded to Reinsurers	(355,537)	(265,164)
Net Written/Earned Premium	6,735,933	5,221,875
Net Benefits Expense	(1,646,088)	(1,494,181)
Net Commission	(1,098,206)	(904,213)
Expenses Attributable to Policyholders	(1,756,248)	(1,455,645)
Fees and Commission Income	63,079	23,398
Underwriting Surplus	2,298,470	1,391,234
Change in contract Liabilities - Life Fund	(3,249,356)	(2,576,169)
Interest and Dividend Income	1,842,787	1,739,030
Net Realised Gains	38,239	44,909
Net Fair Value Gain	49,484	12,586
Other Income	376	613
Surplus from Life Insurance Business	980,000	612,203
Shareholder Fund		
Expenses not attributable to Policyholders	(24,328)	(16,253)
Total other Revenue from Shareholder Fund	496,539	403,413
Profit Before Taxation (a)	1,452,211	999,363
General Insurance		
Gross Written Premium	5,648,578	4,997,728
Premium Ceded to Reinsurers	(1,293,324)	(1,042,814)
Net Written Premium	4,355,254	3,954,914
Net Change in Reserves for Unearned Premium	(242,252)	(164,257)
Net Earned Premium	4,113,002	3,790,657
Net Claims Incurred	(2,578,755)	(2,064,502)
Net Commission	(610,544)	(584,507)
(Increase)/Decrease in Deferred Acquisition Expenses	(5,909)	24,997
Expenses	(1,090,130)	(1,063,179)
Fees and Commission Income	181,325	137,055
Underwriting Surplus/(Deficit)	8,989	240,521
Interest and Dividend Income	359,154	367,955
Net Realised Gains	2,812	8,725
Net Fair Value Gain	29,644	4,709
Other Income	10,568	9,223
Operating Profit from General Insurance Business (b)	411,167	631,133
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Surplus from Life Insurance Business (a)	1,452,211	999,363
Operating Profit from the Subsidiary (b)	411,167	631,133
Profit Before Taxation	1,863,378	1,630,496
Consolidated adjustments		
Dividend received from subsidiary	(115,000)	-
	1,748,378	1,630,496
Income Tax Expense	(524,730)	(455,273)
Profit for the Year	1,223,648	1,175,223

TAKAFUL BUSINESS ANALYSIS - PROFITABILITY

For the Year Ended 31st December,	Life-Takaful	
	2021	2020
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	11,818	2,003
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(3,087)	(1,873)
Net Earned Contribution (Premium)	8,731	130
Other Income	4,618	1,567
Net Income	13,349	1,697
Total Benefits, Loss (Claims) and Other Expenses	(5,378)	(1,379)
Transfer to Family Takaful Fund	7,971	318

For the Year Ended 31st December,	Non Life -Takaful	
	2021	2020
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	402,316	422,268
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(97,378)	(75,529)
Unearned Takaful Contribution (Premium)	9,275	64,687
Net Earned Contribution (Premium)	314,213	411,426
Other Income	16,649	25,635
Net Income	330,862	437,061
Total Benefits, Loss (Claims) and Other Expenses	(322,405)	(368,527)
Profit for the Year	8,457	68,534

* Reinsurance may be obtained from conventional entities in the absence of Retakaful arrangements.

Shari'ah Audit Reports of HNB Assurance PLC Takaful Unit and HNB General insurance Limited Takaful Unit are given on Pages 349 and 350 respectively.

SHARI'AH REPORT OF HNB ASSURANCE PLC TAKAFUL UNIT

SHARI'AH AUDIT REPORT OF HNBA TAKAFUL UNIT

We have examined the accompanying financial statement of HNBA Takaful Unit for the year ended 31st December 2021. We have also conducted our review to form an opinion as to whether HNBA Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBA Takaful unit's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBA Takaful Unit, and to report to you.


Scope of Audit and Basis of Opinion

The scope of our audit primarily involves the review of HNBA Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financial transactions undertaken by HNBA Takaful Unit, during the year ended 31st December 2021, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBA Takaful Unit was, in operational respect, in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.



ASH – SHEIKH FAZIL M FAROOK
Chairman
Shari'ah Supervisory Board



ASH – SHEIKH MURSHID M. MULAFFER
Member
Shari'ah Supervisory Board



ASH – SHEIKH HUZAIFA HUSSAIN
Member
Shari'ah Supervisory Board

SHARI'AH REPORT OF HNB GENERAL INSURANCE LIMITED TAKAFUL UNIT

SHARI'AH AUDIT REPORT OF HNB GENERAL TAKAFUL UNIT

We have examined the accompanying financial statement of HNBG Takaful Unit for the year ended 31st December 2021. We have also conducted our review to form an opinion as to whether HNBG Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBG Takaful unit's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBG Takaful Unit, and to report to you.

Scope of Audit and Basis of Opinion

The scope of our audit primarily involves the review of HNBG Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financials and transactions undertaken by HNBG Takaful Unit, during the year ended 31st December 2021, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBG Takaful Unit was, in operational respect, in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.



