

Annual Report 2007

Anchor of Trust



EAGLE INSURANCE

An  **AVIVA** Company



Anchor of Trust

Life, is built on partnerships – partnerships of trust. There are people who are anchors of trust. Everyone has at least one. At Eagle, the purpose of our existence is to be that anchor, to be the first in trust for all our stakeholders which is why today we have garnered a reputation as one of Sri Lanka's most trusted corporates. Our prudent, professional management, our demonstrated responsibility towards stakeholders and good governance strengthen the bonds we build. A solid solvency rate and years of being beside you, earning your trust, place us in good stead of enhancing our position.

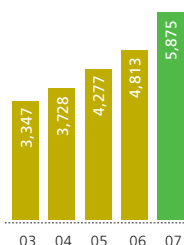
Financial Highlights

	2007	2006	2005	2004	2003
Total Revenue (Rs. mn)	5,875	4,813	4,277	3,728	3,347
Profit before Tax (Rs. mn)	546	539	528	263	318
Net Assets (Rs. mn)	2,025	1,743	1,467	1,077	983
Life Fun (Rs. mn)	12,306	10,508	9,238	7,985	6,613
Assets under Management (Rs. mn)	20,553	17,970	15,980	14,275	12,733
Return on Net Assets (%)	27.0	30.9	36.0	24.4	32.4
Basic Earnings per Share (Rs.)	17.57	17.45	17.18	8.46	10.61
Market Capitalisation (Rs. mn)	4,523	4,065	2,550	2,200	2,400

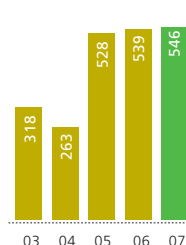
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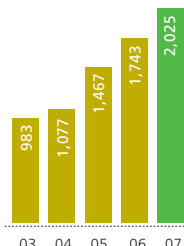
TOTAL REVENUE
Rs. 5,875 mn
(Rs. mn)



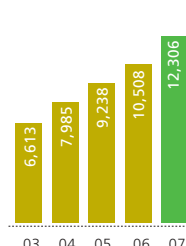
PROFIT BEFORE TAX
Rs. 546 mn
(Rs. mn)



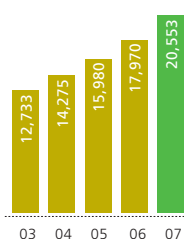
NET ASSETS
Rs. 2,025 mn
(Rs. mn)



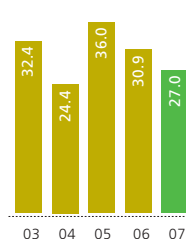
LIFE FUND
Rs. 12,306 mn
(Rs. mn)



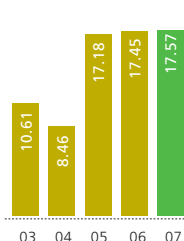
ASSETS UNDER MANAGEMENT
Rs. 20,553 mn
(Rs. mn)



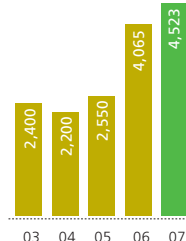
RETURN ON NET ASSETS
27.0%
(%)



EARNINGS PER SHARE
Rs. 17.57
(Rs.)



MARKET CAPITALISATION
Rs. 4,523 mn
(Rs. mn)



Chairman's Review

Dear Shareholder,

Eagle Insurance has once again demonstrated its characteristic resilience to the challenging macro economic conditions and has achieved an impressive growth. We made good progress towards our strategic aim of growing in profitable markets. Our results are proof that we are heading in the right direction towards our desired market segments. Our timely entry into the bancassurance market has been a resounding success resulting in growth far exceeding expectations. This was further enhanced by the strategic partnership we entered into with Sampath Bank – the fourth largest private commercial bank in Sri Lanka.

Eagle has contributed to Aviva's ambition to be the world's most trusted savings, investments and insurance provider. Our growing customer base and the solid financial strength stand testimony to this fact.

Aviva group set up its Asia Pacific Regional Office in mid 2007, in keeping with its focus to build a multinational business through four strong regions. The regional base is aimed at supporting the fast growing markets in the Asia Pacific region. Eagle Insurance is an integral part of the new Aviva Asia Pacific region.

Economy

2007 was a year that was highly challenging for the macro economic environment both for the country and the industry. Overall economic activity slowed down owing to the sharp increase in the operational cost of business. The main reasons were twofold. They were in the form of high inflation and a significant rise in interest rates. Investor sentiment weakened further due to the deteriorating security situation in the country. However, the high interest rate environment presented the Company with the opportunity of boosting investment returns as a major part of our insurance funds are invested in fixed income securities.

Company performance

I am proud to report an impressive performance in 2007. The Company has once again delivered on the trust placed on it. The Company performed exceptionally well in terms of total Revenue, recording a growth of 22% over last year. Profit of Rs. 527 million,



We made good progress towards our strategic aim of growing in profitable markets. Our results are proof that we are heading in the right direction towards our desired market segments.

Albert Paterson
Chairman

Chairman's Review

contributed by both Life and General insurance businesses recorded a marginal growth over 2006. The growth of 16% in total Net Assets reflected a further strengthening of the Company's financial position.

I am pleased to announce that the Board has recommended a final dividend of Rs. 3.00 per share bringing the total dividend for the year to Rs. 5.50, having already paid an interim dividend of Rs. 2.50 per share in December 2007.

Regulatory environment

Demonstrating Aviva's continuous effort towards the development of the Sri Lankan insurance industry, the Group Actuary and Economic Capital Director for Aviva plc, conducted a series of workshops on 'Risk Based Capital' for the Chief Executive Officers, Chief Financial Officers and Actuaries of the Sri Lankan insurance industry and the Board of Directors of the Insurance Board of Sri Lanka. This topic is highly relevant in today's context of the proposed legislation on the capital adequacy requirements of insurance companies in Sri Lanka.

The new Companies Act came into effect in May 2007. It is a significant step towards far-reaching reforms of the Sri Lankan Company Law. It clarifies the requirements being placed on public companies and company directors. Further, it compels them to reinforce their corporate governance standards.

Board matters

On behalf of the Board I wish to take this opportunity to extend my appreciation to Mr. Grant Barrans who held the position of Chairman since Aviva's acquisition of the majority shareholding of the Company in February 2006. My appreciation also extends to Mr. Jim McKay, a Director on the Board, for his valuable contribution to the Company. Messrs. Grant Barrans and Jim McKay resigned from their Board positions in November 2007. I take this opportunity to formally welcome Mr. Craig Brackenrig and Ms. Marie Sigsworth on their appointments to the Board of Directors consequent to the above resignations.

Appreciation

I wish to thank the Eagle employees and the members of the field force for being the driving force behind Eagle's success. I would also like to express my appreciation to our business partners and the Insurance Board of Sri Lanka for their continuous support. Finally, I take this opportunity to thank our customers for the confidence and trust placed on us.

As we complete yet another year, I am confident that Eagle will continue to demonstrate the highest standards of governance and professionalism to deliver beyond the expectations of all its stakeholders.



Chairman

Albert Paterson

Managing Director's Review

Dear Shareholder,

Eagle Insurance completed another successful year in a difficult environment with its fair share of challenges. The period of relatively high inflation effectively lowered disposable income excess which affected adversely, the retention of Life policies by some customers. In General insurance we experienced an increasing demand for lower rates in premiums. In the back-drop of such conditions, we are proud of our achievements, having ended the year in a strong position in terms of our growth expectations. The strategic move we made in 2006 to shift our focus from being a niche player to a growth oriented company, delivered tangible results.

The Company achieved a significant growth in revenue and in written premiums. Our strategy to diversify our distribution channels to reach new markets is demonstrated by the growth in business via the bancassurance channel. Entering into a bancassurance partnership with Sampath Bank – the fourth largest private commercial bank in Sri Lanka, will give us access to a large customer base across the island. This, together with our existing partnerships with NDB bank and Standard Chartered Bank, is one of the greatest successes we have achieved in expanding our distribution capability and reach.

Growth strategy

Our challenge was to embark on a growth trajectory and ensure that our shareholders' value was not eroded by the investments in growth initiatives. During the year, we expanded our distribution network to three new branches. We not only increased the number of agents but also invested significantly to enhance their professional competencies. Towards this objective, we made a significant investment to establish the Company's training facility, the 'Eagle Centre for Excellence', to be on par with international training centres in terms of infrastructure, content and delivery methods.

I am happy to note that in Life business, we have achieved new business results exceeding our expectations and that our General business has grown above the market average during this year.



Eagle's financial position was consolidated further during 2007. We were able to further strengthen the financial stability of the Company whilst remaining on the high growth trajectory.

Deepal Sooriyaarachchi
Managing Director

Managing Director's Review

Performance

It is notable that we have achieved most of the targets of our key performance indicators. Total Revenue of the Company grew by 22% over last year. Annual Premium Equivalent of the Life business of Rs. 1.6 billion registered an impressive growth of 31% over 2006. Growth of 20% in Life Gross Written Premium is a commendable performance, achieved amidst the difficult economic conditions of a lower disposable income among consumers, which negatively impacted our policy retention. Growth of 27% in written premiums of General insurance was fuelled by the impressive 45% growth in our motor business, resulting in the Company achieving above market growth rate. For the second consecutive year, bancassurance remains a key contributor to our top line achievements.

The Company earned a Profit after Tax of Rs. 527 million which is marginally above last year's. The relatively low growth in profitability is primarily due to higher new business strain in Life insurance and the higher claims experienced in General insurance. The new business strain arises due to the high acquisition costs and other initial expenses in writing new business, resulting in these policies making a lower contribution to the bottom line in the initial years. This is to be expected when the Company embarks on an aggressive growth strategy. However, the higher investment income on our fixed income portfolio positively contributed towards maintaining profits.

Eagle's financial position was consolidated further during 2007. We were able to further strengthen the financial stability of the Company whilst remaining on the high growth trajectory. Our total Net Assets grew by 16% to over Rs. 2 billion. Maintaining strong solvency margins in both Life and General insurance reflects our continuous commitment to provide greater protection to our policyholders. During the year, we maintained the Life solvency margin at 6% with Rs. 115 million over the prescribed solvency margin. I am proud that Eagle has consistently delivered a Return on Net Assets (RONA) of over 24%. Maintaining this unblemished record, we have delivered a RONA of 27% for this year.

Our flight with Aviva.

Eagle's partnership with Aviva is dynamic and complimentary. The unique expertise Aviva has acquired with its years of global experience embedded into Eagle's resilient far-sightedness and stability, has provided the Company the right combination to better serve our customers.

Our partnership with Aviva not only reinforces our professionalism but also permeates a range of global best practices in many areas of work and infuses a very high degree of dynamism. The contributions we received from the group in the areas of product development, IT, Human Resource Management and Actuarial are note worthy. I am happy to say that Eagle was able to contribute towards the local regulatory initiative of moving to a Risk Based Capital structure. The Company organised a seminar with the Group Actuary and Economic Capital Director for Aviva plc, Jim Webber who shared his expertise and European experience with the regulator and the industry.

It is commendable that Eagle also positively contributed to the group by conducting a workshop in Sri Lanka to share our expertise in Life distribution with our Indian colleagues.

During the year Aviva's new regional structure was implemented to realise the group's direction and common goals, which were summarised into 'One Aviva, Twice the Value'. Supported by the Aviva group centre, the aim of regionalisation is to realise the full potential of Aviva's existing businesses for the benefit of our customers and shareholders. Being a member of the Asia Pacific regional cluster Eagle will continue to maintain a close link with member business units and draw on collective knowledge and resources in the region. Insights thus gained will help us offer products and services that better cater to the emerging needs of our customer segments.

Our theme for 2008

Inspired by Aviva's desire to become the most trusted savings, investments and insurance provider in the world, we too launched our theme for the year 2007 as 'First in Trust'.

Managing Director's Review

This harnesses the collective efforts of our people in committing to deliver promises to our stakeholders, while also bringing a sense of emotional togetherness and unity, to drive us to perform.

Having realised the potential of 'First in Trust' and considering the business needs of 2008, we extended the theme to 'FIT with Q' – First in Trust with Quality. Under this banner we will focus on improving the quality of business measured through indicators such as business retention, defining and monitoring the internal service standards imparted to our key stakeholders.

A resilient caring culture

As 'caring' is embedded in the Eagle culture, our CSR direction has always followed a clear path. The Company endeavors to serve identified segments of the community and address their specific issues. Most importantly, the Eagle way ensures the long term continuity of these initiatives.

The Company's continuing and tireless quest to add value to the Sri Lankan community is further reflected in our latest CSR project 'Eagle Samana' which spearheads the creation of an equally-abled society. This farsighted and heart-warming project is aimed at enhancing the educational development of disabled children, so that they may achieve their full potential and grow to be fulfilled and productive citizens of the country in the future.

Eagle people

In my view the true strength of Eagle is its people and its culture. I am really proud of my Team. We have been able to build an empowered organisation. It is second nature for most Eagles to take initiative and accountability. We have undergone a number of major changes and have not allowed such changes to affect the delivery of our promises. This is possible only because of the attributes of the Eagle culture such as willingness to learn, agility, pursuit of excellence and team work. We genuinely care for each other and at the same time challenge ourselves for higher performance. The openness and engagement were reflected in exceptionally high scores achieved in the employee survey conducted by Aviva through an independent third party. Our 100% participation of the eligible staff which is a first in the Aviva world, also demonstrates employee commitment at Eagle.

Risk and Governance

I am happy to say that the Company directed a change in Risk Management, expanding the boundaries of the function from support-service level to total enterprise level. This was initiated and well supported by the group's expertise and structured approach to risk management. As a company which undertakes the risks of our policyholders with a great sense of responsibility, it is of paramount importance that we strengthen our capabilities to manage our own risks to achieve optimum returns.

Good governance, a facet we always treasure, is an integral part of our culture, structure and processes. We have set benchmarks in the industry in self regulation and have led the way in ethical selling. Setting another benchmark in the industry, Eagle introduced a voluntary internal certification process of the technical competencies of our Life field force, ensuring excellent product knowledge and service capabilities. As a part of this initiative, only specially trained and licensed sales professionals are permitted to sell Eagle's Unit-linked products. We strongly believe that this initiative will contribute toward further enhancing 'quality' and 'value' for our customers.

In my view the true strength of Eagle is its people and its culture. I am really proud of my team. We have been able to build an empowered organisation.

Managing Director's Review

Future development

The year 2007 was as exciting as it was challenging. In 2008, we perceive that the competitive landscape and market dynamics will continue to bring their share of new challenges. In this context, major value additions should be achieved in a cost effective manner; a pre-requisite for our long term sustainability of profits. The Company will continue its focused growth journey in a disciplined manner, towards which we will further expand our reach. Added emphasis on product development initiatives in 2008 will enable us to offer a greater value proposition to our customers.

In anticipation of the growth in business, the Company will undertake investments to enhance service capacity, which in turn will ensure that our customers will continue to enjoy a pleasant experience with Eagle.

Appreciation

Concluding another successful year of operation, I must mention that our success and ability to meet challenges are attributed to the dedication and commitment of our people – our employees and members of the 'Team with Wings'. I sincerely thank them for their contributions during 2007. I am proud to recognise the value they have created for our shareholders.

I also wish to thank Aviva RE and all other reinsurers, business partners and our valued customers for their loyalty, support and the confidence they continue to place in us. I take this opportunity to recognise the measures taken by the Insurance Board of Sri Lanka in setting high standards for the industry and enforcing best practices. My sincere appreciation goes to the Chairman and the members of the Board of Directors for their support, direction and commitment to maintain high standards of governance. Finally, I would like to thank all our shareholders for their continued support to the Company.



Deepal Sooriyaarachchi

Managing Director

19th February 2008

Board of Directors



Albert Paterson
Chairman

Appointed to the Board on 2nd October 2006. He was appointed as Chairman on 9th November 2007. He holds a Bachelor of Science degree in Mathematics, a Postgraduate Certification in Education from Moray House College, Edinburgh and is a Member of the Chartered Insurance Institute, UK. He is the Chief Executive Officer and Managing Director of Aviva Life Insurance, India. He is a Director on the Board of Pune Customer Operations Private Limited (PCOP), Aviva's offshoring business. He is also a member of the Executive Team of Aviva Asia Pacific. His last role was Director, Aviva International with responsibility for a portfolio of business units including Turkey, Czech Republic, Romania and Hungary before joining the Indian operations. Prior to that, he was appointed CEO, Aviva Turkey in October 2002. He has also been the Director for Aviva Europe, where his responsibilities covered Aviva's Life and General insurance businesses in Ireland, Italy and Spain. Spain was an area of particular focus and included the development of the Company's bancassurance partnerships with five Spanish regional savings banks.



Sarath Wikramanayake
Non-Executive Director

Appointed to the Board on 3rd July 2003, resigned on 1st February 2006 and re-appointed on 14th February 2006. He is a Chartered Accountant and a Chartered Management Accountant. He worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka he has been the Chief Executive Officer of Union Assurance Limited and the President of the Insurance Association of Sri Lanka in 2002. Presently, he is working in the capacity of a Consultant to the NDB group.



Nihal Welikala
Non-Executive Director

Appointed to the Board on 15th August 2001. He holds a Bachelor of Laws of the University of Sri Lanka and is a Fellow of the Institute of Chartered Accountants (England & Wales). He is also an Associate Member of the Institute of Chartered Accountants of Sri Lanka. He counts over several years experience at the London offices of Ernst & Young and Citibank NA Colombo, where he was CEO from 1987 to 1998. He is currently the Director/CEO of the National Development Bank PLC.



Deepal Sooriyaarachchi
Managing Director

Appointed to the Board on 17th May 2005. He holds the position of Managing Director. He is a Fellow of the Chartered Institute of Marketing, UK, Chartered Marketer and has a Masters in Business Administration from the University of Sri Jayawardenapura. He counts over 21 years experience in sales, marketing communications, strategic planning and human resources management. He is a past president of the Sri Lanka Institute of Marketing and a Committee Member of the Ceylon Chamber of Commerce. He is currently a Director of the National Engineering Research and Development Center of Sri Lanka. He serves on presidential task forces for promoting English as a Life Skill and National Administrative Reforms Commission. He plays a prominent role in disseminating management knowledge in the island through his publications, specially in Sinhala.



Lal de Mel
Non-Executive Director

Appointed to the Board on 28th July 2003. He has a Bachelor of Science degree from the University of Ceylon and is a Member of the Chartered Institute of Marketing, UK, with postgraduate diplomas in Marketing and Management. He is a past President of the Sri Lanka Institute of Marketing, the Federation of Chambers of Commerce & Industry and the Ceylon National Chamber of

Board of Directors

Industries. He was the Managing Director of CIC Paints from 1995 to 2001. He was also the Chairman of the Insurance Corporation Limited and a Director of Bank of Ceylon in 2001. He is currently the Chairman of N Chandraratne (Decorators) Ltd and Capital Development and Investment Company PLC. He is also the Co-Chairman of the Trade and Tariff Cluster of the National Council for Economic Development. He is a Director of the NDB bank, and several other institutions.



Shoumitro Roye
Non-Executive Director

Appointed to the Board on 1st February 2006. He holds a Bachelor of Arts degree and a Post Graduate Diploma in Business Management from the Institute of Marketing and Management New Delhi. He is presently the Sales Director of Aviva Life Insurance Ltd, India, responsible for DSF and Bancassurance Channel. He has worked earlier with American Express Bank and BNP Paribas as Head - Private Banking Group.



Craig Brackenrig
Non-Executive Director

Appointed to the Board on 9th November 2007. He is an Associate Member of the Institute of Chartered Accountants in Australia and holds a Bachelors Degree from Australian National University. He has more than 20 years of experience in the finance industry. He currently holds the position of Finance Director, Asia Pacific Region with oversight responsibilities of countries including Australia, Hong Kong and Singapore. He was appointed to this position in August 2007. Prior to taking up this position, he was the Chief Financial Officer, Aviva Australia. Before joining Aviva in 1998, he spent 11 years Ernst & Young, including secondments to UK and USA, specialising in audit and financial advisory services in the financial services industry.

He holds the position of Non-Executive Director in several companies which include Aviva Australia Limited and Aviva Group Limited (Australia).



Marie Sigsworth
Non-Executive Director

Appointed to the Board on 9th November 2007. She holds various qualifications from the National Schools Exam Board - UK. Her professional qualifications include a professional certificate & diploma in management (Open University) & IPD Training & Development (CIPD) UK. She is currently the Human Resources Director at Aviva Asia Pacific Pte Ltd in Singapore. She counts more than 15 years experience in the field of Human Resources Management. She started her career with Aviva - Norwich in 1986 since then she had been working at Aviva - Norwich holding different positions and responsibilities related to Human Resources Management prior to taking up the current position.



B A C Fernando
Non-Executive Director

Appointed to the Board on 17th January 2008. He is a professional banker with nearly 36 years experience in banking. He holds post graduate qualification in Management and professional qualification in Banking. He has a Masters in Business Administration from the University of Colombo and is a fellow of Institute of Bankers.

He is the General Manager of the Bank of Ceylon and a Director of several subsidiaries of the Bank. He is also a Director of the Institute of Bankers of Sri Lanka.

Top Management Team

Deepal Sooriyaarachchi

He holds the position of Managing Director. He is a Fellow of the Chartered Institute of Marketing, UK, Chartered Marketer and has a Masters in Business Administration from the University of Sri Jayawardenapura. He counts over 21 years experience in sales, marketing communications, strategic planning and human resources management. He is a past president of the Sri Lanka Institute of Marketing and a Committee Member of the Ceylon Chamber of Commerce. He is currently a Director of the National Engineering Research and Development Center of Sri Lanka. He serves on presidential task forces for promoting English as a Life Skill and National Administrative Reforms Commission.

Upul Wijesinghe

He heads the Life sales division of the Company as Director – Life Distribution. He holds a Bachelor of Science degree with Honours from University of Colombo and is an Associate of the Chartered Insurance Institute, UK. He is an Alumni of the International Center for Management Development, Switzerland. He was the President, Sri Lanka Insurance Institute in 2002 and 2003. He counts over 17 years experience in insurance.

Priya Aponso

He heads the finance division of the Company as General Manager/Head - Finance. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Society of Certified Management Accountants of Sri Lanka and a Certified Management Accountant of Australia. He counts over 25 years of senior management experience in shipping, manufacturing, engineering and insurance sectors.

Chathuri Munaweera

She functions as General Manager HR & Legal and is the Company Secretary. Holds a Bachelor of Laws of the University of Colombo and is an Attorney-at-Law. She counts over 11 years management experience in the fields of law, human resources, business operations, corporate compliance and company secretarial practice.



Gehan Rajapakse

He heads the Asset Management and bancassurance businesses of the Company as General Manager - Eagle NDB Fund Management Company Limited and bancassurance. He holds a Bachelor of Arts degree in Economics with Honours from the University of Colombo and is an Associate Member of the Chartered Institute of Management Accountants, UK. He is the Vice-president of the Unit Trust Association of Sri Lanka and represents the Unit Trust Association at the Chamber of Commerce. He counts over 14 years experience in Asset Management.

Susil Paliyakkara

He heads the Life Operations of the Company as General Manager Operations - Life Insurance. He holds a Bachelor of Science degree with Honours from the University of Colombo. He is an Associate of the Chartered Insurance Institute of UK and a Chartered Insurer. He counts over 26 years management experience in Life insurance.

Niranjan Manickam

He heads the General insurance operations of the Company as General Manager Operations - General Insurance. He is an Associate of the Chartered Insurance Institute of UK and an Alumni of the International Center for Management Development, Switzerland. He counts over 24 years experience in General insurance.

Deepthi Lokuarachchi

He heads the distribution of the General insurance division of the Company as General Manager Distribution & Risk Management - General Insurance. He holds a Bachelor of Laws of the University of Colombo and is an Attorney-at-Law. He is also an Associate of the Chartered Insurance Institute of UK and a Chartered Insurer. He serves as the Honorary Vice President of the Sri Lanka Insurance Institute. He counts over 15 years experience in claims management, legal and regulatory affairs, company secretarial practice and General insurance distribution.



Trust that binds

Management Discussion
& Analysis

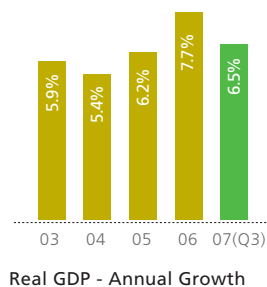


Management Discussion & Analysis

The economy

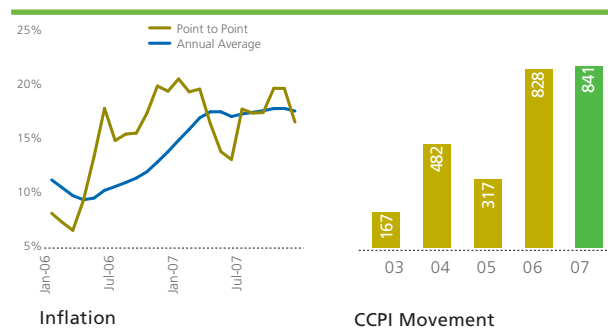
The Sri Lankan economy witnessed a slow down across all major industry segments during the year. The growth rate for 2007 is expected to be approximately 6.5% having registered growth of 7.7% in 2006. The country faced a number of economic challenges during the year with soaring inflation and a significant rise in interest rates. Investor confidence was weakened further by growing security concerns and political instability. The economy also had to face heavy external pressure with record high prices for oil and other commodities. However, mild signs of a recovery were witnessed in the latter half of the year stemming from improved performances in sectors such as transport, factory industry, construction, banking & finance and domestic trade.

Service sectors such as telecommunications and transport which have displayed high growth in recent times have slowed markedly during the year, owing to capacity constraints and maturing industries. However, the services sector continues to be the highest contributor to overall GDP growth and the largest sector of the economy. The industry sector registered moderate growth and is dominated by factory industry and construction. Agriculture sector recorded disappointing results hampered by bad weather conditions and a recovering fishing sector.



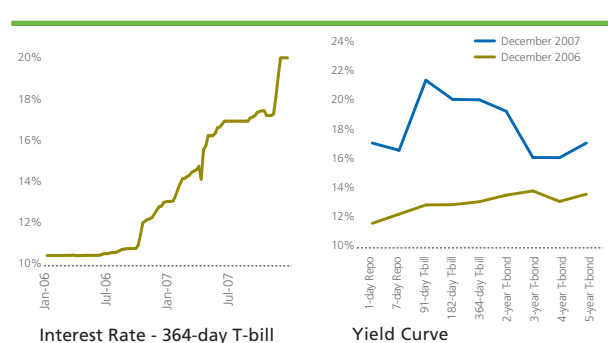
The level of inflation which prevailed during the year caused difficulties to the general public as well as businesses. The cost push environment created by high commodity prices and revised fuel prices worsened due to the demand led situation which arose from heavy money and credit growth. Inflation as measured by the CCPI was at 16.4% at the end of the year having averaged at 17.5% for the year.

High inflation impacts commercial interests with the rise in cost of business operations which leads to lower profit margins. A high inflation environment impacts insurance companies as it affects the policyholder's ability to continue the payment of Life premia due to the lower disposable income and results in General insurance clients reviewing their policy needs as a measure of containing expenses.



Interest rates continued its upward movement with the benchmark 364-day Treasury bill weighted average yield rising by a substantial 698 basis points during the year. This movement surpassed the total rise witnessed in 2005 and 2006 of 533 basis points. Having been inverted for most part, the yield curve flattened to a greater extent by the end of the year. This high interest rate regime experience during the year had a serious impact on businesses due to the cost of capital increasing to an unbearable level. Thus, it will be of vital importance to bring down the overall interest rate structure whilst also addressing the issue of high inflation.

A rising interest rate environment helps insurance companies and life policyholders earn a higher income on the fixed income portion of their investment portfolios.



The trade deficit expanded marginally in 2007 with the rise in imports due mainly to the high global prices for oil and other commodities. The improved position on exports was helped to a great extent by the recovery witnessed in the textile and apparel sector. Consumer goods and investment goods have contributed significantly to the growth in total imports. The current account position was cushioned to a great extent by net private remittances which recorded a growth of approximately 16% over 2006. The overall balance of payments registered a surplus of US Dollars 616 million by end November and gross official reserves stood at US Dollars 3,149 million which converts to 3.4 months of imports. The Sri Lankan Rupee depreciation for the year was a marginal 0.9%, a result of the significant US Dollar flow to the

Management Discussion & Analysis

country by way of the US Dollars 500 million sovereign bond issued by the government.

The trade sector performance has a bearing on the General insurance business, with a direct impact on the Marine class of business.

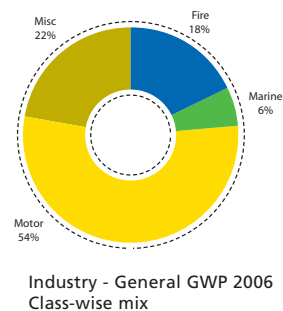
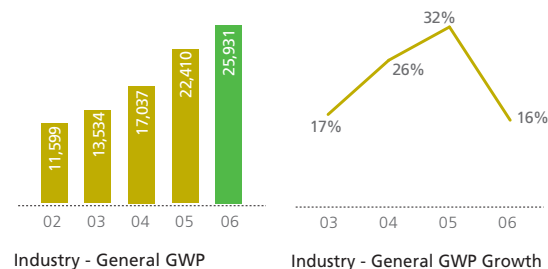
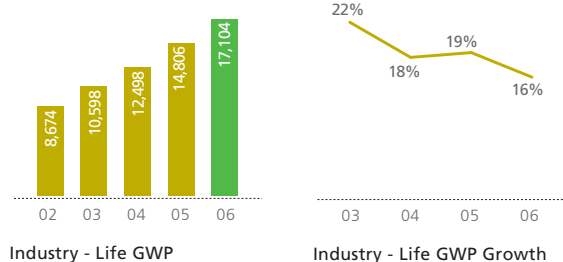
The Colombo Stock Exchange which had been one of the best performing stock markets in the world in recent times recorded negative returns for the first time in six years during 2007. As measured by the All Share Price Index, the market provided returns in excess of 34% on a compounded average basis during the five year period to end 2006. However, due to the deteriorating security situation, high interest rates and the general slowdown in the economy, the market remained weak throughout the year and fell by 6.7%.

A decline in share prices adversely affects the income from share investment portfolios of insurance companies and life policyholders.



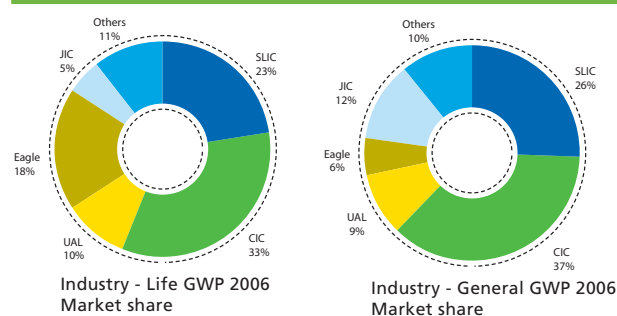
The industry

The insurance industry is made up of 15 companies and forms a vital component of the financial services sector. In terms of the nature of business, 12 out of the 15 companies are composite insurers operating both Life and General insurance businesses. In recent times the industry has seen significant developments in both Life and General businesses. This in turn has made the industry one of the most competitive in the country in terms of its product offer and pricing.



The government's budget proposal to set-up a government-backed re-insurance firm would have had severe repercussions on the operations of insurance companies. In a global context, the Sri Lankan insurance industry is relatively small and the imposition of 50% compulsory placement of re-insurance premium would have further shrunk volumes leading to the erosion of competitive bargaining power of the local insurance companies. Further, this would have also led to high concentration risk. As such the industry initiated a constructive dialog with the government on this issue resulting in a lower limit of 20% being accepted.

In the future, the industry will be subject to new regulations in terms of capital adequacy and investments to strengthen the financial stability of insurance firms and to improve transparency and accountability.



Management Discussion & Analysis

As at end 2006, Eagle Insurance is the 3rd largest Life insurer with a market share of 18% and is the 5th largest General insurer with a 6% market share in terms of total Gross Written Premium. The Company has also established a strong position in the Life insurance new business market.

The business

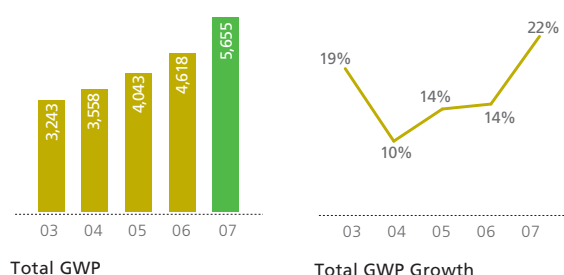
Consolidated business review

The Company registered steady growth during 2007 with Total Revenue of Rs. 5,875 million and Gross Written Premium (GWP) reaching Rs. 5,655 million. This is an expansion of 22% for both indicators over the previous year. Life insurance business continues to account for a significant proportion of the top-line performance.

Total Revenue – Rs. 5,875 million PAT – Rs. 527 million
RONA – 27.0%

Total GWP	2003	2004	2005	2006	2007
Value (Rs. mn)	3,243	3,558	4,043	4,618	5,655
Growth	19%	10%	14%	14%	22%

GWP (Rs. mn)	2003	2004	2005	2006	2007
Life	2,170	2,500	2,833	3,150	3,788
General	1,073	1,058	1,211	1,468	1,867
Mix					
Life	67%	70%	70%	68%	67%
General	33%	30%	30%	32%	33%



Consolidated Profit before Tax increased to Rs. 546 million from Rs. 539 million in 2006 recording a marginal growth of 1%. This relatively low growth in profit is attributable to new business strain in Life insurance and the higher claims experienced in General insurance. The specific reasons for the bottom-line performance are discussed in more detail under the financial review sections of Life and General business in this report. Management expenses

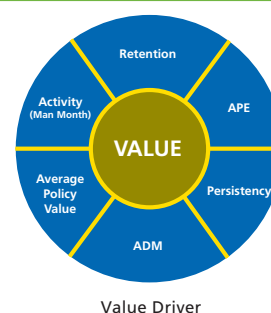
increased to Rs. 1,410 million in 2007, a growth of 21% when compared against the 2006 value of Rs. 1,167 million. However, the Company was successful in containing total expenses to below budgeted levels, a commendable feat in a high inflationary environment. Net claims and benefits increased to Rs. 1,687 million from Rs. 1,489 million in 2006. Investment income registered a healthy growth of 25% to Rs. 1,279 million from Rs. 1,021 million recorded in 2006.

Group Results	2003	2004	2005	2006	2007
Revenue (Rs. mn)	3,347	3,728	4,277	4,813	5,875
Growth	13%	11%	15%	13%	22%
Management					
Expenditure (Rs. mn)	884	838	1,019	1,167	1,410
Growth	13%	-5%	22%	15%	21%
Net Profit after Tax (Rs. mn)	318	254	515	523	527
Growth	18%	-20%	103%	2%	1%

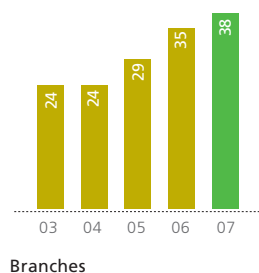
For the year ended 31 December 2007 total Profit after Tax was Rs. 527 million. Basic Earnings per Share increased marginally to Rs. 17.57 in 2007 from Rs. 17.45 in 2006. Return on Net Assets (RONA) for 2007 was 27% lower than the 31% recorded in 2006.

Life insurance business

The major strategic initiatives of 2006 were consolidated during 2007. Building on its embedded 'Value Driver' performance management system the Company introduced a more focused approach for monitoring premium retention during the year. This is important especially in a high inflationary environment where the policyholders' disposable income is under strain. From the Company's perspective, this assumes a critical level of importance to ensure a disciplined approach to aggressive business expansion and to arrest a potential high-lapse experience. This re-alignment of policy retention was built-in to the reward schemes at the zonal, regional and individual levels within the sales force.



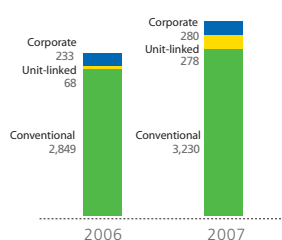
Management Discussion & Analysis



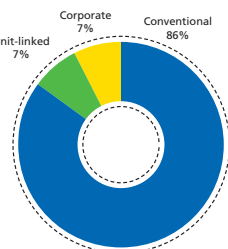
The branch network was restructured into 5 new zones to support smooth work flow and better performance management. However, the Company faced a tough challenge in terms of sales force capacity due to a high turnover rate. In order to maintain and improve our service standards to our clients, the strength of the sales team is expected to be enhanced to targeted levels during 2008. Continuing the commitment to professionalise the sales force, the Company initiated a product-level Competency Certification Course during the year. Further, with the introduction of Eagle Investment Insurance products through the sales force, the Company implemented an internal licensing procedure. These developments, together with the new policy administration system led support structure improvements, are expected to better facilitate the achievement of the Company's objectives for this line of business.

The bancassurance distribution line further expanded during the year with the addition of Sampath Bank to our partner base of NDB bank and Standard Chartered Bank. The Company experienced highly satisfactory results in this line of business with significant growth rates witnessed in terms of Eagle Investment Insurance Annualised Premium Equivalent (APE).

The highly volatile stock market poses a stiff challenge for the Company in terms of meeting the customers' expectations. However, we believe that the prudent investment practices adopted by the Company will continue to offer attractive returns and security to the Eagle Unit-linked Policyholders' funds.



Life GWP
Product category



Life GWP - 2007
Product category mix

Life GWP (Rs. mn)	2003	2004	2005	2006	2007
Conventional	1,928	2,249	2,592	2,849	3,230
Unit-linked				68	278
Corporate	241	251	240	233	280

Life GWP - Growth	2003	2004	2005	2006	2007
Conventional		17%	15%	10%	13%
Unit-linked					309%
Corporate		4%	-4%	-3%	20%

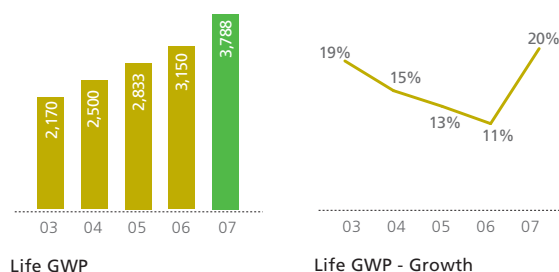
Life GWP - Mix	2003	2004	2005	2006	2007
Conventional	89%	90%	92%	91%	86%
Unit-linked				2%	7%
Corporate	11%	10%	8%	7%	7%

Financial review - Life insurance business

The insurance business registered Rs. 3,788 million in GWP, recording a growth of 20% over the GWP of 2006 which stood at Rs. 3,150 million.

Life GWP	2003	2004	2005	2006	2007
Value (Rs. mn)	2,170	2,500	2,833	3,150	3,788
Growth		19%	15%	13%	20%

The Company's conventional protection oriented life insurance products recorded a steady growth in renewals whilst new business registered better than expected results. The investment linked product segment which has been the latest addition to the Company's product portfolio also grew rapidly and contributed to 15% of APE.



Management Discussion & Analysis



Personal Accident Insurance Plan



fast
track your
housing loan



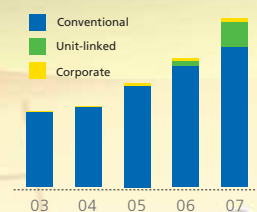
Because an
accident
can happen
anytime



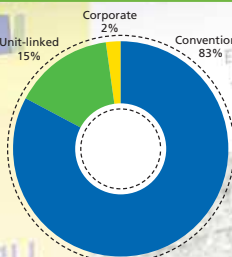
This plan is issued & underwritten by
Eagle Insurance PLC for Sampath Bank



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Life APE
Product category

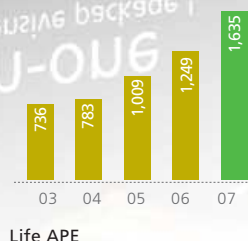


Life APE - 2007
Product category mix

Life APE (Rs. mn)	2003	2004	2005	2006	2007
Conventional	727	772	982	1,172	1,357
Unit-linked				55	243
Corporate	9	11	27	22	36

Life APE - Growth	2003	2004	2005	2006	2007
Conventional		6%	27%	19%	16%
Unit-linked					341%
Corporate		19%	156%	-20%	65%

Life APE - Mix	2003	2004	2005	2006	2007
Conventional	99%	99%	97%	94%	83%
Unit-linked				4%	15%
Corporate	1%	1%	3%	2%	2%



The Life insurance business recorded a surplus of Rs. 400 million. This indicated a decrease of Rs. 35 million, a decline of 8% over the corresponding figure in 2006.

Life Surplus	2003	2004	2005	2006	2007
Value (Rs. mn)	215	250	375	435	400
Growth		16%	50%	16%	-8%

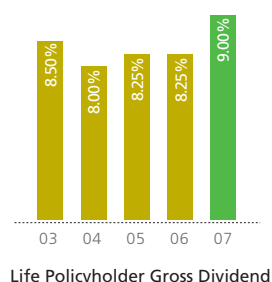
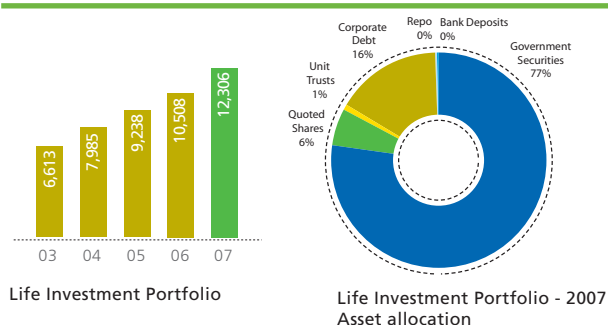
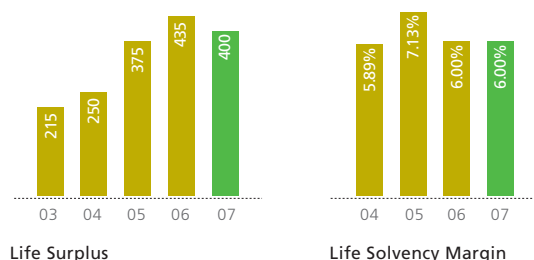
This is a characteristic of Life business during a period of aggressive growth as the new business generation efforts result in higher acquisition costs and the need of provisions for the new business generated. Thus, an analysis of the results will disclose that higher commission expenses and increased selling expenses contributed to this decline. The significant growth in Life new business augurs well for the future performance of Life business. The Life Policyholders' fund expanded to Rs. 12,306 million as at 31 December 2007, growing by Rs. 1,798 million during the year.

Management Discussion & Analysis

Life Investment Portfolio	2003	2004	2005	2006	2007
Value (Rs. mn)	6,613	7,985	9,238	10,508	12,306
Growth		21%	16%	14%	17%

Investment income earned by the Life Policyholders' fund determines the yield to life policyholders. The investment strategy adopted by the Life Policyholders' fund of maintaining short-term investments to build-up a notable proportion of liquidity geared the portfolio to benefit by the relatively high interest rate environment of 2007. Therefore, with the significant rise in interest rates the Life Policyholders' fund was well positioned to lock-in investments at relatively attractive yields and thus improve the investment performance. The improvement in the investment performance would continue in 2008 as well. A major proportion of the Life Policyholders' fund is invested in gilt-edged government securities thus ensuring the security of policyholder investments. The gross rate of dividend declared for the Insurance for Living product range was 9.0% for the year 2007.

The Life business solvency margin was maintained at 6.0% with Rs. 115 million over the prescribed margin.



General insurance business

With the change in the Company's strategic focus to top-line growth, the General insurance business performance was highly satisfactory during the year. The sales effort has been concentrated on the growing personal and commercial segments of the market. In line with this objective the Company sought to penetrate the regions outside the Western Province where Eagle already has a significant presence in the Life insurance segment. A new channel of business was added during the year through the strategic bancassurance partnership entered into with Sampath Bank.

General GWP (Rs. mn)	2003	2004	2005	2006	2007
Accident	213	247	282	363	504
Fire	422	363	448	470	484
Marine	125	152	149	154	155
Motor	291	269	317	454	660
Terrorism	21	27	15	28	65

General GWP - Growth	2003	2004	2005	2006	2007
Accident		16%	14%	29%	39%
Fire		-14%	23%	5%	3%
Marine		21%	-2%	4%	1%
Motor		-7%	18%	43%	45%
Terrorism		27%	-44%	90%	129%

General GWP - Mix	2003	2004	2005	2006	2007
Accident	20%	23%	23%	25%	27%
Fire	39%	34%	37%	32%	26%
Marine	12%	14%	12%	10%	8%
Motor	27%	25%	26%	31%	35%
Terrorism	2%	3%	1%	2%	4%

A major contributor to the growth in General insurance business during the year was the significant expansion in Motor insurance. The 45% growth recorded by Motor insurance contributed to more than 50% of the total business growth in General insurance. Even though claims related to Motor insurance grew with the growth in written premium, it is believed that the achievement of critical mass would improve profitability into the future. The Company was also successful in improving the loss ratios applicable to the Marine business while improved underwriting through risk management initiatives reduced incidents of large claims on property insurance.