ASH – SHEIKH FAZIL M. FAROOK
Chairman
Shari'ah Supervisory Board



ASH – SHEIKH MURSHID M. MULAFFER
Member
Shari'ah Supervisory Board



ASH – SHEIKH HUZAIFA HUSSAIN
Member
Shari'ah Supervisory Board

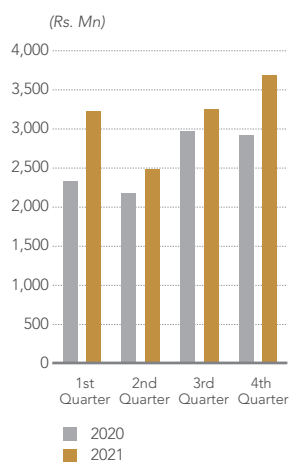
QUARTERLY ANALYSIS 2021 AND 2020 - GROUP

Statement of Profit or Loss

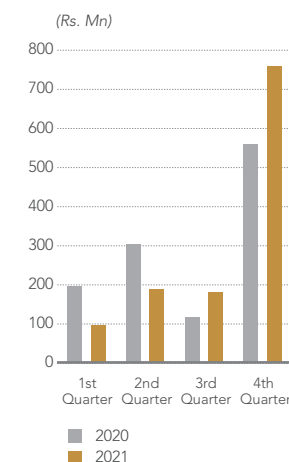
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,222,956	2,328,934	2,481,127	2,177,953	3,256,275	2,971,996	3,686,589	2,920,109	12,646,947	10,398,992
Premium Ceded to Reinsurers	(427,635)	(319,684)	(365,948)	(290,794)	(380,317)	(297,434)	(474,961)	(400,066)	(1,648,861)	(1,307,978)
Net Written Premium	2,795,321	2,009,250	2,115,179	1,887,159	2,875,958	2,674,562	3,211,628	2,520,043	10,998,086	9,091,014
Net Change in Reserves for Unearned Premium	(242,436)	(43,846)	288,197	25,914	(108,053)	(131,590)	(179,960)	(14,735)	(242,252)	(164,257)
Net Earned Premium (a)	2,552,885	1,965,404	2,403,376	1,913,073	2,767,905	2,542,972	3,031,668	2,505,308	10,755,834	8,926,757
Other Revenue										
Interest and Dividend Income	615,705	615,078	620,215	614,033	645,176	629,129	674,178	635,077	2,555,274	2,493,317
Net Realised Gains	8,099	188	-	12,206	11,618	13,597	33,204	27,643	52,921	53,634
Net Fair Value Gains/(Losses)	47,767	(17,924)	18,580	6,229	10,930	11,865	1,851	17,526	79,128	17,696
Fee and Commission Income	94,082	36,852	30,511	31,093	37,783	49,169	63,362	23,729	225,738	140,843
Other Income	4,539	1,560	6,515	6,604	1,171	5,392	1,109	1,414	13,334	14,970
Total Other Revenue (b)	770,192	635,754	675,821	670,165	706,678	709,152	773,704	705,389	2,926,395	2,720,460
Net Income (c=a+b)	3,323,077	2,601,158	3,079,197	2,583,238	3,474,583	3,252,124	3,805,372	3,210,697	13,682,229	11,647,217
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(1,025,119)	(841,732)	(878,704)	(707,524)	(1,032,080)	(1,072,754)	(1,287,387)	(936,631)	(4,223,290)	(3,558,641)
Change in Contract Liabilities - Life Fund	(1,035,084)	(611,475)	(926,933)	(610,501)	(1,094,139)	(970,927)	(193,200)	(383,266)	(3,249,356)	(2,576,169)
Other Operating and Administration Expenses	(637,210)	(590,926)	(676,491)	(581,562)	(747,066)	(662,477)	(832,057)	(711,244)	(2,892,824)	(2,546,209)
Underwriting and Net Acquisition Costs	(363,158)	(272,042)	(298,322)	(238,518)	(344,862)	(371,054)	(449,916)	(353,832)	(1,456,258)	(1,235,446)
Finance & Other Insurance Related Costs	(30,890)	(19,975)	(27,906)	(24,183)	(27,487)	(19,261)	(25,840)	(36,837)	(112,123)	(100,256)
Total Benefits, Claims and other Expenses (d)	(3,091,461)	(2,336,150)	(2,808,356)	(2,162,288)	(3,245,634)	(3,096,473)	(2,788,400)	(2,421,810)	(11,933,851)	(10,016,721)
Profit Before Taxation (c+d)	231,616	265,008	270,841	420,950	228,949	155,651	1,016,972	788,887	1,748,378	1,630,496
Income Tax Expense	(134,971)	(69,034)	(82,464)	(116,958)	(48,874)	(39,200)	(258,421)	(230,081)	(524,730)	(455,273)
Profit for the Period	96,645	195,974	188,377	303,992	180,075	116,451	758,551	558,806	1,223,648	1,175,223

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2020 annual report, and the comparative figures published in first, second, third and fourth quarters of 2021 have been reclassified where necessary.

Gross Written Premium (Group)



Profit for the Period (Group)