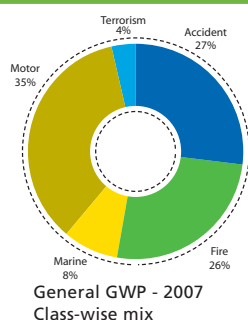
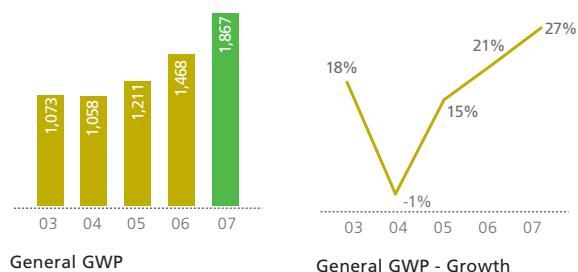
The Company continues to enjoy the benefits of being part of a large global insurance group with access to a resourceful knowledge base and technical expertise. A significant advantage received from the group is the re-insurance support.

Management Discussion & Analysis

Financial review - General insurance business

The General insurance business registered a Gross Written Premium of Rs. 1,867 million in 2007, an increase of Rs. 399 million over the previous year. This growth in business of 27% is an excellent achievement considering the highly competitive market conditions. A major contribution to the growth in General insurance business was provided by Motor insurance which grew by 45% during the year.

General GWP	2003	2004	2005	2006	2007
Value (Rs. mn)	1,073	1,058	1,211	1,468	1,867
Growth	18%	-1%	15%	21%	27%



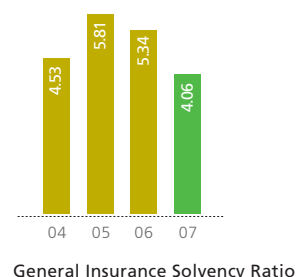
The Profit before Tax reported by the General insurance segment was Rs. 124 million. This was an increase of 46% over the figure recorded in 2006. Investment income increased by 44% to Rs. 149 million during 2007. The investment strategy adopted by the General insurance investment portfolio of maintaining short-term investments resulted in the build-up of a significant proportion of liquidity. In an environment of relatively high interest rates the General insurance investment portfolio was well poised to lock-in investments at relatively attractive yields and this resulted in a commendable improvement in investment income.

The Net Claims Ratio improved from 73.1% in 2006 to 71.5% this year. This is despite the high claims experienced in the Motor class of business. Total Net Claims grew by 35% to Rs. 582 million in 2007. This is reflected in the relatively high Net Loss Ratio of

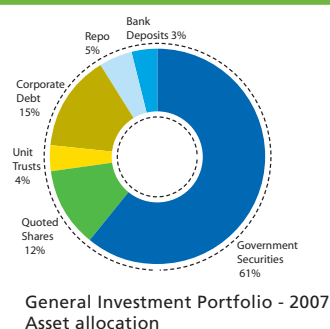
71.5%. Even though it was marginally below the Net Loss Ratio registered last year, the ratio continues to be higher than the Company's targeted level. However, lower Net Expense Ratio of 27.2% aided by higher written premiums, resulted in a Net Combined Operating Ratio of 98.7%.

	2007
Claims Ratio	71.5%
Expense Ratio	27.2%
Combined Operating Ratio (COR)	98.7%

The Company maintained a solvency margin in its General insurance business in excess of the minimum required margin. As validated by an Independent Actuary, the Company maintained sufficient reserves in respect of all reported claims and a further reserve for claims Incurred but Not Reported (IBNR) together with a prudential margin.



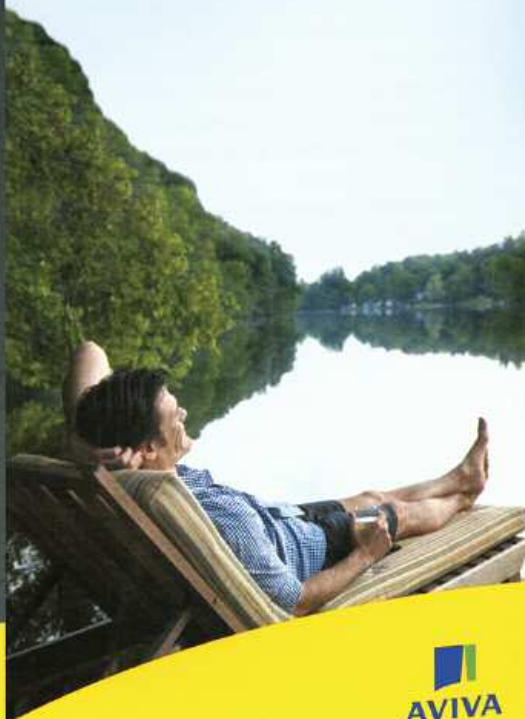
The General insurance investment portfolio stood at Rs. 681 million as at 31 December 2007, an increase of Rs. 107 million during the year. A major proportion of the investments are held in government securities and the portfolio is expected to benefit further from the upward shift in interest rates.



Management Discussion & Analysis



Investment choice
to power your retirement



Investment choice
to power your child's future



Asset Management business

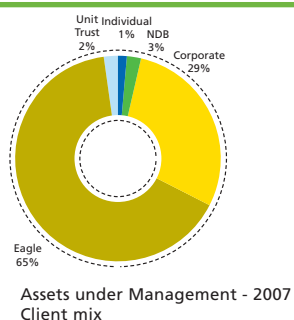
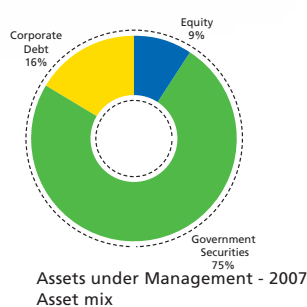
The fully owned subsidiary - Eagle NDB Fund Management Company Limited forms the Asset Management business of the Company. The product and service offer of Eagle NDB consists of a comprehensive portfolio management service as well as a selection of risk-rated mutual funds. It is a licensed investment manager regulated by the Securities and Exchange Commission of Sri Lanka.

During the year the Company marked a milestone in its history as total assets under management (AUM) increased to over Rs. 20 billion. A major proportion of the AUM is made up of the insurance funds of the Company whilst the balance comprises a combination of provident funds, pension funds, mutual funds and other corporate and individual investment portfolios. The Company will continue to concentrate on its current clientele to grow and optimise their investment objectives.





Investment choice
to power your life

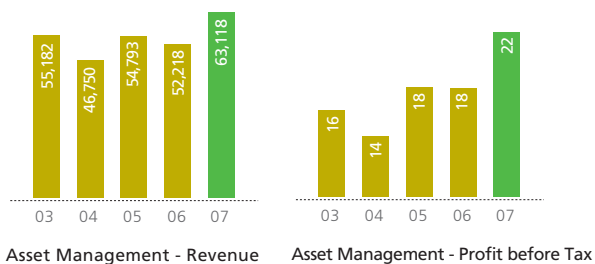


Financial review – Asset Management business

The total revenue of the Asset Management business for the year ended 31 December 2007 was Rs. 63 million, recording a steady growth of 21% over the previous year's figure of Rs. 52 million. This increase was mainly attributed to the increase in the assets under management which grew rapidly during the year owing to higher interest rates as well as a steady flow of new funds.

The Asset Management business benefited greatly from improved investment income which helped to increase the Profit before Tax by 23% over the previous year to Rs. 22 million.

Management Discussion & Analysis



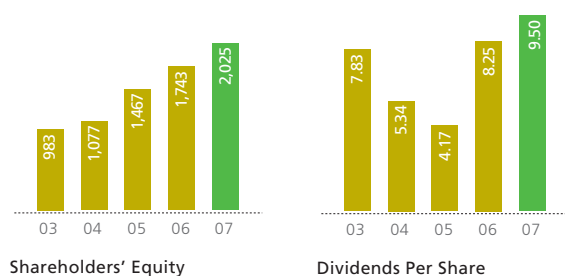
The Company has created a Resilience Reserve to strengthen its capacity to meet volatility in asset values and a Special Reserve Fund to enhance the risk retention capability. During the year the Resilience Reserve was strengthened by Rs. 75.5 million allocated from profits. As at 31 December 2007, the Resilience Reserve stood at Rs. 237.0 million and the Special Reserve Fund was Rs. 315.5 million.

The Long Term insurance provision stood at Rs. 12.3 billion as at 31 December 2007, and this was validated by an Independent Actuary. The General insurance Technical Provisions including the Claims Provisions stood at Rs. 1.1 billion. These lend strength to the business operations and financial performance.

The Company's Balance Sheet reflects the financial strength and stability of Eagle Insurance. The Company will build upon this strength, leveraging on strong partnerships to create value to all stakeholders.

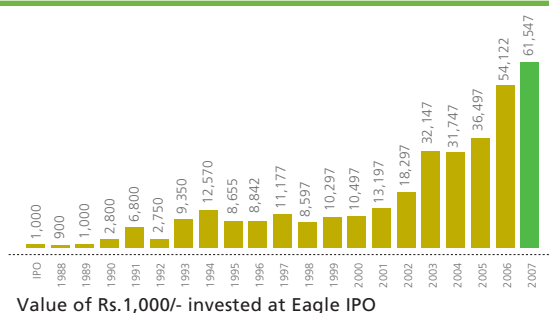
Financial stability

During the year Shareholders' Equity grew by 16%, continuing the trend of steady growth. As at year end total Shareholders' Equity stood at Rs. 2,025 million and this converts to a Net Asset Value per share of Rs. 67.50.



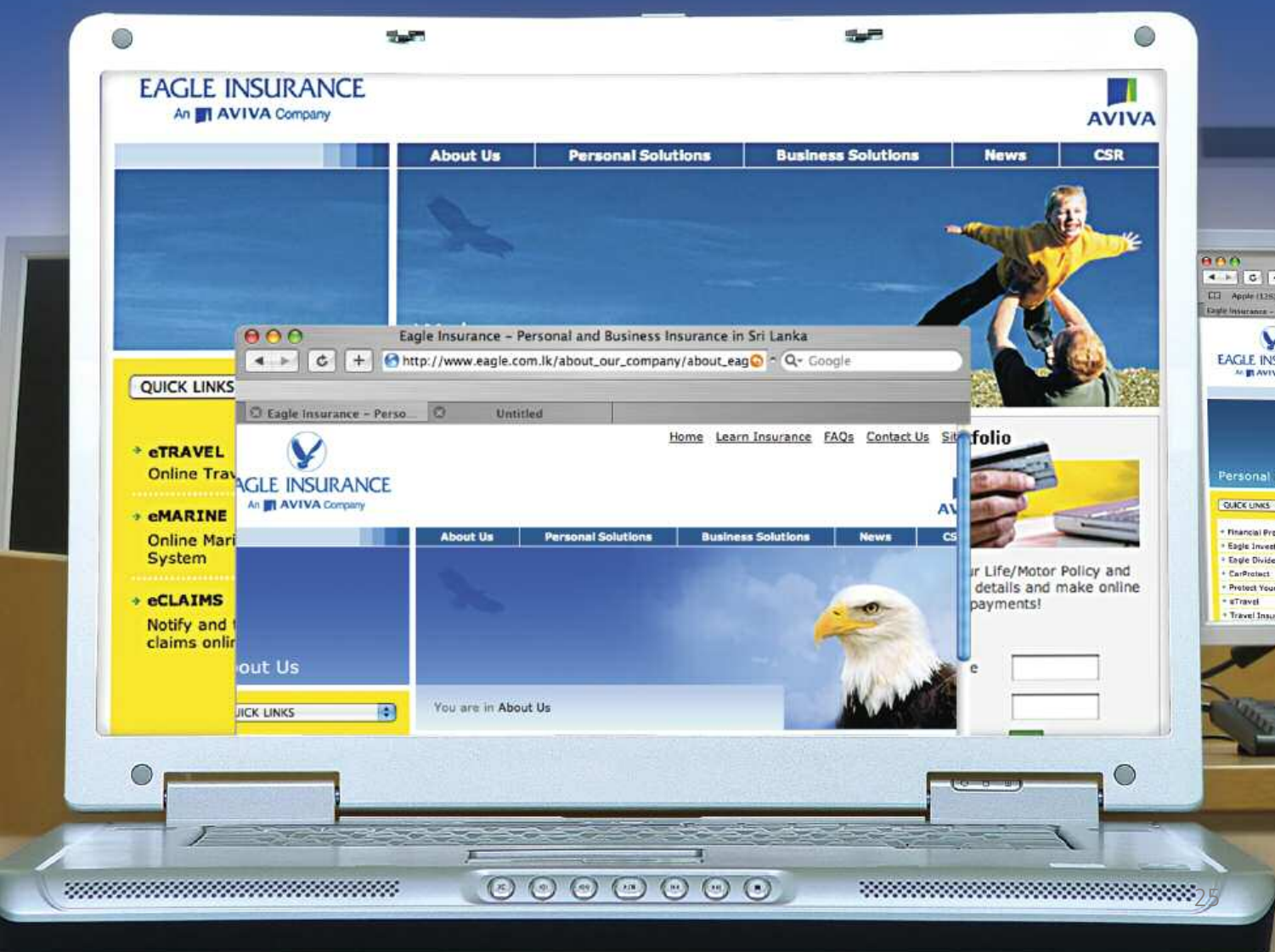
	2003	2004	2005	2006	2007
Dividends per share (Rs.)	7.83	5.34	4.17	8.25	9.50

The Company maintains a record of a steady profit performance and a review of the Consolidated Profit after Tax over the past years would reveal this. This has enabled the Company to maintain a steady dividend payment annually and during 2007, the Company made a total dividend payment of Rs. 9.50 per share.



Welcome

The proud wings of the Eagle symbolise strength, protection and reliability, qualities that contribute towards customer service excellence at Eagle Insurance PLC, Sri Lanka. As a composite Insurer and Fund Manager, we offer our customers a wide portfolio of individual and corporate solutions. Our strong reputation is built on prudent professionalism and good governance, as well as our continuing emphasis on corporate social responsibility.



Trust to care



Sustainability Report

Sustainability Report

Sustainability is a way of life at Eagle and deeply embedded into our culture and our thinking. To us, it is no mere buzzword. In practical, everyday terms, this means encouraging stakeholders to think in a sustainable manner and creating a culture that will be the foundation for a sustainable future.

Eagle Insurance has, since inception, striven to create, build and strengthen a company which maintains a symbiotic relationship with its stakeholders. We analyse the impacts of our actions to ensure transparency and accountability towards each of our stakeholder groups; this in turn ensures that our partnerships with them remain firmly anchored in positive values, ethics, principles and integrity. We believe we are anchors of trust in the partnerships we have built with our stakeholders.

In recognition of our commitment to the needs of our community, Eagle Insurance was proud to garner prestigious accolades during the years. We were named Best Asian Insurance Company in CSR at the Asian Insurance Industry Awards and for

the third consecutive year, were counted among the Ten Best Corporate Citizens of Sri Lanka by the Ceylon Chamber of Commerce. We remain a committed entity that is driving the nation forward through a value system, where CSR initiatives cascade through each stage of a person's life cycle. We;

- Work towards an equally-abled society through Eagle Samana
- Promote early childhood intellectual development through Guru Pubuduwa seminars
- Inculcate safety-awareness in pre-schools, homes and the general public through the unique Safety Ambassadors concept
- Encourage educational excellence through Eagle Higher Educational Scholarships
- Provide direction to positively guide young adults by educating teenagers, parents and teachers

- Offer internships and skills development opportunities to university students
- Foster and develop self-awareness in adults through seminars on positive-thinking and communication campaigns on TV and radio
- Develop entrepreneurial skills among small and medium entrepreneurs
- Partner the National Civilian Bravery Awards and recognise excellence in the Arts through the Eagle Excellence Awards
- Encourage safety in the workplace by pioneering the National Safety Award, the only national award conceptualised and implemented by an insurance company to meet the twin goals of corporate and national productivity
- Reduce usage of paper through the Save Paper project
- Create awareness on environmental issues facing our planet and to encourage the 3R concept by launching the Go Green project

Permeating global CSR perspectives

Being a member of the Aviva group, the world's fifth largest insurance company, our commitment to corporate social responsibility remains firmly ingrained within the group's family of eight policies.

Group Policy	Our Commitment
Standards of Business Conduct	We are committed to ensuring that our business is conducted in all aspects according to rigorous ethical, professional and legal standards
Customers	We seek to provide our customers with a service hallmarked by integrity, quality and care
Human Rights	We respect the Universal Declaration of Human Rights and seek to be guided by its provisions in the conduct of our business
Workforce	We are guided by our aim to be the employer of choice
Health and Safety	We are committed to providing a working environment which is both safe and fit for the intended purpose and ensures that health and safety issues are a priority for all business operations
Suppliers	We regard suppliers as our partners and work with them to help us achieve our policy aspirations in the delivery of our products and services
Community	We strive to be a good corporate citizen, recognising our responsibility to work in partnership with the communities in which we operate
Environment	We are committed to a programme of management, continuous improvement and reporting of our direct and indirect impacts on the environment

Sustainability Report

Eagle CSR Value - Driver Model



Message from our Managing Director

CSR is part of the value system ingrained in our corporate culture and to us, it is an accepted way of life. It goes beyond business objectives to create a continuous impact on society. It is the driving force behind all our activities and we hope that we may inspire a value system that uplifts our nation. Our entire business culture, how we run our business and how we do business revolve on the core concept of corporate social responsibility. Ours is a

service industry that is entrusted primarily with looking after people and ensuring that we partner them to nurture, develop and protect their way of life.

Eagle embraced CSR long before it became the buzzword it is today. We have consistently ensured sincerity and have consciously avoided using CSR to gain undue publicity and enhance our image. During the past three years, 9% of our annual profits have been allocated for CSR

initiatives. We have seen our involvement in CSR evolving into sustainable projects, built on the long term needs of people and the environment, where our team evolves and implements projects that would make a difference to the environment we operate in and to our nation.

Being ethical and socially responsible is a fundamental core value of the company, which each member of the Eagle team champions ardently. The pro-active team

Sustainability Report

stance is vital to the sustainable success of our business and it is through this, that we give our team the impetus to drive their aspirations.

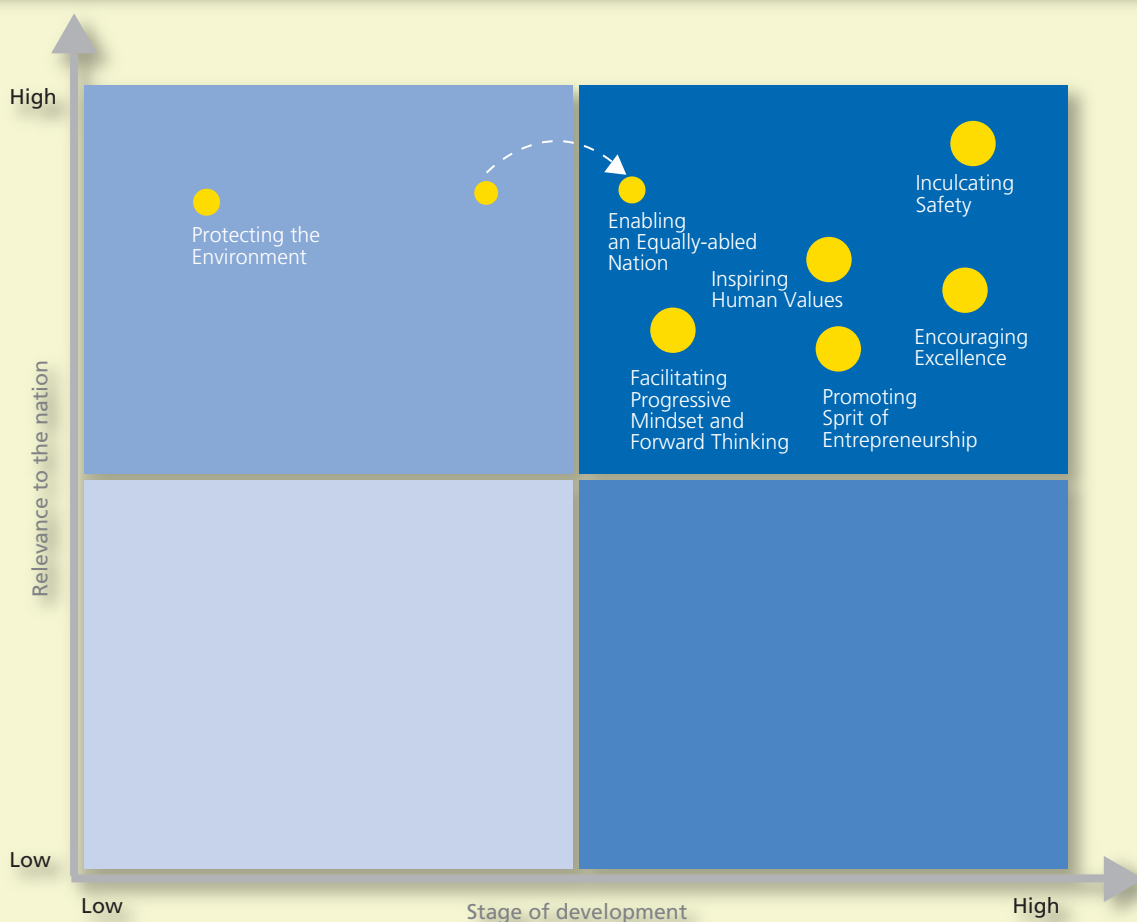
Our strategic focus on high ethical standards and emphasis on voluntary compliance, governance and transparency

has set the trend for the industry and built a solid structure of accountability that extends towards all our stakeholders.

In this report, we present CSR initiatives we have engaged in during the year, and hope that you will be able to garner an overall view of your company's continuing

commitment to being an exemplary corporate citizen.

Analysis of Eagle CSR Endeavours



Stage of development

Ad-hoc selection
One-off events

Low involvement

Integration with corporate values / culture
Realisation of potential benefits
Multi-faceted extension begins

Fully integrated into corporate values / culture
High stakeholder involvement
Continuity guaranteed
Achieving national status

Sustainability Report

Community

Our primary platforms in community engagement are education, safety, inspiring human values, facilitating progressive mindset and promoting entrepreneurship. We believe that these aspects must be addressed in the light of constantly evolving social influences and interactions. These areas have been an integral part of our CSR calendar for years, long before they

philosophy and maintain a sense of ownership in each project, giving of our time and energy wholeheartedly to see the completion of each project and be proactive within the community we touch.

To inspire human values we took on board, the idea of honouring everyday heroes through the National Civilian Bravery Awards which recognise those who have been selfless and courageous in saving the lives of others. This year, further emphasis

were found to have engaged in volunteer work. Shown below are the areas of their contribution to our society.