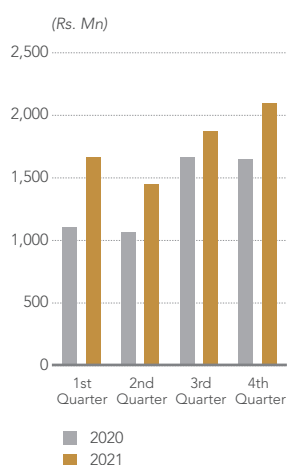
QUARTERLY ANALYSIS 2021 AND 2020 - COMPANY

Statement of Profit or Loss

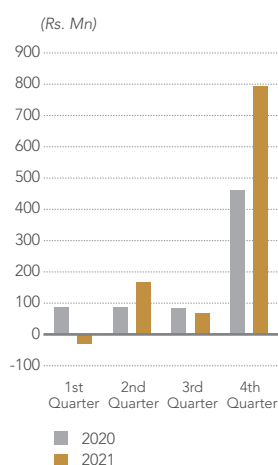
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr-Jun		Jul-Sep		Oct-Dec		Jan-Dec	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	1,666,630	1,106,940	1,451,921	1,062,643	1,874,952	1,666,774	2,097,967	1,650,682	7,091,470	5,487,039
Premium Ceded to Reinsurers	(79,380)	(68,085)	(87,324)	(59,088)	(89,927)	(66,359)	(98,906)	(71,632)	(355,537)	(265,164)
Net Earned Premium (a)	1,587,250	1,038,855	1,364,597	1,003,555	1,785,025	1,600,415	1,999,061	1,579,050	6,735,933	5,221,875
Other Revenue										
Interest and Dividend Income	527,713	522,463	647,229	523,557	554,941	536,975	581,237	542,367	2,311,120	2,125,362
Net Realised Gains	7,572	-	-	7,558	9,333	9,794	33,204	27,557	50,109	44,909
Net Fair Value Gains/(Losses)	29,342	(24,183)	14,185	9,077	7,057	12,663	(1,100)	15,430	49,484	12,987
Fee and Commission Income	54,056	10,475	6,961	4,853	7,832	7,153	8,176	12,464	77,025	34,945
Other Income	185	86	2,107	1,480	(79)	3,953	553	228	2,766	5,747
Total Other Revenue (b)	618,868	508,841	670,482	546,525	579,084	570,538	622,070	598,046	2,490,504	2,223,950
Net Income (c=a+b)	2,206,118	1,547,696	2,035,079	1,550,080	2,364,109	2,170,953	2,621,131	2,177,096	9,226,437	7,445,825
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(419,933)	(283,989)	(305,349)	(368,653)	(463,281)	(412,838)	(457,525)	(428,701)	(1,646,088)	(1,494,181)
Change in Contract Liabilities - Life Fund	(1,035,084)	(611,475)	(926,933)	(610,501)	(1,094,139)	(970,927)	(193,200)	(383,266)	(3,249,356)	(2,576,169)
Other Operating and Administration Expenses	(364,689)	(336,807)	(371,175)	(286,911)	(436,414)	(386,886)	(521,740)	(420,138)	(1,694,018)	(1,430,742)
Underwriting and Net Acquisition Costs	(268,707)	(185,762)	(206,510)	(159,887)	(259,572)	(273,961)	(363,418)	(268,917)	(1,098,207)	(888,527)
Finance & Other Insurance Related Costs	(21,184)	(11,879)	(20,454)	(10,786)	(19,911)	(14,800)	(25,008)	(19,378)	(86,557)	(56,843)
Total Benefits, Claims and other Expenses (d)	(2,109,597)	(1,429,912)	(1,830,421)	(1,436,738)	(2,273,317)	(2,059,412)	(1,560,891)	(1,520,400)	(7,774,226)	(6,446,462)
Profit Before Taxation (c+d)	96,521	117,784	204,658	113,342	90,792	111,541	1,060,240	656,696	1,452,211	999,363
Income Tax Expense	(126,044)	(28,445)	(36,764)	(26,711)	(21,312)	(25,235)	(267,592)	(195,027)	(451,712)	(275,418)
Profit for the Period	(29,523)	89,339	167,894	86,631	69,480	86,306	792,648	461,669	1,000,499	723,945

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2020 annual report, and the comparative figures published in first, second, third and fourth quarters of 2021 have been reclassified where necessary.

Gross Written Premium (Company)



Profit for the Period (Company)



DECADE AT A GLANCE

HNB Assurance PLC - GROUP Statement of Financial Position

As at 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	282,884	169,788	162,371	151,559	169,620	161,362	136,279	133,942	137,009	118,447
Right of use Assets	395,148	394,437	343,737	-	-	-	-	-	-	-
Intangible Assets	63,180	68,858	51,787	61,087	57,841	60,882	45,185	51,622	53,807	61,068
Deferred Tax Assets	291,832	738,721	1,009,711	1,304,882	64,098	52,922	49,394	-	2	-
Financial Investments	29,094,085	26,366,608	21,202,074	17,579,131	15,054,910	11,544,575	9,751,611	8,277,895	6,656,438	5,703,866
Loans to Life Policyholders	403,452	379,736	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888
Reinsurance Receivables	1,072,206	771,776	645,411	415,773	569,778	494,726	141,354	162,260	105,390	162,715
Premium Receivables	1,247,997	1,111,594	946,650	798,213	786,319	623,294	345,916	364,051	301,182	247,417
Other Assets	747,946	864,414	933,633	823,101	1,036,846	770,674	625,985	683,149	575,180	482,216
Insurance Contract - Deferred Expenses	157,710	163,619	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968
Cash and Cash Equivalents	2,112,745	711,111	865,843	761,871	641,950	625,527	386,929	173,245	144,087	209,293
Total Assets	35,869,185	31,740,662	26,625,146	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	6,644,680	5,841,032	4,965,809	4,405,581	2,381,427	1,721,675	1,174,262	1,196,546	941,820	690,197
Available for Sale Reserve	4,009	93,754	24,801	(8,025)	30,685	(7,152)	(4,748)	3,590	1,427	6,209
Other Reserves	(11,421)	(51,520)	(6,525)	(4,406)	(10,760)	1,790	(1,093)	1,177	2,172	-
Life Policyholders' AFS Reserve Fund	(67,291)	757,933	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)
Restricted Regulatory Reserve	381,156	381,156	381,156	381,156	-	-	-	-	-	-
Total Equity	8,123,008	8,194,230	6,714,344	5,744,314	3,796,499	2,697,057	2,283,946	2,413,936	2,113,112	1,867,090
Liabilities										
Insurance Contract Liabilities - Life	20,342,757	17,064,089	14,464,534	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239
Insurance Contract Liabilities - General	3,735,922	3,309,149	2,871,416	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443
Employee Defined Benefit Liabilities	239,167	254,438	167,118	140,356	126,083	90,433	81,001	71,493	56,637	42,360
Current Tax Liabilities	62,168	151,093	112,031	22,541	34,598	3,300	-	12,012	35,143	42,950
Deferred Tax Liabilities	-	-	-	-	-	-	-	8,845	-	-
Reinsurance Creditors	1,085,512	700,105	540,652	369,853	353,042	287,895	131,905	110,778	100,881	83,253
Lease Creditor	421,838	393,145	350,089	-	-	-	-	-	-	-
Other Liabilities	1,747,148	1,550,108	1,274,326	1,092,809	896,288	781,246	590,383	510,468	394,298	403,543
Bank Overdraft	111,665	124,305	130,636	122,776	141,660	-	-	-	-	-
Total Liabilities	27,746,177	23,546,432	19,910,802	16,534,902	14,852,435	11,832,297	9,356,634	7,555,382	5,946,551	5,167,788
Total Equity and Liabilities	35,869,185	31,740,662	26,625,146	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878

Statement of Profit or Loss

For the year ended 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	12,646,947	10,398,992	9,942,757	8,724,696	7,821,468	6,656,694	5,447,164	4,665,618	3,877,730	3,211,232
Net Earned Premium	10,755,834	8,926,757	8,473,660	7,448,439	6,392,077	5,597,879	4,725,403	3,845,510	3,269,181	2,697,024
Income from Investments and Other Income	2,926,395	2,720,460	2,470,663	2,178,559	1,911,857	1,298,327	1,049,152	1,167,910	937,417	736,810
Net Claims and Benefits	(4,223,290)	(3,558,641)	(3,620,775)	(3,236,489)	(2,293,406)	(1,947,645)	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)
Change in Contract Liabilities - Life Fund	(3,249,356)	(2,576,169)	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)
Change in Contract Liability due to - Transfer of One-off Surplus	-	-	-	381,156	-	-	-	-	-	-
Underwriting and Net Acquisition Costs Expenses	(1,456,258)	(1,235,446)	(1,288,068)	(1,125,418)	(1,028,872)	(922,886)	(699,679)	(474,826)	(381,259)	(348,108)
Profit Before Taxation	1,748,378	1,630,496	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866
Income Tax (Expenses)/Reversal	(524,730)	(455,273)	(394,663)	1,124,656	(17,275)	(58,108)	27,571	(20,857)	(35,970)	(42,726)
Profit for the Year	1,223,648	1,175,223	1,010,228	2,705,310	909,752	647,413	197,344	417,726	389,124	351,140
Basic and Diluted Earnings per Share (Rs.)	8.16	7.83	20.20	54.11	18.20	12.95	3.95	8.35	7.78	7.02
Basic and Diluted Earnings per Share (Rs.) - Adjusted for Subdivision	8.16	7.83	6.73	18.04	6.07	4.32	1.32	2.78	2.59	2.34
Dividend per Share (Rs.)	3.20*	2.80*	8.00	7.00	6.00	5.00	2.00	3.75	3.25	2.75

* Dividend per share of year 2021 and 2020 present after the subdivision.

DECADE AT A GLANCE

HNB ASSURANCE PLC/LIFE INSURANCE - COMPANY

Statement of Financial Position

As at 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	141,390	116,740	111,202	104,487	119,078	112,151	94,107	-	-	-
Right of use Assets	362,336	380,105	325,572	-	-	-	-	-	-	-
Intangible Assets	57,839	62,240	49,830	58,782	57,841	60,882	45,185	-	-	-
Deferred Tax Assets	273,543	725,255	1,000,673	1,280,499	-	-	-	-	-	-
Financial Investments	24,667,102	22,075,265	17,777,410	14,679,706	12,741,015	9,642,596	7,849,625	5,545,833	4,270,216	3,527,422
Investment in Subsidiary	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	-	-	-
Loans to Life Policyholders	403,452	379,736	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888
Reinsurance Receivables	317,009	172,699	144,715	75,926	65,010	54,814	34,269	23,446	23,626	40,716
Premium Receivables	7,822	4,988	9,458	8,046	7,488	6,805	5,592	6,943	6,710	9,573
Other Assets	507,528	582,321	625,499	575,154	764,256	575,676	493,571	195,023	169,032	137,795
Cash & Cash Equivalents	1,575,931	393,522	632,712	502,561	352,307	476,572	258,222	88,482	74,705	129,916
Total Assets	29,463,952	26,042,871	22,152,378	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	-	-	-
Retained Earnings	5,548,813	4,968,314	4,544,369	4,167,660	2,373,601	1,897,936	1,397,806	-	-	-
Available for Sale Reserve	4,446	15,626	9,881	1,451	17,415	(1,465)	53	-	-	-
Other Reserves	(6,614)	(33,916)	(6,514)	(4,395)	(9,884)	(1,886)	(2,039)	(18,780)	928	-
Life Policyholders' AFS Reserve Fund	(67,291)	757,933	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)
Restricted Regulatory Reserve	381,156	381,156	381,156	381,156	-	-	-	-	-	-
Total Equity	7,032,385	7,260,988	6,277,995	5,515,880	3,776,279	2,875,329	2,511,345	21,968	(3,254)	(1,191)
Liabilities										
Insurance Contract Liabilities - Life	20,342,757	17,064,089	14,464,534	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239
Employee Defined Benefit Liabilities	137,328	150,729	100,076	84,840	73,875	50,883	44,008	31,508	6,747	4,943
Current Tax Liabilities	19,871	12,301	16,175	14,708	-	-	-	-	-	-
Reinsurance Creditors	453,054	290,916	125,151	116,268	90,650	39,395	37,547	30,921	24,849	29,928
Lease Creditor	390,374	377,746	334,832	-	-	-	-	-	-	-
Other Liabilities	1,034,819	832,198	802,565	642,470	529,862	486,474	422,583	283,764	221,113	215,391
Bank Overdraft	53,364	53,904	31,050	42,636	32,756	-	-	-	-	-
Total Liabilities	22,431,567	18,781,883	15,874,383	13,162,394	11,643,001	9,324,608	7,511,218	5,908,841	4,601,199	3,876,501
Total Equity and Liabilities	29,463,952	26,042,871	22,152,378	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310