Safety

The National Safety Award

The National Safety Award emphasises safety in the workplace and has over the years, significantly contributed towards

Areas of volunteer work undertaken by staff

NGO
Counseling
Membership of social service clubs
Spending time at orphanages / elders' homes / women's shelters
Teaching / lecturing
Helping the disabled



A group of lifeguards deployed to protect Poson pilgrims at popular bathing spots

became the norm for corporate social responsibility. This is because we believed that by identifying the most necessary facets that require attention and building on them, we would achieve our final goal of having made a difference within our community. Some of our projects may seem insignificant in a greater context, but to the communities we touch, they have made a fundamental difference, and to us, that is what matters most. We believe in our CSR

was given to this CSR platform through Eagle Samana, in a bid to create an empowered equally-abled society that would inspire a value driven foundation for our nation.

To further support the CSR way of life at Eagle, we introduced a database this year to capture the socially responsible efforts voluntarily embarked on by our staff. Approximately 10% of our staff members

raising the bar in safety at the workplace. Held once in two years, the award is a benchmark for industrial safety and organisational commitment towards an accident-free workplace and is conducted in collaboration with the Department of Labour and the Employees Trust Fund Board.

Sustainability Report

Zero fireworks accidents among children

In a continuing campaign that we have spearheaded since 1992, we aim to educate and create awareness of the dangers of firecrackers when used by children. During festive seasons, we conduct extensive multimedia and below-the-line communication campaigns, which have enjoyed gratifying success by completely

patrol these spots. One million pilgrims habitually bathe at these spots during the Poson season, despite the hazards that they may pose. Our prolonged involvement in this project has had tangible results – we have now ensured nearly zero drowning accidents and saved over 125 lives over the past 14 years and the project has the distinction of having won a commendation from the International Life Saving Federation.

equipped with safety tool kits comprising educational leaflets, CDs and illustrated children's books, providing them with more ways to promote their safety message.

Road safety

One of our most successful safety campaigns was on road safety, the simple gesture of holding up a hand at a zebra crossing was noted, remembered and became generic among all those crossing

Given below are the resources allocated towards the 2007 Poson Safety Campaign in the Anuradhapura, Polonnaruwa & Dambulla areas.

Project Team	2007
Life Saving Association -	
Life Guards	150
Police Department Life Guards	150
Sri Lanka Navy – Life Guards	50
Dambulla Team (L.S.A)	35
Polonnaruwa	50
Police Life Guards (students)	200
Total	585

Covered Areas

Dambulla : Kandana and Ibbankatuwa Tanks

Anuradhapura : Nuwara wewa, Tissa wewa, Sunatha Pokuna, Abaya wewa, Rajanganaya wewa, Nachchaduwa wewa, Kala wewa, Tanthirimale

Mihintale : Kaludiya Pokuna, Naga Pokuna, Mahakanadarawa wewa

Polonnaruwa : Parakrama Samudraya

No. of lives saved : 09

For 14 years, we have promoted safety among Poson pilgrims bathing in hazardous waters



eliminating firecracker accidents among children.

Keeping one million pilgrims safe

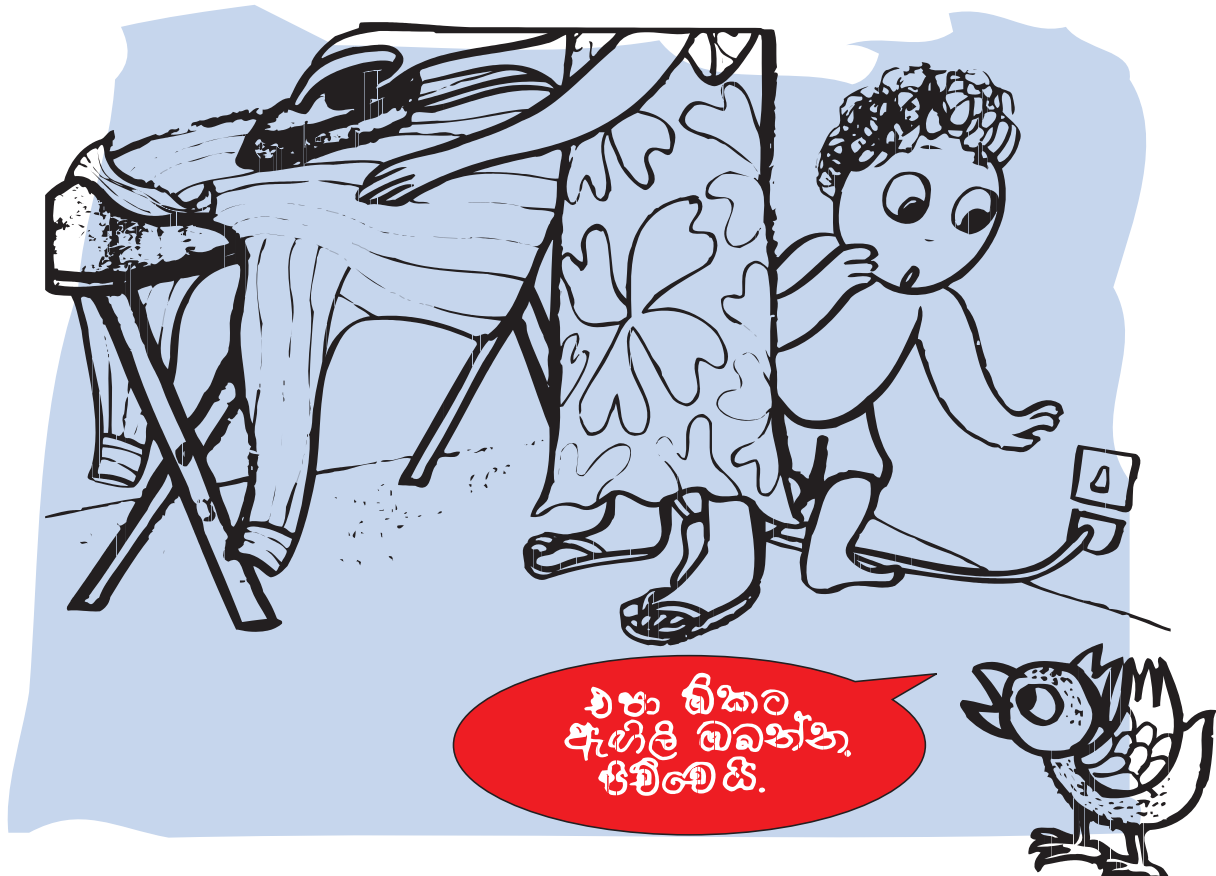
Poson Safety was a concerted campaign launched 14 years ago. This involved identifying the hazardous bathing areas which dot the Poson pilgrimage route to Anuradhapura and deploying life saving crews of the National Life Saving Association, Sri Lanka Army and Police to

Spreading the message of safety

Accidents in the home get little public attention. Having identified this gap, we have deployed 2,373 Safety Ambassadors, our specially trained and equipped Sales Agents. They spread the message of home safety among children, teachers, parents, community leaders and society, permeating grass-root levels all around the country. These Safety Ambassadors have thus far reached over 200,000 households,

the road. It also commanded respect from vehicle drivers. We embark seasonally on outdoor billboard campaigns and below-the-line activities to promote the 'Don't Drink and Drive' initiative, which, if judged by the reduction in drunk driving accidents, has proven to be effective.

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Emergency 110

The Eagle sponsored multi media publicity campaign, Emergency 110 for the free ambulance service of the Colombo Municipal Council has been extremely successful, increasing the chances of survival of accident victims. The campaign also educates the public on the proper

procedures in dealing with accident victims especially to refrain from moving them when injured and advising them to dial the toll free number of 110 for immediate assistance.

Eagle Samana

Eagle's consistent effort to enhance the well being of the Sri Lankan community has resulted in the launch of its latest innovative CSR-platform 'Eagle Samana' towards creating 'an equally-abled society'.

Sustainability Report

SPOT THE DIFFERENCE



Corporate Social Responsibility



When you stop seeing a difference, you can make a difference.
View our commitment to this cause, tonight at 7.30pm on Rupavahini.



Come under our wing

Education

It has been proven time and again in the recent past, that Sri Lanka's education system, whilst being comprehensive, lacks the necessary input, infrastructure, teaching skills and levels of competencies, to gear students towards the high standards

required by young people to become globally competitive. Having recognised these challenges, we have striven to address at least some of them, embarking on a variety of projects to improve on the prevailing standards. Over the years, we have added to our ongoing projects and introduced newer initiatives.

Eagle Samana – Creating an equally-abled society

This initiative as the name denotes, creates, promotes, encourages and initiates a holistic environment that will create an equally abled society. Eagle strongly felt it was a timely necessity that sustainable

Sustainability Report



Children with special needs participating in the inaugural Eagle Samana teacher training programme

educational opportunities are presented to children with special needs.

The core objective of Eagle Samana is to enhance the knowledge of teachers who work with physically and mentally disabled children, through a series of regular region-wide workshops and training modules featuring recognised resource persons in the field of Special Education. This will ensure that the teachers' knowledge and capabilities are improved and developed to

help them mould a well balanced personality and facilitate psychological welfare and stability to enable these children to integrate into normalcy. The teachers will be equipped with enhanced knowledge to identify and thereafter harness children's skills, talents and abilities, enabling them to enjoy a degree of independence and sense of achievement.

The first inaugural Eagle Samana teacher training programme was held with the participation of over 1,250 teachers. This will be followed by a series of regional workshops aimed at gaining more focused and interactive participation. The training programme focused on vital issues that included the role of teachers and care givers, identifying children with special educational needs, handling a special child and insights on Autism Spectrum Disorder,



Eagle Samana

Eagle's consistent effort to enhance the well being of the Sri Lankan community has resulted in the launch of its latest innovative CSR endeavour 'Eagle Samana' towards creating 'an equally-abled society.'

Sustainability Report

This year's recipients of the Eagle Higher Education Scholarship, listen intently to a presentation



and included a special demonstrative session on Sensory and Movement Training.

Eagle Higher Education Scholarships

The Eagle Higher Education Scholarship Trust Fund, begun in 1994 with Rs. 10 million for the purpose of continuing the initiative, now stands at Rs. 37 million. It recognises the most promising students in Sri Lanka, solely on merit. This year too, 25 Year Five Scholarship district winners who are now embarking on their Advanced

Level studies were awarded the Eagle Higher Education Scholarship.

Eagle has thus far rewarded a total of 336 students who have benefited from this scheme. The first batch of scholarship winners commenced receiving their scholarship benefit in June 2001. Another unique aspect of this scheme is that the winning students' principals and teachers are also honoured as having been a vital part of the students' success.

Students commence receiving the scholarship benefit of Rs. 1000/- monthly, on entry into the Advanced Level class, a payment that continues throughout their university career as well. This monthly sum adds up to a total of Rs. 60,000/- to Rs. 84,000/- per student, depending on the duration of the chosen degree course. Those students who choose not to enter university are given a lump sum of Rs. 25,000/- as a career starter.

Sustainability Report

Gearing undergraduates for the future

Our work with university undergraduates has been very focused towards developing their soft skills and making them employable in the current environment.

conducted by the internal training faculty of Eagle with subjects that included business communication, private sector business models and improving interpersonal skills.

Eagle Children's Benefit Trust

This Trust was established in 2003 to provide children of Sri Lanka with donations and gratuitous payments that would guarantee the fulfillment of rights detailed under the UN Convention on the Rights of the Child.



Imparting soft skills to undergraduates, to enhance their employability



A streamlined mentoring programme, conducted under the aegis of the HR department and the Ceylon Chamber of Commerce, was conducted this year for eight undergraduates from the University of Kelaniya mentored by two General Managers of the Company. A series of mock job interviews conducted by an expert panel also gave them an insight into improving their interview skills as a value addition to the training programmes

Each year, Eagle also enables undergraduates from Sri Lankan universities to gain internships within the Company in order to obtain work exposure. This year, 27 undergraduates from the Universities of Rajarata, Sabaragamuwa and Sri Jayawardenepura availed themselves of the opportunity to work in the Company for six months.

Guru Pubuduwa

Guru Pubuduwa, an educational enhancement project aimed at pre-school teachers that began in 2004 for 1,500 teachers, currently extends to over 10,000. The workshops are designed to develop the competencies of pre-school teachers who work under difficult circumstances, are ill equipped and have not received any formal training.

Sustainability Report



A helping hand for children from a 'threatened' village

We reached out to a group of children, from a 'threatened' village in Vavuniya, who have undergone untold sufferings as a consequence of war and extreme poverty. Eagle organised school books for these children in the hope of making their lives a little brighter.

Sustainability Report



Hope rekindled at Sarvodaya's MAST Eagle Darusevana

We joined hands with MAST Industries to fund a state-of-the-art home for orphaned boys, through the NGO Sarvodaya. The MAST Eagle Darusevena has the capacity to house over forty children and provides them with modern comforts. The home is designed to encourage and assist orphaned children to pursue their studies, become independent and productive.

The creation and management of the Sarvodaya Suwasetha website – www.sarvodayasuwasetha.org is managed by Eagle as an extension of our support to Sarvodaya. The website ensures the transparency of the foundation's activities and allows donors better interaction with the foundation.

Sustainability Report

Focusing on future challenges

In a world that is constantly evolving and posing numerous challenges to both youth and adults in dealing with a wide spectrum of issues, Eagle pioneered a series of regional one day seminars conducted by renowned counselors, to educate parents and teachers to handle these challenges. Guidelines and advice are imparted on positively moulding young adults, in an environment that can pose numerous threats. Also covered is advice on how to

concept of teamwork within the Eagle family, the projects are implemented devoid of any publicity, by teams wholeheartedly committed to giving under-privileged children a better chance to further their education in a suitable environment.

This year we focused on D S Senanayake College, Dambulla which housed 1,000 students in very poor conditions. The infrastructure was poor, as was the dilapidated furniture and equipment. Apart

Providing management exposure to government officials

We conducted many customised management training programmes for a large number of government officials instilling the rudiments of good management practices into their professional capabilities. Specialist resource personnel from the Eagle internal training faculty, actively contributed towards developing modules and conducting these training programmes.



Pre-school teachers participate in a 'Guru Pubuduwa' seminar designed to develop their competencies



seek opportunities that give them an edge in the future. Teenagers are addressed in a separate forum.

Developing schools


One of our most rewarding CSR experiences is the annual foray into developing the infrastructure in underdeveloped schools and observing the excitement that students feel when buildings and playgrounds are reconstructed and refurbished. Instilling the

from uncemented floors, damaged chairs and desks, students contended with leaking roofs. We embarked on this community initiative with the involvement of parents and well-wishers augmenting our team efforts. Eagle Insurance spearheaded the rehabilitation of the school during the holidays of December 2007 enabling the students to return to a school with a new look at the beginning of the year 2008.

Entrepreneurship development

We conducted business lectures for small and medium entrepreneurs around the country, focusing on positive thinking, marketing, business management and financial planning.



This New Year, protect her happiness so she can enjoy it! Light crackers safely.  Be alert. Accidents hurt.
A safety message from Eagle Insurance


EAGLE INSURANCE
An  **AVIVA** Company
Come under our wing

Sustainability Report

Felicitating real life heroes - National Civilian Bravery Awards

Honouring courageous citizens of Sri Lanka, the National Civilian Bravery Awards celebrate those who have risked their lives to save others. We have been strategic partners of this laudable effort by the Foundation for Civilian Bravery for 4 consecutive years, as a reflection of our

will help to build a morally responsible nation.

This year the chief guest was former Air Vice Marshal and High Commissioner for Pakistan in Sri Lanka His Excellency Mr. Shahzad.

The Budal Na Award, the Gold Medal for Civilian Bravery was presented to R M

The Inscription in Gold was presented to Ven. Kadawatha Saminda Thero for his gallantry in donating one of his kidneys to save a critically ill patient.

Among those heroes who were presented with Silver Medals and Certificates of Merit were:



RD | SEPTEMBER 2007

savings to buy a house and land to farm. Instead of settling, though, he found a small, unclaimed valley which he then claimed as his own by Dayak tradition. He marked out about 300 hectares and placed signs along the boundaries, prohibiting anyone to enter or harm the animals or plants. He called his unofficial nature reserve *Hutan Mitra Alam* or Partnership with Nature Forest.

"You won't succeed," fellow villagers told Tare. Some reckoned his actions would lead to trouble from officials. But Tare was undeterred. Dayaks had protected the forest for generations, and Tare believed the forest would be important to future generations. It wasn't fair that the government now claimed the people's land, picking tracts as state forest. For a decade, businessmen offered Tare large amounts of cash for his trees; the last bid was for billions of rupiah. Tare always said no.

After hearing that the Center for International Forestry Research (CIFOR) was helping a few villages that had denied loggers access to their forests, Tare approached them for help. "Your forest is too small," said Petrus Gunarso, PhD, a former coordinator at CIFOR's nearby research forest.

But Tare persisted until Gunarso and his colleagues visited *Hutan Mitra Alam*. Gunarso realised Tare had done something remarkable, safeguarding his land even as forests were cleared around it.

CIFOR helped Tare gain recognition from the district government, and *Hutan Mitra Alam* is now being used as an example of sustainable forest management. "We have brought village heads and visitors from a nearby district," says Gunarso. "They were impressed with the forest condition, and Luther's spirit."

MARTIN WILLIAMS

Croc Attack

SRI LANKA

R.M. JAYASIRI Bandara wanted to make the most of his medical leave from the Sri Lankan army last September. He took his

year-old city in Sri Lanka's north central province.

There, they left their daughter on the bicycle seat to go for a quick dip. Srimathi waded waist

a scream. Jumping up, he saw that his daughter was fine but there was no sign of his wife. He shouted her name but there was no response.

Then Bandara spotted



Tickling a crocodile saved his wife's life

a sharp object struck his leg and his worst fear was confirmed: A crocodile had taken his wife. Bandara dove into the two-metre-deep pond, searching blindly until he found its slimy tail. He grabbed hold but the three-metre-long creature shook him off. He tried again, catching the croc around its body.

Bandara became desperate when the croc would not let go of his wife. He then remembered a local belief that tickling the croc's belly will make it open its mouth. He tried it and amazingly, the beast wriggled and opened its mouth, freeing his wife. Bandara grabbed

Srimathi from the crocodile's jaws and threw the 60-kilogram croc as far as he could. When she reached out to drag him to shore, Srimathi realised that half her right arm was missing. The beast attacked again, this time grabbing her dress. Bandara tore the cloth off his wife's body, allowing the crocodile to take it, and in a final burst of strength reached the shore.

Examining what was left of her bleeding arm, Bandara knew he had to get her to a hospital. He screamed at some people nearby to help. A three-wheeler soon arrived and drove her to

the Nochchiyagama hospital. The doctor dressed the wound and urged Bandara to rush her to a better equipped facility in Anuradhapura. Srimathi was suffering from shock and excessive loss of blood, but quick medical action saved her life.

For his brave deed, R.M. Jayasiri Bandara was awarded the Gold Medal for Civilian Bravery by Sri Lanka's Foundation for Civilian Bravery at a ceremony in Colombo on June 14, 2007.

VIJITHA YAPA

PHOTO (CROCODILE) H. M. SUNDIL PORANADAKA; (AWARD) COURTESY FOUNDATION OF CIVILIAN BRAVERY

11



belief that human compassion, courage and selfless acts are an inspiration to all and that honouring the noble and the valourous



Bandara Jayasiri, who fought a crocodile to save his wife's life. This brave act was featured in the Reader's Digest magazine.

- A student who saved his cousins from drowning in the Bolgoda lake
- A mother of four who sacrificed her life to save a youth from a tidal wave
- Two labourers, a mason and a three wheeler driver who saved a couple from drowning in a flood
- A little child who saved his mother's life after she accidentally fell into a well.

Sustainability Report

Eagle Excellence Award honours stars of the silver screen

Recognising and acknowledging greatness among our fellow Sri Lankans, in keeping with the Company's commitment to excellence, Eagle felicitated two of Sri Lanka's megastars for their mammoth contribution to the Sri Lankan cinema. Joe Abeywickrema and Malini Fonseka, both international award winning film stars renowned for their versatility, talent and

his wife Vajira, Nanda Malini and Kalasuri Sybil Wettasinghe in past years.

Sexual Harassment in the work place – policy launched

Keeping in line with Aviva's policy on Human Rights, Eagle was among the first 42 companies in Sri Lanka to pledge allegiance to the Code of Conduct and Procedures in addressing sexual harassment in the workplace. Eagle actively contributed

future generations, very seriously. We recognise our responsibility to the environment as a global citizen, not simply as Eagle Insurance but as a member of Aviva. We continually strive to introduce and spearhead measures that will reduce our impact on the environment and spread the message of environmental conservation among our people.

The screen saver designed for the launch of the 'Save Paper' project promoting the message of environmental conservation

Save the trees for the children
Think before you **print**



impressive portfolio of over 100 films, were honoured at the Eagle Excellence Awards held this year.

The objective of these awards held annually is to recognise and honour personalities who are committed to excellence and professionalism in the arts, as ideal and inspiring role models. Eagle has felicitated Dr. Lester James Peries, Kalasuri Henry Jayasena, Dr. Premasiri Khemadasa, Pundit W D Amaradeva, the late Chitrasena and

to the re-launch of the Code of Conduct which is a joint effort by the Ceylon Chamber of Commerce and the Employers' Federation of Ceylon.

Environment

We take our responsibility towards environmental protection, preservation and improving sustainability for present and

Saving Paper

It is imperative that paper usage must be reduced and waste eliminated as an urgent measure towards environmental protection.

This year, Eagle Insurance made a concerted effort to reduce by 10% the usage of paper by the end of 2007. Driven by a cross functional project team, emphasis was initially placed on creating awareness through a company wide campaign communicated through our intranet.

Sustainability Report

Several changes, some of which are detailed below were implemented across the entirety of Eagle, encompassing the Head Office and Regional Offices:

- Set all PCs across the Company to double sided printing by default
- Convert most policy documents and quotations to double sided printing.
- Use of standardised envelopes for client communication

Impact & benefits

The benefits which the Company derives from this project are both financial and non-financial. The Company achieved a significant reduction in the use of printing and photocopy paper during the year which resulted in cost efficiencies through lower procurement costs. A reduction in the quantum of waste paper was also achieved across the Company. The most important outcome of this project was

Waste management initiatives

Paper recycling

In a bid to educate our people on the necessity of recycling paper, used documentation is recycled through an outsourced service provider who collects used paper in boxes specially provided for such purpose and dispatches it weekly for recycling.



Creating greater awareness on 'Go Green' among the employees

- Efficient paper usage introduced as a module for new recruits in their induction programme.
- Accounts statements and other documents dispatched to intermediaries converted to soft copy format
- Weekly messages and tips communicated to the team via the Company Intranet.

changing the mindset of our team towards minimising waste.

Future plans

Eagle has just begun promoting the use of eco-friendly material for daily operations and phasing out the use of plastic and synthetic fibre currently in use within the office environment.

In 2007 we recycled approximately 26,478 kgs of waste paper.

Managing equipment waste

In order to dispose of disused IT equipment in an eco-friendly manner, we published a tender advertisement requesting suppliers with good waste management and recycling practices to respond and assist the Company in disposing of disused IT equipment effectively. Unfortunately we did

Sustainability Report

not receive any response to this advertisement. This has shown us that there is a critical need for eco-friendly disposal of IT used equipment.

Go Green project

Still in its formative stages, our Go Green project seeks to deal with the impact of global warming. Stemming from our initial Save Paper project, the Go Green project will at the outset embark on an awareness campaign on current environmental issues and challenges in the usage of energy and resources. The campaign has commenced within the precincts of Eagle Insurance as we believe that our initiative must first be practiced in-house and be an example to others before being passed down to external stakeholders.

Investor

Eagle's solid partnerships in the past with the British American Tobacco (BAT) Group, the Zurich Financial Services Group, the NDB bank and now Aviva, the world's fifth largest insurance group and the largest in the United Kingdom gives us the strength and stability which, to our investors, is a vital confidence factor.

In addition, our prudent policies, far thinking initiatives and the solvency margin that remains above standards specified by the Insurance Board of Sri Lanka in both Life and General Insurance businesses, demonstrate the level of our financial strength. We have also built vital trusses of effective self regulation that will instill investor confidence and ensure good corporate governance practices. These initiatives go beyond the compliance required by the Code of Best Practice on Corporate Governance as stipulated by the Institute of Chartered Accountants of Sri Lanka.

As a further step towards strengthening our governance practices, and providing an

effective, transparent and credible way to communicate the Company's compliance and integrity of the governance disclosure to our stakeholders, a process was initiated in 2006, to obtain an independent rating of the internal governance framework of the Company, from an International Rating Agency, Det Norske Veritas (DNV). The Company obtained a rating of eight out of ten from the said rating (ten being the highest). We consider this step towards obtaining the independent rating as relevant and of paramount importance, in the absence of adequate mandatory provisions in this area and where corporate governance reporting is subject to different interpretations by various organisations.

Our financial performance, since inception, has been consistent and has grown steadily. The stakeholder value we have infused has been one of leadership and growing market share in a competitive industry. The sustainable growth paradigm has seen the Company achieve a high Return on Net Assets (RONA) of 27 and an increase of year on year Return on Investment. Earnings per Share and Market Price per Share have also recorded a steady increase, standing at Rs. 17.57 and Rs.150.75 respectively at end 2007.

In order to enable the existing and potential shareholders to make timely and fair assessment of the Company's performance and arrive at informed decisions, the Company promptly disseminates all material information, financial position and the operating results of the Company through the Annual Report and Interim Financial Statements, with comprehensive details far in excess of the statutory and regulatory requirements.

In spite of the Company being held by two major shareholders the interests of small shareholders are well preserved. This was highlighted by the independent study done by DNV.

The Company has provided a regular return to all investors. Rs. 1000 invested at the inception of the Company is now valued at Rs. 61,547.

Industry

Sharing global practices with the Industry

Capitalising on our international relationship with the Aviva group, our significant effort towards sharing global practices with the insurance industry, was the series of workshops on Risk Based Capital. These workshops organised for the CEO's, CFO's, Actuaries and the Directors of the Insurance Board of Sri Lanka. The workshops were conducted by Group Actuary and Economic Capital Director for Aviva plc Jim Webber, on a topic that is timely and relevant in today's context of proposed legislation on the increased minimum capital requirement of insurance companies.

We have also facilitated Vivek Khanna, Director Marketing, Aviva India, to share his expertise as a speaker at the National Insurance Congress 2007.

Enhancing technical knowledge of the Industry

We are proud to have some of our management staff members lecturing at the Sri Lanka Insurance Institute (SLII).

Felicitating the Best Actuarial Student

Recognising the Best Student in actuarial studies in the Insurance industry, Eagle Insurance set up the A S Mani Memorial Trust in 1998, in appreciation of the services rendered to the industry by the late independent Actuary A S Mani of India. A gold sovereign is awarded to the winning student each year.

Sustainability Report

Rewarding orators

Rewarding excellence within the industry, we honour the Best Orator, as selected by the Sri Lanka Insurance Institute, with a gold sovereign, through the Eagle Insurance Development Orator Trust established by the Company in 2002.

Quality remains a key element in our delivery mechanism and pervades the entirety of the Company. With the Risk Management Division having already been ISO certified, we have established the foundation for maintaining and improving upon the highest possible standards in quality expectations and can assure customers of a clearly defined, continuous improvement process, in delivering the best products and services.

mandatory requirements specified by the Insurance Board of Sri Lanka

- Maintenance of paid-up Share Capital well above the mandatory requirements specified by the Insurance Board of Sri Lanka
- Reinsurance arrangements with rated global reinsurers who meet international benchmarks and local regulatory requirements

Aviva plc Group Actuary and Economic Capital Director Jim Webber conducting a workshop on 'Risk based Capital'



Customers

Eagle adopts innovative solutions to ensure that our customers are assured of the best options, products and services available within the industry. In line with our core value 'Dedication to Customers', our emphasis on building long term relationships has proven to be a significant value addition to our business fundamentals.

Greater security

'Accepting Risk with Responsibility' is another of our core values which has spurred the Company to strive beyond regulatory requirements and institute a set of self governance principles which enable us to deliver on our promises and provide greater security to policyholders. Some of the key processes in place are:

- Maintenance of solvency margins for Life and General business above the

Responsible selling

We have always maintained an ethos of responsible selling-only communicating promises that can be delivered while ensuring that industry benchmarks are continuously raised. Responsible selling however is not simply in marketing and communication. It encompasses the entire message permeated to our customers via corporate communication, our stand on industry issues, our agents and through our

Sustainability Report

actions. In other words, we simply want our customers to place their trust in us.

A series of customer surveys are carried out at various customer contact points during the course of the year, to identify customer needs and evaluate the effectiveness of service standards. The surveys are conducted by independent research firms and the results are used to improve our product and service offerings.

Net Promoter Score Survey

One of the most ambitious surveys undertaken within the customer services portfolio this year, the Net Promoter Score Survey benchmarks customer loyalty based on real customer feedback data obtained under stringent guidelines and analysis parameters as laid down by Aviva. The core element in identifying the Net Promoter Score (NPS) is the management of customer satisfaction. Touch points are detailed to measure the NPS frequently, in order to improve the operational framework and customer strategy.

The NPS focuses on inquiring from Eagle policyholders, on a scale of 1- 10, whether or not they would recommend the Company to another person. NPS will therefore help Eagle understand the levels of satisfaction currently prevalent within our own customer base as well as our competitors' customers. It also highlights competitiveness, strengths and weaknesses, while providing assistance in formulating proactive strategies for the future.

Customer Feedback Forum and Sales Compliance Unit

We have a comprehensive intranet based customer feedback process in place. Any customer feedback, whether positive or negative, is captured through this means, irrespective of the mode of contact or point of contact. According to pre-defined parameters, the complaints are categorised and automatically directed to the Sales Compliance Unit and to Senior

Management, including the Managing Director, depending on severity. Strong action is taken to ensure policyholder interests.

Accountability and accuracy

Marketing communication is subjected to an internal sign-off process to ensure accuracy and consistency with the requirement of the industry code of ethics.

Product development & service enhancements

Innovation, development and enhancements to our product and service portfolio have been significant drivers in transforming the industry dynamics. Our pioneering initiatives are undertaken with the aim of presenting the customer with dynamic options and world class products built on convenience and choice.

In delivering our products, we constantly endeavour to keep pace with changes in consumer preference.

Our enhanced product portfolio & value enhancements

Having introduced a wide range of products to the industry from inception, Eagle continues to address specific customer needs by adding Life, General and Asset Management solutions to its portfolio.

General insurance products launched this year

Aviva IFS Global Health introduced to Sri Lanka

Introducing the best of global insurance to Sri Lanka, in collaboration with Aviva, we launched the Aviva IFS Global Health product this year through Rainbow Trust Management Company Limited, our fully owned subsidiary; underwritten by Aviva Singapore, this is an international medical insurance plan, covering both in-patient and out-patient expenses for illness or accident. The cover is designed to be flexible even if a client relocates to another country.

Home Insurance Plan

In partnership with Sampath Bank, this is a comprehensive cover that protects the house and/or contents from natural disasters and other dangers, including lightning, flood, earthquake, cyclone, storm, windstorm, tidal wave, tsunami, fire and other natural hazards, burglary, malicious damage, riot and strike. The plan eliminates regular underwriting hassles and works on a single affordable annual premium.

Personal Accident Insurance Plan

Providing immediate relief to the family in the event of injury, death or permanent disability to the insured, the plan in collaboration with Sampath Bank, also provides accident medical expenses. Based on three options, the cover ranges from Rs. 500,000 to Rs. 2 million.

Motor Insurance Plan

Working together with Sampath Bank, we have provided a comprehensive Motor Insurance Policy that has a unique advantage of a cashless repair feature, providing professional and accurate assessment, with the garage being paid directly. It is supported by a taxi hire allowance, towing charges and a 24 hour help hotline. The added bonus in this plan includes hospitalisation cover up to Rs. 1,500 per day for passenger or driver. This doubles in the event of ICU treatment.

Travel Safe Travel Insurance

With religious tourism taking on a larger scale in outbound tourism from Sri Lanka, Eagle launched a special travel insurance policy for pilgrims travelling to India. At a marginal premium paid, the policy covers emergency medical treatment and loss of life or permanent disability within 12 months, due to an accident. This is supported by a 24 hour international hotline.



Does your life insurance cover your life adequately?

One thing certain about life is that your responsibilities never stop growing. First a spouse, then children, your need to provide them with financial security is constantly on the rise. **Now is the time to consider a second insurance policy which will give you the assurance of having secured the future for the ones you love.**

Eagle LIFELINE provides adequate protection for your family at a time they need it most. You **pay for just 15 years in a 25 year plan** and **enjoy 10 years of free life cover**. So, live with the reassurance of having provided for those who depend on you the most with Eagle LIFELINE

Is your life insurance cover adequate? If not call 2310310 or SMS 077 2310310

Sustainability Report

Eagle Business Protect

A comprehensive shop insurance policy targeted at non-manufacturing commercial properties, the policy covers properties from Rs. 1 million to Rs. 50 million. The cover extends to a range of disasters and dangers including fire and lightning, malicious damage, explosion, aircraft damage, natural perils, money in transit and personal accident.

Life products and value additions

Bancassurance partnership with Sampath Bank

Pioneering bancassurance in Sri Lanka since becoming a member of the Aviva group, Eagle Insurance embarked on a strategic partnership with Sampath Bank this year, adding value to Sampath's customers through Aviva's global expertise in bancassurance. The partnership opens opportunities for a wide spectrum of financial solutions that include Life and General insurance products customised for the bank's island wide customer base of corporates and individuals.

Other products and value additions for the year:

- A mortgage protection plan was launched with our bancassurance partners NDB bank and Sampath Bank.
- Group life products, introduced for health/life protection for employees, greatly benefiting our corporate clients.
- Corporate and individual clients benefit from the range of portfolio management services, trust management and administration services that provide customised solutions for wealth creation.
- Eagle's Risk Management Unit, the only ISO 9001:2000 certified unit in the country, provides total solutions for customers, including industrial risk assessment, occupational health and safety management.
- Using the fast growing mobile telecommunication industry as a value addition tool, Eagle partnered NDB to

launch an innovative paying option for premiums for our policy holders.

Branded EZPay, policyholders can now make premium payments through their mobile phones.

- www.eagle.com.lk, the Eagle website, is a comprehensive repository of information on the Company, its products and services. Customers can use the link, My Portfolio to manage their portfolio online, giving them the

Employees

We are proud to have a team that is one of the best in the country. The value added to our bottom-line through their efforts this year and in the years past, is testimony to this. However, it is not just in figures that we make this observation, but in an overall context.

The motivation and team spirit demonstrated by our people have always

Eagle Insurance and NDB bank launched Eagle/NDB EZ Pay - enabling premium payments through mobile phones



option to view policy information, make premium payments, manage investments including unit trusts and make service requests. To date, we have 1,778 customers registered online.

- Marine insurance is at our customers' fingertips now with Eagle e-Marine, a convenient online insurance option for corporate customers. The product, when launched was the first of its kind in South East Asia.

helped create the right climate for the success of our business.

We are an 'employer of choice' for the right people. Being a part of Aviva, the fifth largest insurance group in the world we have ensured that global best practices as well as an international mindset continue to be part of our work ethics. Ours is a team which gets involved, and in turn creates a dynamic work-environment in which every member takes ownership and is

Sustainability Report

accountable for the Company's progress. The family culture we have inculcated encourages our team to work together towards achieving their goals in a safe and mutually fulfilling environment. We challenge people to build on their natural strengths, to think out of the box, to create new targets for themselves and grow beyond their imagination. It is this drive that spurs their personal development and excites them to exceptional performance.

The individuals who become the chosen 'Eagles', are selected on their talent, strengths, skills, abilities, team spirit, entrepreneurship and leadership features. These qualities are matched to the job profile and their capacity to adopt our values and undertake the challenges of a high performance culture. Our recruitment policy is designed on world class selection processes, including psychometric testing.

Our commitment in giving our team more recognition and leveraging within the industry has seen a further strengthening of the job grading system introduced in 2006. Our team now holds attractive designations and enjoys the challenges of enhanced job positions aligned to their strengths and capabilities. We also continued our growth drive to improve market share by adding 161 members to the Life and General sales distribution teams.

Eagle Managers at the Management Seminar at Kandalama Hotel, Dambulla



We select the right person for the right job at the right time

We adopt a strategic orientation to the recruitment process which is designed to identify, develop and retain people with outstanding talent. We do not just 'fill the holes' but practice a recruitment strategy that understands the Company's needs and produces the candidate with the best possible fit.

Being an equal opportunity employer that thrives on a culture of meritocracy, we seek to fill positions internally, giving team members the opportunity to climb their career ladders. At the same time, we also believe that new thoughts and ideas must be infused into our culture. We maintain a balance of internal and external selection. Vacancies are posted on the Company's Intranet creating equal opportunities for both internal and external applicants to apply in a transparent manner.

We participated in key national career fairs strengthening our position as an 'employer of choice' for the right people.

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Harnessing talent

To us, learning is an enduring process and we inculcate this thought into each member of our team. Individual strengths and talents are, of course, an integral force in our business, where they are used to maximum potential and honed to give the individual, opportunities of furthering career prospects. We also strongly believe that individual aspirations must be aligned to the Company's Vision and Mission, to

talent that will transform to 'performance' and future potential.

Knowledge sharing

Being conscious that natural talent and knowledge must be honed for maximum benefit for both the organisation and the individual, we launched our first formal knowledge sharing session in 2007. The 'Eagle Professional Sessions' raise our own high standards of professionalism and are

Comprising a series of presentations covering different business aspects, each presentation was followed by a question and answer session led by a resource panel. The entire management team participated in the session which had Albert Paterson, Chairman, Eagle Insurance and Managing Director, Aviva India, as Chief Guest.

Driving high performance

We drove the 'performance management'

Sharing technical knowledge at the Eagle Professional Sessions



make the journey together more productive and efficient. Achieving these aspirations, requires a lifelong learning and knowledge developing culture, which we at Eagle wholeheartedly promote.

Learning through intensive training processes therefore continues to remain a key element in our culture and, our investment in this facet clearly displays the commitment we demonstrate in developing

aimed at creating a knowledge sharing culture within the Company. They are also designed to share and disseminate the impressive cross functional knowledge pool we have among ourselves. The sharing culture which is one of Eagle's strongest pillars of success, was taken to a higher realm with these sharing sessions, which focused on the opportunities and challenges faced by the key business functions in Life and General insurance.

aspect of the Company with a well integrated approach during 2007. Training played a vital role in the series of programmes held in each quarter, to facilitate the performance management process, starting from 'Setting Objectives' in the first quarter to 'Giving Feedback' in the middle of the year and ending with the 'Final Appraisals', in the last quarter. Parallel to these, a cross functional team was trained on 'a job grading and

Sustainability Report

evaluation' methodology, to ensure a firm and fair reward system is in place to recognise performance.

New eye to induction – best stage to start personal capacity building

This year we re-launched the induction training process on a wider spectrum, infusing the 'personal capacity building' element strongly, in tandem with the traditional procedure awareness induction.

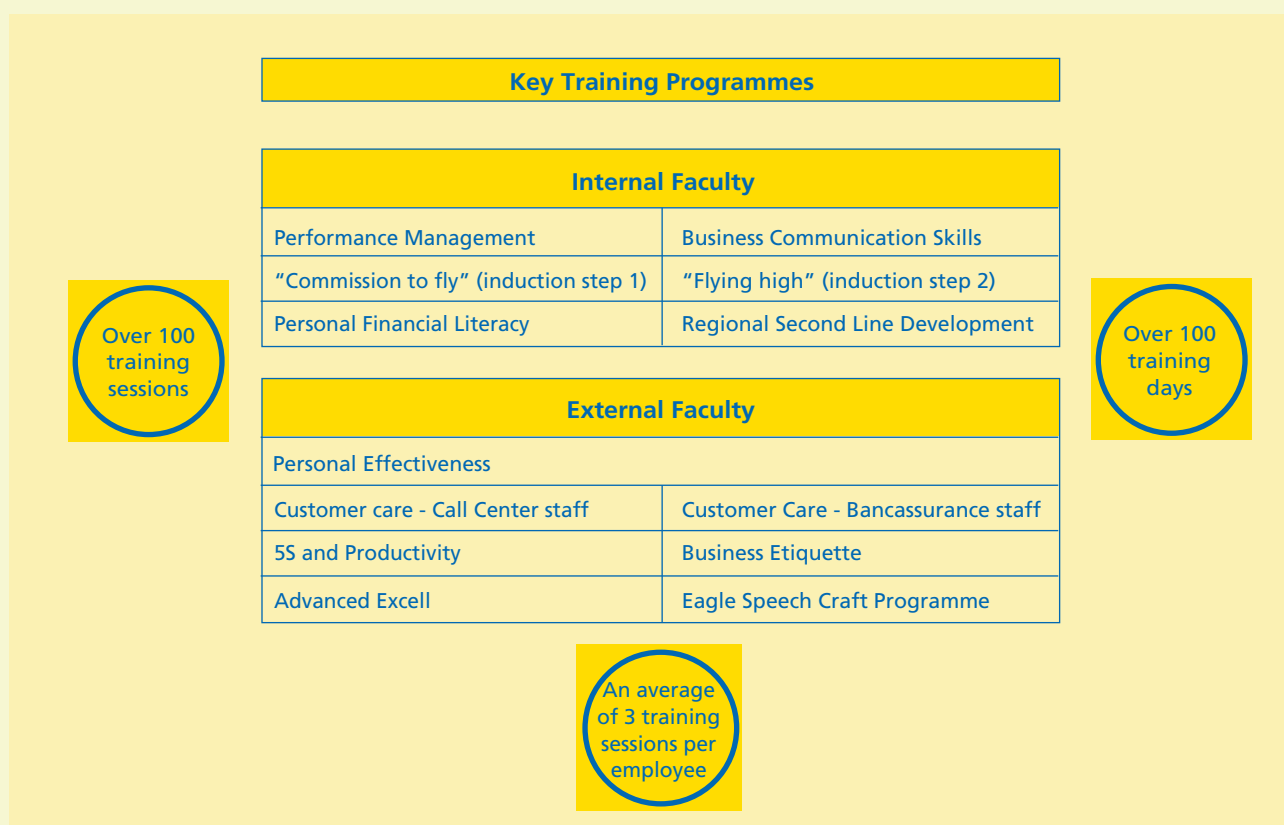
itself. From the feedback received, it was evident that the objectives of the sessions had been met as the participants were appreciative of having been exposed to learning the fine art of balancing their personal and professional lives.

Developing leadership pool

We believe, leading is the ability of our leaders to focus on our people and create an environment which enables their maximum

Personal financial literacy

We consider it our duty, being in the financial services industry, to bear a certain amount of responsibility in ensuring that a standard of financial literacy is maintained in the country. We began the process by first looking inward and educating our own employees. A special training programme was designed by internal experts to assist our employees in comprehending the aspects of personal financial challenges.



The new Eagles were commissioned to fly first and then encouraged to fly high.

Paradigm shift

A two-day programme on personal effectiveness based on the concepts presented in the renowned book 'Seven Habits of Highly Effective People', by Stephen Covey was rolled out across the Company enabling our employees to grow individually, alongside the organisation

performance. The first programme on the Eagle leadership module, capturing Aviva's leading people philosophy, was launched in 2007. The objective of this residential programme was to develop the second line in the Life Distribution Sales Force. The programme focused on the 'Eagle Leadership Brand' and building on the natural leadership styles of the high potential candidates in the regional second line.

Delivered in four modules, the programme comprised the subjects of budgeting, investments, personal taxation and retirement planning.

External training - local and overseas

295 employees were sent to 83 training programmes conducted by local external institutes.

Sustainability Report

52 of our employees also benefited from overseas training programmes during the year, with 30 of them attending training programmes in India, 9 in Singapore, 5 in the United Kingdom, 3 in Japan and 2 in Malaysia with 1 member each participating in training programmes in the Czech Republic, France and Turkey. The training programmes that Eagle staff participated in, included those conducted by some of the best insurance training facilities such as the

In addition, the Company provides financial assistance in the form of education loans to employees who wish to follow an educational or professional course of study.

The unique attribute in our educational loan scheme is that the amount is paid in advance for the course of study and is not deducted from the employees' salary until he/she leaves the organisation, which provides a great sense of relief and support

productivity. A special committee of volunteer employees were first trained by an expert in the 5S methodology. The team then led the roll out internally and within the year, implemented 5S at three of our four main offices in Colombo. The project was driven entirely through an inter-departmental competition and we are already beginning to see the results.

Leadership training in action



National Insurance Academy – India, Indian Institute of Management –India, LIMRA International – India, FALIA – Japan, Munich Re, Centre For Creative Leadership, and Asia Insurance Review.

Encouraging individual responsibility in learning, the training calendar is published at the beginning of the year where any employee can nominate him/herself for training programmes.

and minimises the burden on the employee.

Employee engagement

Driving effectiveness through 5S

At Eagle, we are constantly seeking ways to improve ourselves and our productivity – this year, we sought to apply the 5S philosophy of organising and managing the workplace in a bid to increase our

Nurturing unity and family spirit

The benefits and welfare provided to our team remain among the highest within Sri Lanka's private sector, and we continue to introduce and implement still more initiatives to create a more fulfilling and contented work environment. Camaraderie, togetherness and team spirit are fostered through at least five events, organised annually by the Sports Club, including sports day, picnic, Christmas party, new year

Sustainability Report

celebrations, annual dinner dance and the celebration of religious festivals. The highlight for 2007 was the company picnic, which was a two night stay at Cinnamon Lodge, Habarana and included fun activities such as an educational safari for children, bird watching, elephant safaris and photographic competitions. The Company infuses an annual grant of Rs. 5.6 million towards the Sports Club budget which is utilised for the organisation of such welfare activities.