Statement of Profit or Loss

For the year ended 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	7,091,470	5,487,039	5,175,044	4,420,513	3,963,642	3,554,078	2,788,716	2,342,867	2,014,547	1,500,028
Net Earned Premium	6,735,933	5,221,875	4,934,070	4,204,883	3,774,549	3,395,028	2,680,753	2,215,404	1,912,749	1,371,952
Income from Investments and Other Income	2,490,504	2,223,950	2,058,795	1,736,629	1,564,967	1,031,606	783,126	707,444	578,890	428,630
Net Claims and Benefits	(1,646,088)	(1,494,181)	(1,338,015)	(1,066,574)	(575,551)	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)
Change in Contract Liabilities - Life Fund	(3,249,356)	(2,576,169)	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)
Change in Contract Liability due to - Transfer of One-off Surplus	-	-	-	381,156	-	-	-	-	-	-
Underwriting and Net Acquisition Costs	(1,098,207)	(888,527)	(959,550)	(847,968)	(822,715)	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)
Expenses	(1,780,575)	(1,487,585)	(1,415,514)	(1,403,129)	(1,049,158)	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)
Profit Before Taxation	1,452,211	999,363	1,106,535	1,297,848	725,665	656,642	457,028	228,022	181,489	165,226

HNB GENERAL INSURANCE LTD./GENERAL INSURANCE - SUBSIDIARY

Statement of Financial Position

As at 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	141,494	53,048	51,169	47,072	50,542	49,211	42,172	133,942	137,009	118,447
Right of use Assets	32,812	14,332	18,165	-	-	-	-	-	-	-
Intangible Assets	5,341	6,618	1,957	2,305	-	-	-	51,622	53,807	61,068
Deferred Tax Assets	18,289	13,466	9,038	24,383	64,098	52,922	49,394	-	2	-
Financial Investments	4,426,983	4,291,343	3,424,664	2,899,425	2,313,895	1,901,979	1,901,986	2,732,062	2,386,222	2,176,444
Reinsurance Receivables	755,197	599,077	500,696	339,847	504,768	439,912	107,085	138,814	81,764	121,999
Premium Receivables	1,240,175	1,106,606	937,192	790,167	778,831	616,489	340,324	357,108	294,472	237,844
Other Assets	253,966	289,379	329,478	270,915	278,711	208,118	141,431	488,126	406,148	344,421
Insurance Contract - Deferred Expenses	157,710	163,619	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968
Cash and Cash Equivalents	536,814	317,589	233,131	259,310	289,643	148,955	128,707	84,763	69,382	79,377
Total Assets	7,568,781	6,855,077	5,644,112	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568
Equity and Liabilities										
Equity										
Stated Capital	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,171,875	1,171,875	1,171,875
Retained Earnings	1,095,867	872,718	421,440	240,876	10,781	(173,306)	(220,589)	1,196,546	941,820	690,197
Available for Sale Reserve	(437)	78,128	14,920	(12,431)	10,315	(8,642)	(7,756)	3,590	1,427	6,209
Other Reserves	(4,807)	(17,604)	(11)	(11)	(876)	3,676	946	19,957	1,244	-
Total Equity	2,240,623	2,083,242	1,586,349	1,378,434	1,170,220	971,728	922,601	2,391,968	2,116,366	1,868,281
Liabilities										
Insurance Contract Liabilities - General	3,735,922	3,309,149	2,871,416	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443
Employee Defined Benefits Liabilities	101,839	103,709	67,042	55,516	52,208	39,550	36,993	39,985	49,890	37,417
Current Tax Liabilities	42,297	138,792	95,856	7,833	34,598	3,300	-	12,012	35,143	42,950
Deferred Tax Liabilities	-	-	-	-	-	-	-	8,845	-	-
Reinsurance Creditors	632,458	409,189	415,501	253,585	262,392	248,500	94,358	79,857	76,032	53,325
Lease Creditor	31,464	15,399	15,257	-	-	-	-	-	-	-
Other Liabilities	725,877	725,196	493,105	473,307	372,547	307,892	176,817	226,704	173,185	188,152
Bank Overdraft	58,301	70,401	99,586	80,140	108,904	-	-	-	-	-
Total Liabilities	5,328,158	4,771,835	4,057,763	3,395,476	3,215,555	2,520,809	1,854,433	1,646,541	1,345,352	1,291,287
Total Equity and Liabilities	7,568,781	6,855,077	5,644,112	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568