At the beginning of each year, on the first working day, book vouchers are presented to all the team members so that our knowledge sharing culture may permeate to their families as well.

A holiday bungalow is available for the use of management and executive staff. A comprehensive medical insurance plan that covers the entire family is available to the employees. Housing, educational, vehicle and other loans are also available to the

which posed two key disadvantages - the prolonged prohibitive cost and inconsistent quality of food. One of the most significant welfare facilities provided by the Eagle Sports Club accorded to our employees this year was the introduction of a canteen facility to fulfill this need. Our canteen is outsourced to a professional caterer who supplies lunch at a nominal cost, with overheads absorbed by the Company. The quality of the food supplied is monitored.

Enjoying
the
Company
picnic



The Company, through its sports club operates a fully equipped in-house gymnasium for the benefit of all its employees, which makes good health easily accessible to them, which eventually would enhance their quality of life.

A notable feature which demonstrates appreciation for the vital role played by employee family members is showcased in a practice maintained for over seven years.

employees. The Company has implemented a voluntary Death Mutual Benefit Scheme to support employees with the funeral expenses of their immediate family members. Uniforms and an allowance for shoes are also provided for staff in all categories.

Canteen facility

Formerly, over 50% of our employees purchased lunch from restaurants outside,

Recognition and rewards

Recognising and rewarding excellence is an integral part of the Eagle culture. Managers are encouraged to recognise and reward superior performance promptly. A personalised letter of appreciation from the Managing Director is issued coupled with a suitable reward, to recognise each contribution. 'The Eagle Excellence Award' being the quarterly recognition scheme recognises significant contributions by

Sustainability Report

individuals or teams in living Eagle core values. Outstanding individual and team performance during the year is recognised at Eagle's annual Company Conference through the 'Managing Director's Special Award' and the 'Quill Award' respectively. In addition employees and family members are recognised throughout the year with recognition schemes such as family holidays, gift vouchers etc.

Listening and responding

The loyalty and commitment we observe in our employees is due to the open communication process we have always encouraged. The broad forums for ideas and suggestions, the encouragement for empowerment and empathy, all form a part of our culture.

We executed two employee opinion surveys in 2007, one locally and one by Aviva

Pulse survey

In June 2007, a pulse survey was conducted with the assistance of an external organisation 'Research Consultancy Bureau', one of the local experts in the field of employee research. One third of the total employees were selected at random to varying demographic strata of the Company. To help us evaluate the factors that enable us to engage best with people, the survey focused on leadership,



Bancassurance high performers being recognised and felicitated at the Eagle NDB bank awards night



The first bancassurance awards night – Eagle – NDB bank

Eagle Insurance, the pioneers in bancassurance in Sri Lanka, felicitated the Eagle-NDB bank high achievers, recognising them for their commitment and performance excellence. Eagle launched its first strategic partnership in bancassurance with a specially designed innovative product range marketed through NDB's wide network of 35 branches, succeeding in over achieving the targets set for 2007.

globally, to achieve two specific objectives: firstly to obtain a first hand view on how employees feel about their jobs, corporate environment and benefits and secondly, to promote their involvement in our mainstream business planning, obtaining their views on, 'what is going well' and 'what can be done better' in the current business environment.

communication, values, customer focus and career progression. In this process, we were also eager to obtain an in depth feel of the views of these different groups and prompted the research to take a qualitative approach in the entire survey. The results were published and shared among employees through the Company's intranet communication system.

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Aviva global employee survey

Eagle was a part of Aviva's Global Employee Survey – 'Your views, our future' for the first time this year. This global survey conducted by the Aviva group helps to charter a route of engagement between business units and the employees.

Focusing on talent management and the diversity prevalent within the employees, the survey helped us make comparisons against both internal and external benchmarks and also identify best practices. The survey was unique to our Eagle culture as it was conducted online and maintained the anonymity of the participants, ensuring impartiality in the views expressed by them.

Eagle Insurance was the first country to record a 100% participation rate in the history of the survey and our results were rated among the best in the region. This is an affirmation that our employees are keen to express their views and have faith in the Company to address issues raised by them.

Sharing our prospects with the promising youth of Sri Lanka

We have always believed in sharing our best practices and professional expertise among the promising youth of Sri Lanka. The Industrial Placement Programme has been extremely successful in providing professional growth opportunities to undergraduates and academic interns. This year, we selected 27 undergraduates and passed finalists from the universities of Sri Jayawardenapura, Kelaniya, Rajarata and

Wayamba, for short-term internships with the Company.

Internal communication

Strong internal communication has been a key factor in maintaining live engagement and open interaction with our employees. Egoz, the Company's intranet, is the primary formal internal communication mechanism which keeps users updated through features such as 'hot news', 'our people', 'MD's message', and 'sellers corner'. We also circulate annually the 'Round Up', an internal magazine that provides information to the employees and enhances their creativity.

The annual Company Conference provides a platform for staff to interact with each other and recognise outstanding performers among them. To facilitate an open dialogue, the Company organises an annual Management Seminar as well as Quarterly Management Meetings.

The Company also practices an open office concept. Further, informal communication campaigns through posters are launched when it is necessary for the Company to drive a strong message.

Intermediaries

The 'Team with Wings' is a group of individuals whose drive, passion to succeed and perseverance are fitting for their role as the main point of contact with our customers. Our professional Life insurance sales force is a key intermediary group and

is therefore extensively trained and empowered to help achieve their targets. The Company provides structured training on principles of insurance, selling skills and management skills, targeted to educate them on need identification and customised solutions design. Special programmes are also conducted on trends in financial markets, financial literacy and personal grooming. The Team with Wings currently stands at 2,373 agents.

Eagle stars sparkle at Eagle overseas sales convention

287 top performers from our Team with Wings and their spouses were a part of a 400 strong audience at the Company's second overseas Sales Convention held in Kuala Lumpur, Malaysia this year, celebrating excellence and outstanding team performance. Based on the theme, 'First in Trust', Chief Guest Albert Paterson, Chairman, Eagle Insurance, and Managing Director of Aviva, India emphasised the need to build trust and treat the three words 'The Most Trusted' as the credo of an insurance professional's career. Those attending the convention fulfilled stringent criteria for selection based on the key value drivers.

Eagle's General insurance sales convention celebrates star performers

Having always inculcated a culture of rewards and recognition for high achievers who display excellence and leadership qualities, we felicitated our General insurance sales professionals who have

Sustainability Report

Star performers being recognised at the General insurance sales convention



amply exhibited these traits. We also felicitated 17 high achievers with Higher Achievement Awards in addition to the Achievement Awards presented to 12 star performers.

Learning through intensive super training processes continues to remain a key element in the performance of the sales force, and our investment in this facet clearly displays the commitment the

Company demonstrates in developing talent that will transform to 'performance' and future potential.

Eagle Centre for Excellence

Continuing to raise the bar in industry professional standards via world class learning and development initiatives, the Eagle Centre for Excellence was launched this year with state of the art infrastructure, sophisticated equipment and a wide array

of facilities deemed the best in the region. Awarded a commendation from the industry's regulator, the Chairman of the Insurance Board of Sri Lanka, who stated that the initiative taken will enhance the knowledge and competency levels of Insurance Agents in the industry. The Centre also conducts LIMRA International qualification programmes in 'Insurance Sales Management' and 'Selling' through our own LIMRA certified moderators.

Sustainability Report



AWARDS NIGHT – BMICH OVERSEAS SALES CONVENTION MALAYSIA

Our best in trust



Best Team
W G S Hemakumara

Golden Eagle Platinum Winners



**Dileepa
Ameendra**
MDRT

**M A I Anuranga
Perera**
MDRT

**H M E S D
Dushantha**
MDRT

K J R Kumara
IQA - MDRT

**Vasitha
Lawrence Hewa**
IQA -MDRT

Malan Tissera
IQA - MDRT

S P Hapuarachchi
MDRT

U H S Jayananda
MDRT

A Manivannan
MDRT

Golden Eagle Winners



**Srilal
Jayamanne**
IQA

**J C
Lokuliyana**

**Nissanka
Ranawaka**
IQA-MDRT

Oska Susantha

**S M P Lalith
Kumara**

**S K N
Lakruwan**
MDRT

**N W N S
Bandara**

**W V A R S
Weragoda**

**U S P
Undatiyawa**

**W M Rasika
Wijesinghe**
IQA-MDRT



**Y G G B
Yatigammana**

**N D Ruwan
Kumara**

Rohan Perera
MDRT

**Ms S S M
Gunaratna**

**W P S
Chandrapala**

**U D M
Dassanayake**

I D Jayatilaka

W C K Botheju

LG Punchihewa

**D M N C
Gunawardana**
IQA

P D Chaminda

K P Mahinda

G S Kalupahana

glitter in Kuala Lumpur!



Once again, the Eagle Team with Wings succeeded in opening the door to the hearts and minds of our Life policyholders, winning their trust and confidence through exemplary service.

The star performers depicted here, were honoured and rewarded for their commitment to customers, at the Awards Night held recently at BMICH.

Some achievers also qualified to attend the Million Dollar Round Table reserved for the world's most supreme insurance sales professionals.

287 top achievers were further rewarded at the glittering Eagle Overseas Convention held in Malaysia at the Berjaya Times Square Hotel in Kuala Lumpur, which proved to be a truly memorable and glamorous event.

Thereafter, our topmost achievers flew to **UK** to further enhance their knowledge and expertise so that they can continue to win the trust of policyholders through exceptional customer care.

Best Financial Services Advisor

Ajith Fernando

IQA 1999, 2000, 2003, 2004, 2005 & 2006
MDRT - 2000 - 2006

MDRT - Court of the Table* 2002 - 2006
(*First Sri Lankan to achieve)

Best Regional Manager

Ms Primrose Samidon

**Golden Eagle
Diamond Winners**



W M Kularatne
MDRT



**Ms Shanthi
Machado**
IQA - MDRT



EAGLE INSURANCE

An **AVIVA** Company

Come under our wing



K N Thisera



Chaminda
Dissanayake



D C P Kumara



Ms W H M
Prasanthika
IQA



D J
Weerathunga
IQA-MDRT



Nirmala
Wickramaarachchi
IQA



H B S Rasanga



H U Jayasekera



Wasantha K
Attanayake



W J M
Tilakaratne



D S P Prasanna
Ruwan



M
Wickramaarachchi



Ms S
Padmawathie



L M L S Kumara



P K H D
Chathuranga



D P N P
Wijesinghe



H A S S
Kumarasiri



H M J C B
Wijerathne

MDRT (Million Dollar Round Table): Highest ranking international recognition a life insurance sales person can achieve.

MDRT Court of the Table: Honour reserved for insurance sales performers with triple the minimum requirement for MDRT

IQA (International Quality Award): Awarded by LIMRA, the world's premier life insurance marketing & research organization

Sustainability Report

The Eagle Centre for Excellence aims to enhance the competencies of our sales force in improving their ability to design dynamic financial solutions that meet

Appreciating loyalty

Designed to reward sales personnel for their loyalty and value-adding business generation, the Eagle Loyalty Fund is a

personnel to claim a considerable sum at retirement.

Launch of the Eagle Centre for Excellence



constantly evolving customer needs and provide the best financial advice.

Setting industry benchmarks

Eagle Insurance launched a voluntary internal certification process to certify technical competencies of our Life field force. This process aims at achieving global industry selling standards, equips them to become licensed sales professionals especially to promote the unit-linked products.

unique benefit introduced in 2001 to support the field force on their retirement. This is the first such scheme benefiting sales agents in the industry, and is a reflection of the Company's long term focus and commitment to its sales force.

The total contribution to this fund as at 31 December 2007, was Rs. 37.2 million. The fund grows over time enabling sales

The Company also maintains a voluntary superannuation scheme to enhance the financial security of the sales force. Introduced in 1992 as an industry first, the scheme is open to agents who complete a specified period of service and involves the company matching, one-for-one, a percentage saving of their earnings. The funds are then invested for the long term benefit of the agent.

Sustainability Report

Suppliers

The principles we have espoused in maintaining long term ethical supplier relationships, have stood us in good stead in that we choose our suppliers with care, in a fair, just and transparent manner. We ensure that the relationships are principled and built on an affiliation that creates an honest and forthright environment that will instigate and promote healthy dialogue and the supply of products and services founded on quality, honesty and integrity.

Supplier relations are ethically managed through a company wide policy of not accepting gifts. Further, being a member of Aviva, we adopt numerous world class best practices which we strongly believe must be permeated to our own suppliers to ensure that the importance of maintaining quality and consistency is well comprehended by them and strictly adhered to. Throughout the year, we conduct workshops and individual meetings with our suppliers, advising them of our benchmarks and giving them guidance and recommendations on quality enhancements, product development and information on group wide best practices.

A vital cog in the wheel – Reinsurers

Our business is built on the framework of taking others' risks upon ourselves and reinsurance is one mechanism whereby this risk is spread among numerous organisations across the globe. We remain mindful that our reinsurers must be stable and secure and therefore use a stringent selection process when choosing our reinsurance partners. We appreciate that this should be a win-win partnership.

Hence, we do take utmost care in accepting risks on behalf of our reinsurers. This is reflected in the competitive re insurance programmes we have and their profitability to the reinsurers as well.

Conforming to the guidelines of the Insurance Board of Sri Lanka which governs the insurance industry, reinsurers must conform to the guidelines issued by the Insurance Board of Sri Lanka and be rated. The reinsurers we work with are those with the Aviva group, which has an AA Rating and are those who are placed in the top percentile, far above the stipulated minimum.

Driving a sustainable future

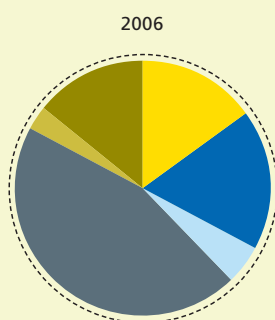
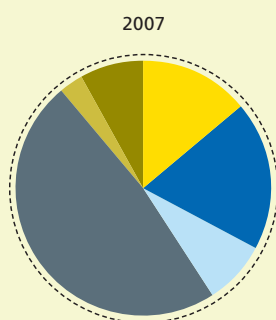
Our sustainability platforms are long term and focus on needs of the future. We believe that future generations must be educated to meet future needs whilst at the same time, being encouraged to realise the vital role they will play in becoming the custodians of this planet. They are to be entrusted with life and it is our duty and obligation to ensure they are equipped with the necessary skills, knowledge and infrastructure to deal with the numerous challenges that are bound to arise.

Our future strategy therefore will be to continue and add on to the initiatives we have already begun, with a focus on people and the environment; two issues that are invariably linked to each other but which at present seem to be slowly drifting apart. We do believe that we, as a responsible corporate citizen, must spearhead a journey that will give impetus to fellow human beings.

Group Value Added Statement

Group Value Added Statement

	2007		2006	
	Rs. '000		Rs. '000	
Net earned premium	4,386,651		3,561,892	
Investment income and other income	1,488,191		1,251,534	
	5,874,842		4,813,426	
Net claims and benefits	(1,687,382)		(1,489,065)	
Cost of external services	(482,975)		(419,146)	
Value added	3,704,485		2,905,215	
		%		%
To employees	511,805	14	433,032	15
To intermediaries	687,989	19	573,921	20
To the Government as taxes	19,035	0	15,495	1
To the providers of capital	285,000	8	247,500	8
To the Life policyholders as Long Term reserves	1,798,355	48	1,269,864	44
Retained within the business				
- as depreciation	120,304	3	89,435	3
- in reserves	281,997	8	275,968	9
	3,704,485	100	2,905,215	100



Distribution of Value Added

	2007	2006
To employees	14%	15%
To intermediaries	19%	20%
To the Government as taxes	0%	1%
To the providers of capital	8%	8%
To Life policyholders	48%	44%
Retained as depreciation	3%	3%
Retained in reserves	8%	9%

Risk Management

Risk is defined as, 'Anything that hinders the sustainable achievement of business objectives and financial performance, including the failure to exploit opportunities'. Every business takes on an element of risk inherent to the environment it operates in. A business is also exposed to risks emanating from its operations or may decide to take on additional risks in its endeavour to exploit business opportunities.

Being an insurer, the Company is in the business of assuming risks on behalf of its clients. Therefore, managing risk is critical to the business and in fulfilling our obligations to stakeholders.

During 2007, the Company changed its focus on Risk Management from being a support function to an enterprise management activity. To facilitate this strategic move, the Company established an Enterprise Risk Management (ERM) division. The primary purpose of this division is to ensure that the risk control environment is in place to protect the company from unforeseen events that may prevent or deter the achievement of its business objectives.

The scope of activities falling within the Enterprise Risk Management function of Eagle Insurance is depicted below:



Aviva group's approach to risk

Being a member of one of the largest insurance groups in the world, the Company benefits largely from the knowledge, expertise and synergies prevalent within the group, especially in the area of risk management. Employees are exposed to the group's best practices and methodologies through conferences, training programmes and workshops.

The group takes the position that the responsibility for assessment and management of risk lies with the relevant operational management and ultimately with the relevant executive and Board of Directors. Whilst risk ownership remains within the relevant core operational functions, nominated risk management professionals provide overall direction and support in the management, monitoring and reporting of risk exposure.

A common approach to risk management and reporting is adopted by the group to ensure consistency and good practice in managing, monitoring and reporting of risk. This approach is supported by:

- A Corporate Culture that accepts risk taking as fundamental to our business but appreciates that risk identification and control are indispensable for the continuing strength of our organisation
- and
- Education to embed risk management practices in the day to day management of the business through promoting risk awareness among employees.

Risk management framework

The foundation of the Company's Risk Management Framework is built on group policies that deal with the management of both financial and non-financial risks. These policies set out the risk appetite, risk management and control and business conduct standards for business units. These policies are considered living documents which are regularly updated to reflect the emerging commercial and regulatory environment. Aviva's next policy refresh is planned for January 2008.

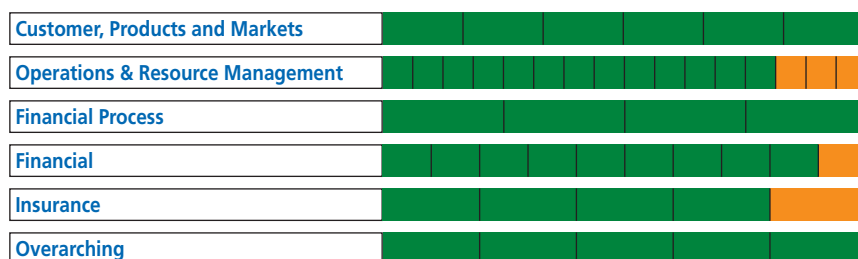
In aligning ourselves with the group, the Company has implemented a framework of risk management policies which provides practical direction on how the Company can safeguard itself from excessive operational, financial, regulatory and reputation risks, while supporting the continuous achievement of business objectives.

Group policy compliance

There are 46 group policies which apply to Eagle Insurance. As at the year end, the Company is fully compliant with 41 policies, which is over 89% implementation level. The remaining policies will be implemented on an agreed time plan.

Risk Management

The status of implementation of policies as at 31st December 2007 under each category is as follows:



The table below outlines broadly the scope of the policies given above and the risks addressed by each of them:

Policy Category	Policy	Impact Areas	Risk Prevented
Customer, Products and Markets	Customer	Reputation	Failure to communicate with customers resulting in them not making informed decisions due to necessary information not reaching them
	Corporate Social Responsibility	Reputation	Failure to act responsibly in how we do business
	Standards of Business Conduct	Reputation Regulatory	Failure to conduct business according to rigorous ethical, professional and legal standards
	Human Rights	Regulatory	Failure to follow fundamental principles of human rights
	Sponsorship & Community Investment	Regulatory	Failure to make prudent decisions on sponsorship and community investments
	Environmental	Reputation Regulatory	Failure to minimise the adverse impact on the environment from operational activities
Operations & Resource Management	Compliance	Regulatory Reputation	Failure to have adequate systems and controls in place to ensure compliance with regulatory requirements
	Information Technology	Operational	Failure to have appropriate controls and processes to ensure IT assets are managed effectively
	Anti Money Laundering	Regulatory	Failure to have a consistent approach to the assessment, management and reporting of money laundering
	Fraud Management & Malpractice	Reputation Regulatory Financial	Failure to minimise financial crime and in particular prevent, detect, investigate and report fraud
	Business Protection	Operational Financial	Failure to provide adequate security to personnel, business critical information and physical assets
	Diversity	Reputation	Failure to create a working culture that respects, celebrates and harnesses differences for the benefit of stakeholders
	Health & Safety	Reputation Regulatory	Failure to provide a consistently safe and effective working environment for staff, contractors, customers and members of the public
	Management Development & Training	Operational Financial	Failure to invest in training and development, building capabilities of employees to meet business objectives and facilitate management succession
	Recruitment & Selection	Regulatory	Failure to meet the legal and regulatory obligations and the principles of the group's equal opportunities policy
	Reward	Reputation Operational	Failure to have competitive and fair reward policies
	Outsourcing	Operational Financial	Failure of outsourcers to meet the required service standards
	Purchasing	Operational Financial	Failure to establish best purchasing practices and ensure alignment of purchasing standards
	Media Relations	Reputation	Failure to actively manage relationships with the media and ensure effective co-ordination of corporate communications
	Investor Relations	Reputation	Failure to maximise the value of the group through effective communication and marketing of Aviva's developments and prospects to investors worldwide

Risk Management

Policy Category	Policy	Impact Areas	Risk Prevented
	Internal Communications	Operational	Failure to ensure that effective, reliable and credible communication channels are in place and messages are consistent, timely, open and honest
	Legal Risks	Regulatory	Failure to protect the business from unforeseen legal exposure incurred in the course of its activities
Financial Process	Accounting	Financial	Failure to select and adopt suitable policies for reporting, recognising current legal, technical and industry best practices
	External Auditor	Regulatory Reputation	Failure to prevent conflict of interest when using the services of the external auditor
	Taxation	Regulatory	Failure to manage and minimise tax cost through efficient and effective tax compliance and planning consistent with the applicable tax laws
	GI Reserving	Regulatory Reputation	Failure to follow high quality reserving practices in accordance with group standards
Financial	Financial Management	Financial	Failure to ensure that policies and procedures are in place to support the financial management of the business
	Solvency Management	Operational Financial	Failure to maintain adequate financial resources to ensure that they are sufficient to meet liabilities as they fall due and systems are in place to demonstrate solvency at all times
	Legal Entity Management	Regulatory	Failure to have a clear and efficient process for the creation and maintenance of legal entities
	Group Insurance	Financial	Failure to obtain adequate insurance to cover risks that cannot be carried internally or where required by legislation, regulation or contract
	Reinsurance Counterparty	Financial Operational	Failure to contract business only with reinsurance counterparts that have the appropriate financial strength and management quality for the risks transferred
	Credit Risk	Financial	Failure to protect the interests of the Company in the event a counterpart defaults on its contractual obligations
	Market	Financial	Failure to manage the financial impact arising from changes in value of equities, property and fixed income securities
	Liquidity	Operational Financial	Failure to provide sufficient financial resources to enable the Company to meet its obligations as they fall due
	Investment Appraisal & Authorisation	Operational Financial	Failure to consider and evaluate various competing investment opportunities to ensure that appropriate and consistent decisions are made to achieve group objectives
	Business Acquisitions & Disposals	Financial	Failure to adopt best practice standards in all business acquisition and disposal processes
Insurance	Life Insurance Risk Management	Financial Operational	Failure to maximise performance through an effective and consistent approach to managing Life insurance risk
	GI Underwriting	Financial	Failure to follow underwriting disciplines and practices in General insurance business in a consistent manner
	GI Risk Management	Operational Financial	Failure to maintain an effective and consistent approach to General insurance risk management in areas including reserving, underwriting, claims management and reinsurance
	GI Reinsurance	Financial	Failure to maintain a balance between General insurance risks accepted and ceded resulting in financial losses
	GI Claims Management	Financial	Failure to follow claims disciplines and practices in assessing and handling General insurance claims
Overarching	Internal Controls	Operational Financial	Failure to maintain internal controls that are proportionate to the nature, scale and complexity of the business and sufficient in scope to mitigate risks to a level consistent with the risk appetite of the business
	Risk Management	Operational Financial	Failure to ensure that all material risks facing the group are identified, evaluated and where they exceed the group's appetite for risk or where the rewards are lower than estimated costs, are effectively mitigated within an acceptable time scale

Risk Management

Policy Category	Policy	Impact Areas	Risk Prevented
	Listing Rules Compliance	Regulatory Reputation	Failure to protect the Company and its Directors against unforeseen exposure arising from breaches of Listing Rules
	BU Reporting Requirements	Regulatory Reputation	Failure of business units to understand their obligations in respect of prior approvals and to report promptly on issues outside the limits of delegated authority
	Internal Audit	Operational Financial	Failure to obtain objective and reliable audit assurance to ensure that internal controls and risk management processes are operating effectively

The Risk Management Policy

The group Risk Management Policy provides minimum standards for risk management. It recognises that the group is in the business of accepting risk and therefore successfully executing business strategy requires putting capital at risk in a structured and disciplined manner. This policy is the foundation for the entire group and describes the group's Risk Management Framework. This framework is designed to facilitate the identification, assessment, monitoring, management and control of material risks in the achievement of the group's business objectives.