Statement of Profit or Loss

For the year ended 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	5,648,578	4,997,728	4,818,686	4,340,575	3,906,503	3,141,559	2,698,176	2,322,751	1,863,183	1,711,204
Net Earned Premium	4,113,002	3,790,657	3,590,563	3,279,948	2,666,205	2,241,794	2,084,378	1,630,106	1,356,432	1,325,072
Income from Investments and Other Income	583,503	527,667	490,799	459,800	360,174	273,805	279,041	460,466	358,527	308,180
Net Claims and Benefits	(2,578,755)	(2,064,502)	(2,282,960)	(2,170,792)	(1,718,847)	(1,546,601)	(1,837,294)	(1,160,721)	(889,072)	(892,750)
Underwriting and Net Acquisition Costs	(376,716)	(366,529)	(344,496)	(289,873)	(214,898)	(177,847)	(160,979)	(88,175)	(53,401)	(53,652)
Expenses	(1,329,867)	(1,256,160)	(1,099,080)	(996,277)	(891,272)	(742,272)	(649,446)	(631,115)	(528,882)	(458,210)
Profit/(Loss) Before Taxation	411,167	631,133	354,826	282,806	201,362	48,879	(284,300)	210,561	243,604	228,640

DECADE AT A GLANCE

HNB Assurance PLC - GROUP

Statement of Cash Flows

For the year ended 31st December,	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit Before Tax	1,748,378	1,630,496	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866
Net Adjustments and net change in Operating Assets and Liabilities	1,393,116	728,895	255,026	(61,603)	582,782	586,677	999,997	348,864	(188,697)	(90,905)
Net Cash Generated from Operating Activities	3,141,494	2,359,391	1,659,917	1,519,051	1,509,809	1,292,198	1,169,770	787,447	236,396	302,961
Net Cash Used in Investing Activities	(1,176,385)	(2,046,474)	(965,285)	(1,080,246)	(1,385,046)	(953,600)	(767,836)	(595,289)	(164,102)	(179,023)
Net Cash Used in Financing Activities	(550,835)	(461,318)	(598,520)	(300,000)	(250,000)	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)
Net Increase/(Decrease) in Cash and Cash Equivalents	1,414,274	(148,401)	96,112	138,805	(125,237)	238,598	213,684	29,158	(65,206)	18,938
Cash and Cash Equivalents at the beginning of the Year	586,806	735,207	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355
Cash and Cash Equivalents at the end of the Year	2,001,080	586,806	735,207	639,095	500,290	625,527	386,929	173,245	144,087	209,293

Investor Information

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Return on Equity	15.00%	15.77%	16.22%	56.71%	24.09%	24.00%	8.64%	17.30%	18.41%	18.79%
Market Price per Share as at 31st Dec (VWA) (Rs.)	48.40*	58.20*	138.00	132.00	72.50	58.80	74.60	83.50	52.50	49.00
Price Earning Ratio (Times)	5.93	7.43	6.83	2.44	3.98	4.54	18.89	9.99	6.75	6.98
Earnings Yield	16.85%	13.45%	14.64%	40.99%	25.10%	22.02%	5.29%	10.00%	14.82%	14.33%
Dividend Yield	6.61%	4.81%	5.80%	5.30%	8.28%	8.50%	2.68%	4.49%	6.19%	5.61%
Market Capitalisation (Rs. Mn)	7,260	8,730	6,900	6,600	3,625	2,940	3,730	4,175	2,625	2,450
Employee Information										
Number of Employees	1,217	1,145	1,076	992	947	903	836	829	804	723
GWP per Employee (Rs. Mn)	10.39	9.08	9.24	8.80	8.26	7.37	6.52	5.63	4.82	4.44
Net Profit per Employee (Rs. '000)	1,005.46	1,026.40	938.87	2,727.13	960.67	716.96	236.06	503.90	483.98	485.67
Life Insurance Operation										
Net Claims Ratio (With Maturity)	24%	29%	27%	25%	15%	12%	10%	19%	36%	19%
Expense Ratio	42%	45%	49%	49%	49%	48%	46%	48%	47%	59%
Combined Ratio	66%	74%	76%	74%	64%	60%	56%	67%	83%	78%
General Insurance Operation										
Net Claims Ratio	63%	55%	64%	66%	64%	69%	88%	72%	66%	68%
Expense Ratio	37%	39%	37%	36%	38%	38%	35%	38%	39%	34%
Combined Ratio	100%	94%	101%	102%	102%	107%	123%	110%	105%	102%

* Market price per share of year 2021 and 2020 are presented after the subdivision.

GLOSSARY

Acquisition Expenses

All expenses primarily related to acquiring new insurance contracts or renewing of the existing insurance contracts. E.g. commissions

Actuarial valuation

An analysis performed by an Actuary at a specific date, that compares the assets and liabilities to determine if the company holds adequate assets to fund the required liabilities.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

Claims

The amount determined under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, adjusted by changes in the Claims Outstanding provisions.

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve is made in respect of property, liability and pecuniary insurances to cover the expected losses that have occurred but not yet been reported to the insurer.

Claims Incurred But Not Enough Reported (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected losses that have occurred and reported, but no comprehensive information is available to make adequate provisions as at the reporting date.

Claims Outstanding Reserve – General Insurance Business

The amount estimated to settle the claim arising out of an insured events which have occurred on or before the reporting date, excluding the amounts already paid in respect of those claims and the estimated amount in respect of Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses,

Deferred Acquisition Cost – General Insurance Business

Acquisition costs relating to the unexpired risk period of those insurance contracts in force at the reporting date are carried forward from one accounting period to subsequent accounting periods.