The Risk Management Committee

The Risk Management Committee, a multi-disciplinary team headed by the Managing Director comprising the General Managers representing all business functions, operates within a set of clearly defined terms of reference. The main responsibility of this committee is to facilitate the risk management process across the Company, whilst the Enterprise Risk Management division assists the Risk Management Committee to execute the risk management function and takes the lead in driving the Risk Management process and creating risk awareness amongst staff.

Internal Audit

The Company has established a mutually beneficial inter-dependency between its Enterprise Risk Management and Internal Audit Functions. The role of internal audit in the risk management process is to provide an assurance that key controls over material risks are adequate, effective and sustainable, in line with group's Internal Audit Policy. In addition, the risk management process feeds the internal audit function in the selection of processes for internal audit.

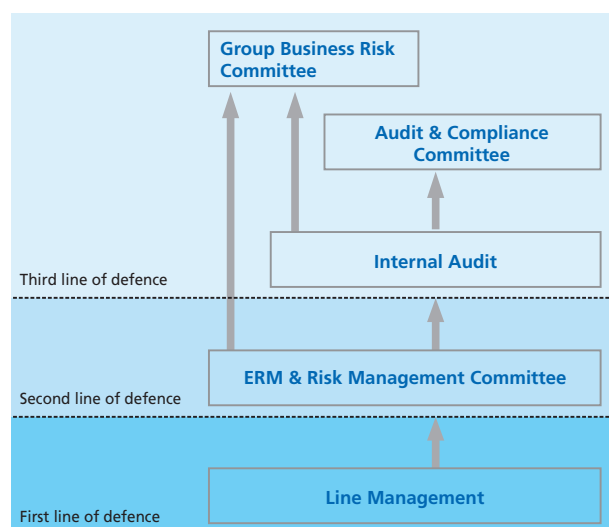
Governance framework

In addition to the risk management framework, the Company has also institutionalised a governance framework, details of which are given in the Enterprise Governance Report on page 71. A bi-annual corporate governance self certification is issued to group by the Managing Director confirming the effectiveness of the risk

management process of the business. This certification is subsequent to every manager providing a bi-annual sign-off to the Managing Director confirming that all material risks and internal control measures within their respective areas of responsibility have been reviewed.

The three lines of defence

The Company adopts a 'Three lines of defence' approach to risk management.



First line of defence

Line Management of business areas have primary responsibility for the effective identification, assessment, control, monitoring and reporting of risks to the Risk Management Committee.

Second line of defence

The Enterprise Risk Management division and the Risk Management Committee are responsible for risk management methodologies and frameworks to assist the first line of defence. They also provide support and independently challenge the completeness, accuracy, consistency of risk assessments and adequacy of mitigating action plans. This satisfies their opinion that material risks are being mitigated and reported to an acceptable level.

Risk Management

Third line of defence

Internal Audit provides independent oversight and assurance to the Audit and Compliance Committee, as well as to Aviva group's Business Risk Committee on the robustness of the risk management framework. It also provides its opinion on the appropriateness of the control environment structure.

Risk management process

The Company follows a five step methodology to risk management:

Step 1: Risk identification

Identify the inherent risk and the residual risk, given the controls already in place

Step 2: Risk profiling

Analyse the impact & probability of the risks identified in step 1

Step 3: Risk appetite

Determine the risk appetite of the Company and measure the risk profile in step 2 against it. Arrive at a list of acceptable risks, risks needing mitigating actions & unacceptable risks

Step 4: Risk mapping

Plot the risks on to a two dimensional matrix representing the impact and probability. This results in a bubble map of risks.

Step 5: Risk control & monitoring

Review the adequacy and cost/benefit of mitigating actions designed to reduce risk exposures and monitor the risk management controls maintained by the group.

Regularly monitor identified risks and also identify new risks.

Risk profiling

The Company's Risk Profile is prepared on a bottom-up approach, where individual divisions formulate a comprehensive list of risks relevant to their work areas. The Risk Profile is reviewed quarterly by the Risk Management Committee taking into consideration changes that have occurred in the internal and external environment in the context of changes in the management's view of the Company's risk appetite.

Each risk on the Risk Profile is compared with the Company's risk appetite. Whether or not the risk is within the Company's risk appetite, or is expected to be brought within the risk appetite, is shown by the colour of the risk 'bubble' in the relevant risk map using one of the three categories given below:

Green : Accepted risks

- Sufficient controls are in place
- The risks are within acceptable tolerance levels

Amber : Mitigating risks

These are outside of appetite, but have future mitigating action plans that :

- Reduce the risk sufficiently
- Reduce the risk quickly enough

Red : Unaccepted risks

These risks are unacceptable due to

- Insufficient mitigating action plans or
- Action plans that do not reduce the risk quickly enough

In addition, a further category is used to demonstrate when a risk is volatile :

Red Outline : Volatile risks

These are Amber or Green risks where

- The risk is volatile due to external events which could result in the impact increasing rapidly
- Existing mitigating controls or future actions are appropriate but will need to be reviewed frequently

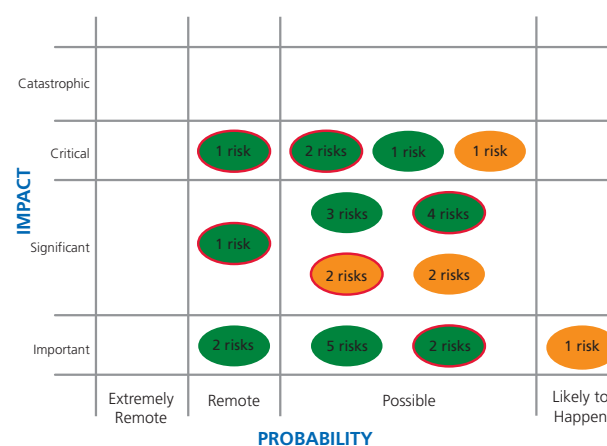
Detailed below are the relative scales and guidelines of the respective impact and probability categories applied in the assessment:

Impact category

Scale	Guideline
Catastrophic	An impact of >50% of Net Profit
Critical	An impact of 10% - 50% of Net Profit
Significant	An impact of 3% - 10% of Net Profit
Important	An impact of <3% of Net Profit

Probability category

Scale	Guideline
Extremely Remote	1 in 100 year event
Remote	1 in 25 year event
Possible	1 in 10 year event
Likely to Happen	Within 1 year event



Risk Management

Risk reporting

A quarterly submission of the Risk Profile is made to the Business Risk Committee of the Aviva group, highlighting the Company's assessment of risks. These risks are reported on a residual basis - identifying the inherent risks and assessing the residual risk, taking into consideration the prevailing controls. The residual risk is rated against Company's risk appetite, in line with group's Risk Management Policy, using the Company's materiality thresholds. In the event of a new risk arising in the 'Catastrophic' or 'Critical' risk categories, such risks are escalated to Group Risk immediately.

The Risk Profile is also submitted to the Audit & Compliance Committee of the Board of Directors on a quarterly basis.

A review of 2007 indicates that 19 risk mitigating actions were agreed for implementation. The quarterly risk reviews during the year added a further 33 action items totalling 52. Of these, 25 were delivered. There are action plans and delivery dates agreed upon to deliver the outstanding.

Initial stock of actions	New actions	Actions delivered	Closing stock of actions
19	33	25	27

The key action items delivered during the year include:

- Customer Feedback Forum to effectively deal with customer feedback and complaints with regard to life policies
- Updating of the existing flood map
- A structured process to be formalised for GI sales compliance
- Deploy a power protection plan
- Increase data storage capacity to cater to a higher volume
- Monitor performance through technical underwriting audits
- Aviva group HR policies to be embedded
- An effective system for monitoring and collecting of cover notes from brokers

DEVELOPMENTS IN RISK MANAGEMENT

Aviva's Global Finance Strategy

The group is driving a Global Finance Strategy (GFS) across all its business units. This project, which commenced in early 2007 has a broad coverage of internal financial controls, driven under five workstreams. Completion of this project is planned in 2009. One of the main workstreams of the GFS is the implementation of Financial Reporting and Control Framework. This would ensure that an effective framework of internal controls over financial reporting is in place which mitigates the risk of material financial misstatements. As part of this exercise, all financial and non

financial processes of the Company were reviewed to identify those which are critical to the generation of financial information. Fourteen key processes have been included in the scope for identification of key controls. A remediation plan will be agreed upon in relation to all significant gaps identified in this process. The effectiveness of key controls in the selected processes will be monitored using Key Control Indicators. The Risk Management Framework and Business Protection which are also workstreams of the GFS will be reviewed and strengthened to the extent that they have a bearing on the generation of financial information.

As a dynamic organisation continuously adapting to changes in the external environment, the Company has strategically positioned risk management. This is with the primary objective of achieving business stability and to gain a competitive advantage. In doing so, emphasis continues to be directed towards creating awareness on risk management and the Aviva group's risk management methodology at management level. This is reflected in the current risk profile where a number of previous risk ratings were changed and new risks included. Top management is committed to drive this further to all levels of staff.

It is of critical importance to the Company to maintain an efficient and effective risk management environment. We believe in creating a 'risk culture' where staff is aware of possible risks even when adequate controls are well in place to prevent a major breach. Risk awareness building is given priority and promoted through 'learning'. Staff at all levels are encouraged to identify risks pertaining to their areas of work. This is due to our belief that risk identification should be done at operational level by the people who actually perform line duties rather than at a higher level. However, final accountability lies with the management of the business.

We believe that risk management systems reduce risk but cannot totally eliminate it. We aim to maximise returns by managing and controlling them.

Enterprise Governance

Enterprise Governance is an emerging concept, covering the entire accountability framework of an organisation, which encompasses the corporate governance and business governance aspects, and is based on the premise that good governance alone cannot make an organisation successful. It is only by having in place good corporate governance practices, which are strategically linked to performance management, that an organisation is able to focus on the key drivers that move the business forward. This concept emphasises the dual role of the Board of Directors in ensuring conformance to good governance and strategic management for value creation.

It is the firm belief of the Board of Directors that an effective self regulatory framework is vital to pursue stakeholder confidence, in the context of increasing trends in deregulation and lack of regulations in certain areas. Eagle has continued its commitment to maintain high standards of corporate governance in order to ensure integrity, accountability and transparency of all transactions and at the same time to ensure equal importance to the performance related aspects to ensure value creation.

Conformance

The Company is primarily guided by the 'Code of best practice on Corporate Governance' laid down by the Institute of Chartered Accounts of Sri Lanka and the 'Exposure draft on Best Practice on Corporate Governance' issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC). In addition the requirements of the new Companies Act No.7 of 2007, have also been complied with wherever applicable. The extent of compliance by the Company with the said principles and best practices are disclosed on the table given on pages 74 to 82.

During February 2007, the Company obtained an independent rating of the internal governance framework. This rating was performed by Det Norske Veritas (DNV) head quartered in Norway and operating in over 100 countries. The Company obtained a rating of 8 out of a scale of 10 (highest 10 - lowest 01). Whilst being proud to be the first company in Asia to have obtained an independent rating from DNV, we are continuously working towards bridging the gaps in the areas of improvement highlighted in the said rating.

Performance

The Board of Directors set the strategic direction of the Company and provide the senior management with the guidance required for creating value through performance. A three year strategic plan which encompasses the Vision, Mission and strategies is reviewed and approved by the Board annually. The responsibility of executing the strategies is delegated to the top management team of the Company. There is a clearly defined organisational structure and lines of authority, and cross functional teams are formed when required. The progress on strategies is critically reviewed at each Board meeting.

The performance aspects are covered in detail in the Management Discussion & Analysis (MDA) and the Risk Management Report on pages 14 and 65.

Institutionalisation of group policies

As a member of the Aviva group, Eagle Insurance is bound by the group policies which cover the entire business operation in addition to the local regulatory and compliance framework. These policies have been developed based on Aviva's conformity to the highest levels of governance practiced in the United Kingdom and also to their global experience in adopting international best practices. The policies are considered living documents as they are constantly being reviewed and updated, to keep in line with the changing business environment. Aviva's best practices adopted by the Company add to and further enhance Eagle's preparedness in adapting to local governance codes and practices.

Implementation of these policies has contributed significantly in ensuring that the risks prevalent in all aspects of the business are regularly monitored and appropriate action plans are in place to mitigate them within the risk appetite of the Company.

Another significant initiative during the year was the establishment of the Enterprise Risk Management division within the Company, to further develop the risk management function. The main function of this division is to identify and monitor risks on a regular basis to protect the Company from surprise events that prevent it from achieving its objectives and financial performance. The Enterprise Risk Management team is taking the lead in driving the risk management process and creating risk awareness among staff.

Corporate Governance Rating

Eagle Insurance Company Limited



DNV

DET NORSKE VERITAS AS
CoreRatings

Palace House
3 Cathedral Street
London SE1 9DE
United Kingdom
www.dnv.com

Rating Summary

Governance Policy and Business Ethics



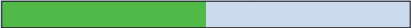
Risk Management



Board and Management Organisation



Board and Executive Compensation



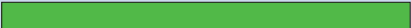
Ownership Structure and Control



Investor Rights and Relations



Financial Disclosure and Audit



0 5 10

Rating:

8 (CG)

CG = Corporate Governance

Rating scale:
10 (highest) - 1 (lowest)

Rating Summary

In the developed financial markets, corporate governance requirements have largely been set out in corporate and securities law and regulatory guidance documents. The Sri Lankan financial markets are in the process of implementing formal governance requirements. Therefore, in rating Eagle Insurance Company Ltd. (Eagle or 'the Company'), we have reflected both international best practice and the direction of Sri Lankan governance regulations as evidenced by the draft rules of corporate governance for listed companies issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka in consultation with the Colombo Stock Exchange.

Eagle has earned an overall rating of 8, which reflects both the quality of its Board of Directors and the management process and the proactive approach the Company has taken to establishing good governance practices.

Eagle is owned by Aviva International Holdings Ltd. which has a 51% indirect shareholding and the National Development Bank of Sri Lanka (NDB) is the principal minority shareholder. This presents challenges in assessing corporate governance. In general, the existence of a dominant shareholder is seen as potentially negative to the interests of public shareholders. However, in the case of Eagle, the two major shareholders groups have provided stability, strength and depth to the Board as well as enhancing both business and governance processes.

Enterprise Governance



It was our view that Eagle's Board and management has a sound understanding of good governance practice, is committed to open an ethical business, and will strive to improve the Company's governance practices to further embed these into the organisation. The Board is committed to governance as a way of enhancing brand value; corporate reputation and shareholder value. These all improve the Long Term interests of minority shareholders. Ethical aspects are generally well addressed and there is a strong emphasis on integrity within the Company. Equally, strong risk management policies and systems are in place and are embedded throughout the Company's operations.

In the rating we looked carefully at those areas where a dominant shareholder can exert undue influence and could find no evidence of Aviva (or for that matter NDB) acting against the interests of the public minority shareholders. The overall assessment of the Board of Directors is high, but there are a number of areas where the Company appears to lack formal, written policies, procedure and/or where increased clarity would allow greater confidence in the way the Board operates. Some of this could be addressed by the codification and public disclosure of existing practices.

Eagle is transparent in its approach to Board and executive compensation. In part, this reflects the fact its non-executive

Directors are nominees. Overall, Eagles' position within the Aviva structure and the contribution of the NDB has been beneficial to the Company and this has been reflected in the score for Ownership Structure and Control.

Eagle scored particularly well in the areas of Investor Rights and Relations (how the Company deals with the interests of its public minority shareholders) and Financial Disclosure and Audit. This gives reasonable comfort to public minority shareholders that in general Eagle is being run transparently and in their interests.