Earnings per share (EPS)

Profit of the company after income tax expenses divided by the number of issued ordinary shares.

Ex-Gratia Payment

A voluntary payment made by the insurer in response to a loss for which it is not technically liable under the terms of the issued insurance policy.

Lapsed policy

A policy terminated at the end of the grace period because of non-payment of premiums.

Liability Adequacy Test (LAT)

A periodical assessment of the sufficiency of insurance contract liabilities against the actuarial valuation liabilities.

Net Written Premium

The remaining balance of the Gross Written Premium after deduction of any premium expenses ceded to reinsurers.

Policy Loan

A loan granted by the insurer to policyholder on the security of the surrender value of a Life insurance policy.

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (cedent – the primary insurer) against part or all of the liability assumed by the cedent under policy or policies of insurance.

Subdivision of Shares

When a company divides the existing shares of its stock into multiple new shares to boost the stock's liquidity. Although the number of shares outstanding increase by a specific multiple, the total Rupee value of the shares remains the same compared to pre-subdivision amounts.

Surrender

Termination of an insurance policy by the insured before the expiry of its term.

Premium Ceded to Reinsurers

The premium expense of the Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance Commission

Commission/discount obtained in respect of reinsurance premium expense to a reinsurers.

Unearned Premium

Portion of the recorded insurance premium which relates to a period of risk subsequent to the reporting date.

Unearned Premium Reserve

A fund kept by General insurer to service the insurance policy for the remaining cover period after the reporting date.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net Claims Incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense Incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net Incurred Claims \& Expenses}) \times 100}{\text{Net Earned Premium}}$$

GRI CONTENT INDEX

GRI 102-55

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NOTICE OF MEETING

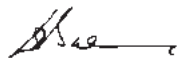
Notice is hereby given that the Twentieth (20th) Annual General Meeting of HNB Assurance PLC is convened on Thursday the Thirty First (31st) day of March 2022, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T. B. Jayah Mawatha, Colombo 10 at 10.00 in the forenoon when the following business will be transacted.

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31st December 2021, the Auditors' Report thereon.
- ii. To declare a first and final dividend of Rs.3.20 per share for the year 2021, to the shareholders as recommended by Directors.
- iii. To re-elect Mr. Ashoka Goonesekere, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 27(2) of the Articles of Association of the Company.
- iv. To re-elect Mr. Darshan Ravindra Abeysuriya, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 27(7) of the Articles of Association of the Company.
- v. To re-appoint Mrs. Mirihana Arachchige Rose Chandralatha Cooray who retires at the Annual General Meeting, having attained the age of 72 years, as a Director of the Company and to adopt the following resolution :-

Ordinary Resolution - "That Mrs. Mirihana Arachchige Rose Chandralatha Cooray who has attained the age of 70 years on 23rd May 2019, be and is hereby re-appointed as a Director of the Company in terms of Section 211 of the Companies Act, No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director".

- vi. To re-appoint Messrs. KPMG Sri Lanka Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- vii. To authorise the Directors to determine payments for the year 2022 for charitable and other purposes.

By Order of the Board,
HNB ASSURANCE PLC



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
18th February 2022

Notes:

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Corporate Office of the Company at Legal & Company Secretarial Division, "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the meeting.

FORM OF PROXY

I/We
of being *a member/members of
the HNB Assurance PLC, hereby appoint of
..... or
failing him/her Mirihana Arachchige Rose Chandralatha Cooray, or failing her Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe, or failing her Sivakumar Selliah, or failing him Darshan Ravindra Abeysuriya, or failing him Lintotage Udaya Damien Fernando, or failing him Stuart Anthony Chapman, or failing him Ashoka Goonesekere, as *my/our proxy, to represent *me/us and to vote for *me/us on *my/our behalf on the resolutions (including the under mentioned) at the Twentieth (20th) Annual General Meeting of the Company to be convened on Thursday the Thirty First (31st) day of March 2022 at 10.00 in the forenoon at the Auditorium on Level 22 of "HNB Towers" at No: 479, T. B. Jayah Mawatha, Colombo 10 and at any adjournment thereof and at every poll which may be taken in consequence thereof:

To declare a first and final dividend of Rs.3.20 per share	In favour	
	Against	
To re-elect Mr. Ashoka Goonesekere, as a Director of the Company	In favour	
	Against	
To re-elect Mr. Darshan Ravindra Abeysuriya, as a Director of the Company	In favour	
	Against	
To re-appoint Mrs. Mirihana Arachchige Rose Chandralatha Cooray, as a Director of the Company	In favour	
	Against	
To re-appoint Messrs. KPMG Sri Lanka Chartered Accountants, as the Auditors for the ensuing year/ authorise the Directors to fix their remuneration	In favour	
	Against	
To authorise the Directors to determine payments for charitable and other purposes	In favour	
	Against	

Mark your preference with "✓"

Signed this..... day 2022.

Signature/s

.....

Please provide the details :	
Shareholder's NIC No./Company Registration No.
Folio No./Number of Shares held
Proxy holder's NIC No. (if not a Director)

Note – See reverse hereof for instructions to complete the Proxy

*Delete inappropriate words

INSTRUCTIONS TO COMPLETE PROXY

1. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Corporate Office of the Company at Legal & Company Secretarial Division, "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
5. Kindly be informed that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

CORPORATE INFORMATION

GRI 102-5

COMPANY

HNB Assurance PLC (HNBA)

FULLY OWNED SUBSIDIARY

HNB General Insurance Limited (HNBGI)

	HNB Assurance PLC	HNB General Insurance Limited
Legal Form	Public Limited Liability Company	Limited Liability Company
Date of Incorporation	23rd August 2001	30th January 2014
Company Registration No.	PQ 108	PB 5167
Taxpayer Identification (TIN) No.	134009373	139051670
VAT Registration No.	134009373-7000	139051670-7000
Principal Activities	Life Insurance Business	General Insurance Business
Telephone	+9411 4793700	+9411 4676700
Facsimile	+9411 4793728	+9411 4501166
E-mail	info@hnbassurance.com	info@hnbgeneral.com
Web	www.hnbassurance.com	www.hnbgeneral.com

FISCAL YEAR-END

31st December

REGISTERED OFFICE

No.479, T B Jayah Mawatha, Colombo 10, Sri Lanka

PRINCIPAL OFFICE

No.30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

BOARD OF DIRECTORS

Rose Cooray	Chairperson Non-Independent/Non-Executive Director (HNBA/HNBGI)
Dr. Sivakumar Selliah	Senior Independent/Non-Executive Director (HNBA)
Dilshan Rodrigo	Non-Independent/Non-Executive Director (HNBA)
Siromi Wickramasinghe	Non-Independent/Non-Executive Director (HNBA)
Ravi Abeyesuriya	Independent/Non-Executive Director (HNBA)
Damien Fernando	Non-Independent/Non-Executive Director (HNBA/HNBGI)
Stuart Chapman	Non-Independent/Non-Executive Director (HNBA)
Ashoka Goonesekere	Independent/Non-Executive Director (HNBA)
Faizal Salieh	Independent/Non-Executive Director (HNBGI)
Marina Tharmaratnam	Independent/Non-Executive Director (HNBGI)
Sanjaya Wijemanne	Non-Independent /Non-Executive Director (HNBGI)
Arjuna Abeygunasekara	Non-Independent /Non-Executive Director (HNBGI)
Chiranthi Cooray	Non-Independent /Non-Executive Director (HNBGI)

ALTERNATE DIRECTOR

Dr. Prasad Samarasinghe	Non-Independent/Non-Executive Director (HNBA/HNBGI)
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EXECUTIVE COMMITTEE

Lasitha Wimalaratne	Chief Executive Officer (HNBA)
Sithumina Jayasundara	Chief Executive Officer (HNBGI)
Nilesh Amarasinghe	Chief Investment & Strategy Officer (HNBA/HNBGI)
Jude Benjamin	Chief Business Officer Personal Lines & Branch Network (HNBGI)
Dinesh Udawatta	Chief Technical Officer (HNBA)
Dinuka Pattikiriarachchi	Chief Human Resources Officer (HNBA/HNBGI)
Sitari Jayasundara	Chief Legal & Compliance Officer/Board Secretary (HNBA/HNBGI)
Punsirini Perera	Chief Financial Officer (HNBA/HNBGI)
Suneth Jayamanne	Chief Information Officer (HNBA/HNBGI)
Lasantha De Alwis	Chief Technical Officer (HNBGI)
Sampath Wickramarachchi	Chief Business Officer (HNBGI)
Nalin Subasinghe	Chief Actuarial Officer (HNBA/HNBGI)

CORPORATE INFORMATION

PRINCIPAL OFFICERS

HNB Assurance PLC	Lasitha Wimalaratne
HNB General Insurance Limited	Sithumina Jayasundara

SPECIFIED OFFICERS

HNB Assurance PLC	Lasitha Wimalaratne
HNB General Insurance Limited	Sithumina Jayasundara

COMPANY SECRETARY

Sitari Jayasundara

REGISTRARS

Central Depository Systems (Pvt) Limited
Ground Floor, M & M Centre
341/5, Kotte Road,
Rajagiriya,
Sri Lanka.

CONSULTANT ACTUARIES

Life Insurance

Willis Towers Watson India Private Limited
2nd Floor, Tower B, Unitech Business Park
South City -1, Sector 41,
Gurgaon-122001,
Haryana, India

General Insurance

Willis Towers Watson India Private Limited
2nd Floor, Tower B, Unitech Business Park
South City -1, Sector 41,
Gurgaon-122001,
Haryana, India

Gratuity

Smiles Global (Pvt) Limited
14A, Boyd Place,
Colombo 03, Sri Lanka.

AUDITORS

External Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 03,
Sri Lanka.

Internal Auditors

Ernst & Young
Chartered Accountants,
201, De Saram Place,
Colombo 10,
Sri Lanka.

CREDIT RATING (FITCH) - HNBA & HNBGI

Insurer Financial Strength Rating A+(Ika) stable outlook

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
Housing Development Finance Corporation Bank of Sri Lanka
DFCC Bank PLC
Pan Asia Banking Corporation PLC
National Development Bank PLC
Seylan Bank PLC
Nations Trust Bank PLC
Amana Bank PLC

REINSURANCE PANEL

Life Insurance

Munich Re
RGA
Hannover Re

General Insurance

General Insurance Corporation - India
Oman Reinsurance Company SAOC on behalf of Ocean
International Reinsurance Company Limited
SCOR Reinsurance Asia-Pacific Pte Ltd
Santam Ltd on behalf of New Reinsurance Company Ltd
Trust International Insurance & Reinsurance Company B.S.C. on
behalf of Ocean International Reinsurance Company Limited
National Insurance Trust Fund (NITF)
Saudi Reinsurance Company, Labuan Branch
Lancashire Syndicates Limited (9329 at Lloyds)
Antares Syndicate 1274 (AUL 1274 at Lloyds)

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