Det Norske Veritas

20th February 2007

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Board of Directors and Board Committees	
Composition	The Board of Directors of Eagle Insurance comprised of nine Directors of whom eight, including the Chairman, held office in a Non-Executive capacity.
Policy on appointment of Directors	The policy on appointment of directors to the Board is defined in the Articles of Association of the Company.
Frequency of Board Meetings	The Board meets at least once every quarter on a prior agreed Board Calendar. Additional meetings are convened when deemed necessary. Decisions are also approved through circular resolutions. The number of Directors meetings held during the year and the attendance is disclosed in the Directors Report in the Annual Report.
Availability of a formal schedule of matters for Board discussion	<p>Board meetings are conducted based on a formal agenda as per the applicable Board Terms of Reference and the Articles of Association of the Company, which will cover the main functions and responsibilities of the Directors, as set out below:</p> <ul style="list-style-type: none"> (i) Set the strategic direction, formulate strategies, and establish goals for management and approval of the Company's three year strategic and business plans (ii) Approval of certain Business Policies and any material amendments thereto as determined by the Board from time to time (iii) Monitor performance against the goals periodically (iv) Approval of the Company's quarterly, interim and final results and of interim reports and the annual report and accounts to shareholders and public announcements relating thereto (v) Approval of any significant changes to the Company's accounting policies and practices (vi) Recommendation of and payment of dividend, bonus shares and rights shares to the shareholders of the Company (vii) Ensure that adequate internal control measures are in place and the highest ethical standards are maintained (viii) Ensure that all key business risks are identified and appropriate control, monitoring and reporting mechanisms are in place (ix) Appoint the Managing Director (MD) and assess his performance
Approval of the Vision, Mission and Company plan by the Board	Three year company plan encompassing the Vision and Mission of the Company and the strategic and financial plans, are duly reviewed and approved by the Board of Directors on an annual basis. This is followed up by a quarterly progress report presented to the Board by the Managing Director.
Obtaining of Independent professional advice	The Board members are permitted to obtain independent professional advice from a third party including the Company's external auditors and lawyers, at the expense of the Company, whenever deemed necessary.
Company Secretary	The Company Secretary attends Board meetings, minutes all Board decisions and liaises with the directors on all matters in relation to the Board. The secretary ensures that all Board procedures as per the Board Terms of Reference are followed and applicable rules and regulations are adhered to. She possesses the required qualifications as set out in the Companies Act. Consent of all Board members is required for the removal of the Company Secretary.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Board of Directors and Board Committees	
Independent judgment	None of the Directors have held executive responsibilities in their capacity as Non-Executive Directors. The Non-Executive Directors do not have any business interest that could materially interfere with the exercise of their independent judgment. The Board of Directors is required to disclose all transactions with the Company, including those of their close family members as required by the relevant Sri Lanka Accounting Standards and the Companies Act, which have been complied with.
Dedication of adequate time and effort for the matters of the Board and the Company	The Board members dedicate adequate time for the affairs of the Company by attending Board meetings, Board sub-committee meetings and making decisions via circular resolutions. Additional meetings and discussions are held with the management whenever the need arises.
Training for new Directors	Adequate knowledge sharing opportunities are provided to the new and existing members of the Board on a continuous basis on Company and industry related matters. The Managing Director apprises the Board quarterly of the key internal and external business environment including macro economic trends, competitor performance, market trends, dynamics and market Information, Human Resources, Information Technology and Regulatory Developments and also the business performance to date and the Company's performance against its key performance indicators.
Chairman and CEO/MD	
Division of responsibilities of Chairman and CEO/MD	The functions of the Chairman and CEO/MD are clearly separated. The Chairman is responsible for the leadership of the Board, the management of the Board Meetings and the business undertaken thereat. It is also his duty together with the Company Secretary to ensure that all relevant issues are on the Board agenda, that Directors receive all appropriate and timely documentation, are enabled and encouraged to play their full part in relevant discussions and debate. The CEO/MD is responsible for day-to-day functioning of the Company's operations in accordance with the policies and objectives set by the Board. He is also responsible for the effective functioning of the Compliance Committee and is accountable for the achievement of the financial and non - financial objectives agreed annually by the Board and contained within the Company's Business Plan. This ensures the balance of power in strategic and operational decisions.
Financial Acumen	
Availability of sufficient financial acumen and knowledge	There is a sufficient number of Board members who possess finance qualifications and experience in the Financial Services industry and provide significant input in matters concerning this area.
Balance of the Board/ Independence of Directors	
	All members of the Board possess a considerable depth of knowledge and experience in a variety of commercial and financial services sectors and international best practices. For the first time in history a human resources specialist is part of the Board this year. They provide guidance and practical insights based on their experience and expertise. The Company is in the process of reviewing the independence of Directors in terms of the local regulations. In any event this does not undermine in any way the effectiveness or the objectivity of the Board. In terms of minority shareholders, the supportive role of both major shareholders, ensures that their interests are well served on the Board.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Supply of Information	
Provision of timely and quality information	The Directors receive a comprehensive report of all Board papers and any other additional information requested by the members of the Board, well in advance to the meeting. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
Appointments to the Board	
Availability of a formal and transparent procedure for new appointments	In terms of the Company's Articles of Association the Majority Shareholder is entitled from time to time by writing under the hand of its chairman for the appointment of new Directors. The said appointments are notified to the Board of Directors immediately. In identifying suitable candidates for appointment as Non-Executive Directors, professional qualifications, business experience and personal qualities are taken into consideration.
Disclosure of details of new Directors	The details of new Directors are disclosed to the Board and the relevant regulatory authorities at the time of appointment. Directors during the year and any changes are disclosed in the Directors Report in the Annual Report.
Re - election of Directors	
	At every Annual General Meeting, one-third of the Directors retire from office in conformity with the Company's Articles of Association. A retiring Director is eligible for re-appointment by the shareholders.
Appraisal of Board performance	
	The Board effectively monitors on a quarterly basis the company's achievements in terms of the Company's Strategic and Financial plans. The matters referred to the Board are those which consist of the Board's objectives.
Appraisal of CEO/MD	
	At the beginning of each year the Board, in consultation with the CEO/MD, sets financial and non-financial targets in line with the Company's objectives, which are to be met by the CEO/MD during the course of the year. The performance of the CEO/MD is evaluated by the Chairman at the end of each year in order to ascertain whether the agreed targets have been achieved and the ratings obtained are submitted to the Remuneration Committee. Remuneration Committee recommends the compensation, perquisites and allowances of the CEO/MD based on the ratings.
Directors' remuneration	
Remuneration policy/procedure	The Company has in place a remuneration policy which is decided by the Remuneration Committee and approved by the Board of Directors. The Remuneration Committee, consists of three Non-Executive Directors in terms of the Exposure Draft and the proposed rules. The terms of reference of the Remuneration Committee are approved by the Board of Directors. Terms of Reference includes the decision on its membership, Committee proceedings, attendance and frequency of meetings and duties. The Committee monitors and determines the policy and the criteria for salaries of staff, perquisites and allowances. The Remuneration Committee also determines the Managing Director's remuneration. The minutes of the Remuneration Committee meetings are submitted to the Board. The Managing Director and the Head of Human Resources attend the remuneration Committee meetings by invitation. No remuneration is paid to the Non-Executive Directors other than the Directors' fees. The composition of the Remuneration Committee is given on page 83.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Directors' remuneration (Contd.)	
The level and make up of remuneration	The remuneration policy for the Managing Director is structured to link his rewards to the corporate and individual performance.
Compensation commitments on early termination	The Remuneration Committee is empowered through the remuneration policy of the Company, to determine the terms and conditions, financial package and the retirement plan of the Executive Directors in keeping with the requirements of the Company. These decisions are subsequently ratified by the Board of Directors.
Disclosure of remuneration	The details of the total remuneration of Directors are disclosed on page 135.
Remuneration Committee Report	The Remuneration Committee report is given on page 94.
Relationship with shareholders	
Constructive use of AGM	The Board of Directors of the Company always encourages its shareholders to attend and actively participate in the AGM. The Chairman of the Board of Directors arranges for the Chairman of Board sub-committees, External Auditors & Lawyers to be available at the AGM to answer any queries by shareholders. The Company proposes separate resolutions on each significant issue.
Circulation of Notice of the AGM & the Annual Report.	As required by the Companies Act and the Articles of Association, the Company circulates the Notice of the AGM, summary of the procedures governing voting at the AGM and the Annual Report to the shareholders 15 working days prior to the AGM.
Disclosure of major transactions / material information	All material information relating to major transactions and commitments proposed to be entered by the Company are disclosed in the interim and annual financial statements of the Company in accordance with Sri Lanka Accounting Standards. In addition to ensure proper dissemination of material information/price sensitive information the Company in terms of the CSE listing requirements informs CSE through the Company Secretary as soon as same are approved by the Board of Directors. This enables both the existing and potential shareholders to make timely and fair assessment of the Company's performance and hence arrive at informed decisions.
Accountability and Audit - Financial Reporting	
Statutory & regulatory reporting	The Annual Report and interim financial statements, which are principal tools of communication with Shareholders consists of the Company's financial position and the operating results with comprehensive details far in excess of the statutory & regulatory requirements are published & circulated to shareholders within the required time period. The statutory accounts comply with the requirements of the Sri Lanka Accounting Standards and the requirements of the CSE & the Companies Act. During the year Aviva introduced the Financial Reporting Control Framework (FRCF), with the objective of eliminating material financial mis-statements which was conducted using a global system. As the first step of this all processes were reviewed and documented, identifying the risks involved in each process and the availability and adequacy of the mitigating actions. A signoff has to be given to the Group head office as to the key controls available for each process.
Other reporting	A copy of the Annual Report and the Interim Financial Statements are placed on our website as well for the benefit of all the stakeholders. Press notices are carried out in leading Newspapers of the Company's Financial results and any other important developments of the Company.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Accountability and Audit - Financial Reporting (Contd.)	
Inclusion of a Directors' Report in the Annual Report	The Directors' Report is given on pages 88 to 92.
Inclusion of a statement by Directors on their responsibility for preparation and presentation of financial statements.	This statement is included in the Statement of Directors' Responsibility on page 97.
Inclusion of a Management Discussion and Analysis report in the Annual Report	The Management Discussion & Analysis Report is given on pages 14 to 24.
Declaration by the Board that the business is a going concern.	This is included in the Directors' Report on page 91.
Calling of a Board meeting/ EGM if the net assets of the Company are less than half of its Stated Capital and Duty of Directors on Insolvency	This is a remote risk to the Company.
Internal control	
Maintaining a sound system of internal controls	<p>The Company has established a comprehensive framework of policies and procedures, which are regularly reviewed and updated. The Company's Audit and Compliance Committee ensures that there is an effective internal control and financial reporting system through the following measures:</p> <ul style="list-style-type: none"> (i) Audits conducted by the internal Audit Department, in areas involving high risks as identified in the annual internal audit plan. (ii) Mid-year key control review conducted by the External Auditors every year (iii) A structured process in place for loss reporting, control exception reporting and compliance breach reporting. (iv) A Whistle Blowing policy is in place as a measure of managing risks of fraud (v) A comprehensive Business Continuity Plan is in place covering Life, General insurance and Asset Management businesses. (vi) All major IT systems implemented in the Company are subject to a Post Implementation Review (PIR). (vii) A comprehensive excel-based checklist is used for follow up on the status of implementation of all audit recommendations. (viii) Bi -Annual Corporate Governance self certification process is in place to test how well the corporate governance structure is embedded at Eagle at all levels. (ix) Periodic Branch Audits are performed on Branch operations.
Periodic review and reporting to shareholders on the effectiveness of the internal control systems	The overall internal control system is subject to regular monitoring by the Company's internal audit function. The number of Audit and Compliance Committee meetings held during the year and the attendance of the members are given in the Directors Report. The Audit and Compliance Committee constantly monitors the standards of internal controls, the quality of internal audit, corporate risk management and level of compliance.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Audit and Auditors	
Availability of an Audit Committee with a written terms of reference comprising of at least three Non- Executive Directors	The Company's Audit & Compliance Committee consists of three members all of whom are Non-Executive Directors including the Chairman in terms of the Exposure Draft and the proposed rules. The Committee operates within clearly defined terms of reference. The details of the composition and the duties of the Committee are given on page 83.
Audit Committee Report	The Audit and Compliance Committee Report is given on page 93.
Maintaining appropriate relationship with the External Auditors to ensure their objectivity and Independence	The Company maintains appropriate relationship with the External Auditors, Ernst & Young. The payment to External Auditors for Audit and Non Audit services are disclosed in the Directors' Report on page 92. In addition the Company has an established internal audit function which operates independently and has direct access to the Audit and Compliance Committee. The External Auditors do not have any relationship (other than that of Auditor) and any interest in the Company or any of its Subsidiaries. This function also coordinates activities of the external auditors.
Corporate Governance	
Disclosure on the adherence to the principles and best practices of Corporate Governance	The Company is in compliance with most of the provisions of the Code of Best Practice on Corporate Governance laid down by the Institute of Chartered Accountants of Sri Lanka, the Exposure Draft on Best practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (SEC).The Company is also in compliance with the principles of Corporate Governance laid down by the Organisation for Economic Corporation and Development (OECD).
Compliance	
Regulatory Compliance	<p>The Company has implemented an effective framework of compliance to ensure all business activities are conducted in accordance with applicable laws, regulations and other statutory requirements. The Corporate Compliance Manager investigates and monitors the level of compliance of all business units on a continuous basis. The status of compliance is reported to the top management, Audit & Compliance Committee & the Board of Directors on a regular basis. Following key compliance measures are in place to ensure regulatory compliance:</p> <ul style="list-style-type: none"> (i) To monitor on a timely basis submission of statutory payments, mandatory reporting requirements, adherence to key provisions of the relevant rules and regulations applicable to the Company & its Subsidiaries through a monthly compliance report signed off by the respective functional managers. The said monitoring mechanism facilitates to take immediate corrective measures to rectify any breaches if and when it occurs within a short time frame and to make necessary process changes to prevent any future violations. (ii) A Compliance Risk Assessment (CRA) is carried out on a quarterly basis on key Business Regulatory Compliance Risks. The CRA primarily ensures that all regulatory risks have been adequately addressed and are reflected in the overall Business Risk Profile. The CRA is compiled with the input from the members of the Top Management Team. (iii) A sign-off is obtained from the senior management and the fund management staff on their personal share transactions on a monthly basis. The Compliance Department uses this information to monitor insider dealings, side running and front running.

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Compliance (Contd.)	
	<ul style="list-style-type: none"> (iv) Investment activities and operations of the Asset Management business are subject to daily monitoring to ensure compliance with statutory requirements and investment guidelines. (v) A well structured process is in place to keep a close track of all new legislations and steps are taken to notify and provide guidance to the respective departments (vi) Any advertisement or communication reaching the public via any form of media is subject to a systematic internal compliance sign-off process to ensure the adherence to: <ul style="list-style-type: none"> (a) The core values of the Company (b) The guidelines of brand value (c) The technical and financial accuracy of the product or communication offer (d) The respective legal and regulatory provisions (vii) Compliance Sign off is given on all the product development initiatives to ensure that they are in line with the respective regulations. (viii) The Compliance division monitors all regulatory inspections as and when they are notified to the Company through the respective General Managers. Further the Compliance division keeps a track on the progress through the identification of any issues and any resulting actions that need to be implemented. (ix) The Corporate Compliance Manager discusses and evaluates the proposed rules with the respective managers as and when they are circulated by the Regulators for the Company's feedback and comments on a timely basis.
Self Governance Initiatives by the Company	
Quarterly Compliance Certification to The Insurance Board of Sri Lanka	<p>The Company continues to submit the compliance certification to the regulator confirming the status of compliance in the following areas:</p> <ul style="list-style-type: none"> (i) Minimum capital requirement (ii) Solvency requirements (iii) Adequacy of admissible assets to cover the technical liabilities (iv) Re-insurance placements (v) Technical reserves of the General business (vi) Due compliance with other statutory and regulatory requirements and Corporate Governance <p>This compliance certification is voluntarily submitted on a quarterly basis, despite the regulatory requirement to submit on a half yearly basis.</p>
Solvency Certification by Company Auditors	<p>One of the provisions of the draft rules made under section 47 of the Regulation of Insurance Industry Act is that, the Solvency of the General insurance business be certified by the Auditors of the Company. As a measure of early compliance to this provision, the Company obtained the certification in 2005 and 2006 on a voluntary basis. This certification has been obtained for the year 2007, which has been made a mandatory reporting requirement by the Insurance Board of Sri Lanka.</p>
Certification of General Technical Reserve by the Actuary	<p>The Insurance Board of Sri Lanka has now made it mandatory for insurance companies to obtain certification of the General technical reserves by an independent Actuary with effect from 31st December 2006. The Company has obtained the said certification for the year ended 31st December 2007. The General Actuary's report is given on page 96.</p>

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Self Governance Initiatives by the Company (Contd.)	
Certifications from External Auditors	<p>(i) As a measure of adoption to 'guidelines for listed companies on Audit and Audit Committees' issued by Securities and Exchange Commission of Sri Lanka, the External Auditors carried out a Negative Assurance Review on the first half year Financial Statements of 2006. This was tabled and noted at the Audit Committee Meeting. This is carried out on an annual basis. The minutes of the Audit Committee meeting are tabled at the Board Meeting.</p> <p>(ii) The Company obtained a report of factual findings on compliance with certain provisions of the Regulation of the Insurance Industry Act by the External Auditors (for both Life and General insurance businesses) notwithstanding the IBSL requirement for the certification to be signed by the CEO and CFO as required for the submission of the Annual Accounts as at 31st December 2006 which was filed with IBSL on 30th June 2007.</p>
Capital structure	<p>The Company's stated capital as at 31st December 2007 is Rs. 300 million. Therefore the Company is already in compliance with the minimum stated capital requirement applicable to Insurance Companies which seek registration after 12th October 2005 under the Regulation of Insurance Industry Act.</p> <p>With the objective of further strengthening the Company's capital structure, the management decided to establish two reserve funds during 2004.</p> <p>(i) Resilience Reserve - This fund was established to strengthen the capability of the Company to meet temporary variations in asset values.</p> <p>(ii) Special Reserve Fund- This fund will facilitate the internal risk retention capacity enhancement and the provision of a higher level of security to the Life and General insurance customers.</p>
Ethical standards	<p>The Company requires all directors, managers and employees to maintain highest standards of integrity and honesty in performing their duties. Following are the key measures adopted by the Company to create a strong ethical culture:</p> <p>(i) Application of code of ethics and professional conduct for employees. The key elements of the Code are:</p> <ul style="list-style-type: none"> - fairness, honesty and loyalty towards supporting all actions - awareness and adherence to the relevant laws - individual and collective contribution to the well-being of all stakeholders - avoiding conduct that is likely to reflect adversely on the Company's image - openness and public disclosure <p>(ii) Obtaining sign-off from employees on the Company Standing Instructions at the time of recruitment</p> <p>(iii) Requirement of the Company for members of field staff to make a pledge to uphold the code of ethics and standards of conduct laid down for sales agents</p>
Protection of Policyholder interests	<p>The Company maintains solvency margins well in excess of the minimum solvency requirement for both Life and General businesses to protect the interest of its policyholders, details of which are given on page 84.</p>
Customer feedback management	<p>As a measure of protecting policyholder interests, the Company has a comprehensive intranet based feedback management module with an immediate alert system in place, where complaints are escalated up to the level of CEO.</p>
Insurance Cover for Directors & Officers	<p>At the request of the Board of Directors of the Company and its Subsidiaries, the Company issued a 'Directors' and Officers liability cover to the members of the Boards of Eagle and its subsidiaries & the officers with effect from 2006 in line with the recommendation made in the Combined Code which came into effect in UK in July 2003.</p>

Enterprise Governance

Corporate Governance Principle	Level of Compliance
Self Governance Initiatives by the Company (Contd.)	
IT Governance	The Company has implemented adequate controls to ensure that the key information technology risks are covered. Some of these controls include the IT Security Policy, business continuity plan, IT security sign off, firewalls and use of licensed software. Further the IT risks are periodically reviewed as part of the Business Risk Profile.
Relationship with stakeholders	
Shareholders	In addition to the measures taken to protect shareholder interests which are detailed above, the Company has a number of resource management initiatives which are ongoing activities, to ensure optimum utilisation of resources and thereby increasing the shareholder wealth. The Company has been continuously delivering good returns to shareholders by way of dividends, bonus shares, capital gains etc. and ensuring value for the investment made by the shareholders. There is a Limits of Authority (LOA) document approved by the senior management, based on which all payments are processed. According to the procedure laid down by the LOA, a minimum of three sealed quotations are called for all major projects, and the supplier is selected after careful review. Another noteworthy initiative during the year was the automation of cheque signatures for General insurance payments, which has resulted in significant productivity improvements.
Policy holders	In addition to the customer feedback system mentioned above, as a measure of protecting policyholder interests, the Company has established a Sales Compliance Unit that is designed to respond to any customer complaints. This operation is headed by an attorney - at - law who is entrusted with the task of investigating any client complaints. This Unit is connected to all offices island wide through an IT based system, referred to as the 'Customer Feed Back Forum'. This ensures speedy communication and enables any customer complaint to be immediately transmitted to the Sales Compliance Unit which then requests further information or instigates immediate appropriate action. The Unit is also proactive in monitoring the compliant levels from any given area or individual and where necessary carries out Audits to focus on any weaknesses that can be eliminated or improved upon to ensure the highest level of quality service to our Customer. These complaints are then escalated to the senior managers including the Managing Director depending on the nature of the complaints based on predetermined parameters. The Company as requested by IBSL has set up a web page to maintain the Insurance Agents Register. The web page is linked to the Company's Web Site. The said register contains all the active Insurance agents and also highlights the terminated/black listed agents.
Employees	Annual Company conference, quarterly management meetings and monthly departmental meetings are used to facilitate effective communication and interaction among the employees. The intranet facility offered by the Company facilitates communication among the staff at any point of time. During the year two employee satisfaction surveys were carried out. One was organised by the Company, which was conducted by an independent agency and the results were made available to all employees. Management has taken necessary steps to bridge the gaps identified through the results of the said survey. In addition all employees participated in an employee satisfaction survey conducted by Aviva, of which the results were made available in early 2008. Two day residential Management Seminar and Senior Executive Seminar were held during the year 2007, to impart knowledge to the management staff of the Company.
Community	As a part of the the Company's CSR initiatives the primary platforms in community engagement have been education, safety and inspiring human values. These elements have been an integral part of our activities benefiting the community at large for years, and a number of projects have been launched over the years. The initiatives / projects that were launched have been funded sufficiently by the Company, to ensure their continuity.

Enterprise Governance

Board Committees		
Audit & Compliance Committee	Investment Committee	Remuneration Committee
C Brackenrig – <i>Chairman</i> S Roye D S P Wikramanayake	R Arora – <i>Chairman</i> A Sahgal D S P Wikramanayake	Ms M Sigsworth – <i>Chairman</i> A Paterson N S Welikala
Secretary – Davdol Hassan	Secretary – Chrishanthi Navaratnam	Secretary – Chathuri Munaweera
By Invitation: <ul style="list-style-type: none"> Managing Director GM- Finance Head of Enterprise Risk Management and Control GM – Actuarial External Auditors 	By Invitation: <ul style="list-style-type: none"> Managing Director GM- Finance GM – Actuarial GM – Fund Management and bancassurance 	By Invitation: <ul style="list-style-type: none"> Managing Director GM – Human Resources
Objectives of the Committee <ul style="list-style-type: none"> Review and make a recommendation to the Board on the approval of the Annual Report and Accounts for the Company, including summary and interim financial statements and associated press releases. Review standards of internal control to safeguard Company's assets. Review quality of internal and external audit and timely implementation of audit recommendations. Determine remuneration of External Auditors and to consider and make recommendation to the Board on the appointment and resignation of the Auditors. Review the value of non-audit service of External Auditors and any matters which may impair their objectivity and independence. Assess effectiveness of risk management process. Review the effectiveness of compliance framework with financial services regulations and other relevant legislation. Review the scope of audit and the cost effectiveness. 	Objectives of the Committee <ul style="list-style-type: none"> Set policy guidelines for the management of investment portfolios. Monitor investment performance and recommend appropriate investment strategies. Ensure that the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements. Liaise with the Insurance Regulator in connection with regulations pertaining to investments and provide information to define the framework for the management for insurance portfolios. 	Objectives of the Committee <ul style="list-style-type: none"> Review and approve remuneration policy applicable for employees of the Company. Recommend to the Board the remuneration to be paid to Directors, including MD, their perquisites and allowances. Review and approve the grant of employees stock options subject to the approval of the Board.

Statement of Solvency as at 31.12.2007

The Statement of Solvency for General insurance and Long Term insurance has been prepared in accordance with the Solvency Margin (General insurance) Rules - 2004 and Solvency Margin (Long Term insurance) Rules - 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka.

Long Term Insurance Business *

	2007 (Rs. million)	2006 (Rs. million)
1 Value of Admissible Assets	12,516	11,004
2 Amount of Liabilities:		
2.1 Policy Liabilities	11,433	10,029
2.2 Other Liabilities	397	366
3 Value of Admissible Assets less Amount of Liabilities	686	609
4 Factor	5%	5%
5 Required Solvency Margin	572	501
6 Solvency Ratio (Line 3 divided by Line 5)	1.20	1.21

* Includes conventional, non-unit account and guaranteed unit fund

General Insurance Business

	2007 (Rs. million)	2006 (Rs. million)
1 Value of Admissible Assets	2,185	1,884
2 Amount of Total Liabilities	1,382	1,122
3 Available Solvency Margin (Line 1 less Line 2)	803	762
4 Required Solvency Margin	198	143
5 Solvency Ratio (Line 3 divided by Line 4)	4.06	5.34

Statement of Approved Assets as at 31.12.2007

Determined as per section 25 (1) of Regulation of Insurance Industry Act No. 43 of 2000 and the Determination made by the Insurance Board of Sri Lanka in terms of the said Act.

Long Term Insurance Business *

	2007 (Rs. million)	2006 (Rs. million)
1 Approved Assets maintained in Long Term insurance business	12,516	10,968
2 Long Term Insurance Fund	12,074	10,458
3 Excess in Approved Assets over Long Term Insurance Fund	442	510
4 Excess in Approved Assets as a % of Long Term Insurance Fund	103.7%	104.9%
5 Ratio Required	100.0%	100.0%

* Includes conventional, non-unit account and guaranteed unit fund

General Insurance Business

	2007 (Rs. million)	2006 (Rs. million)
1 Approved Assets maintained in the General insurance business	1,477	1,263
2 Technical Reserve	848	684
3 Excess in Approved Assets over Technical Reserve	629	578
4 Approved Assets as a % of the Technical Reserve	174.1%	184.6%
5 Required Ratio	100.0%	100.0%

Note: The Statement of Solvency and Approved Assets have been certified by the external auditors of the Company as required by the Insurance Board of Sri Lanka.

Trust to depend

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Financial Calendar

Interim Results for 2007

First Quarter	– 14th May 2007
Second Quarter	– 14th August 2007
Third Quarter	– 14th November 2007

Audited Financial Statements

2006	– 16th February 2007
2007	– 19th February 2008

Annual General Meetings and Declaration of Dividends

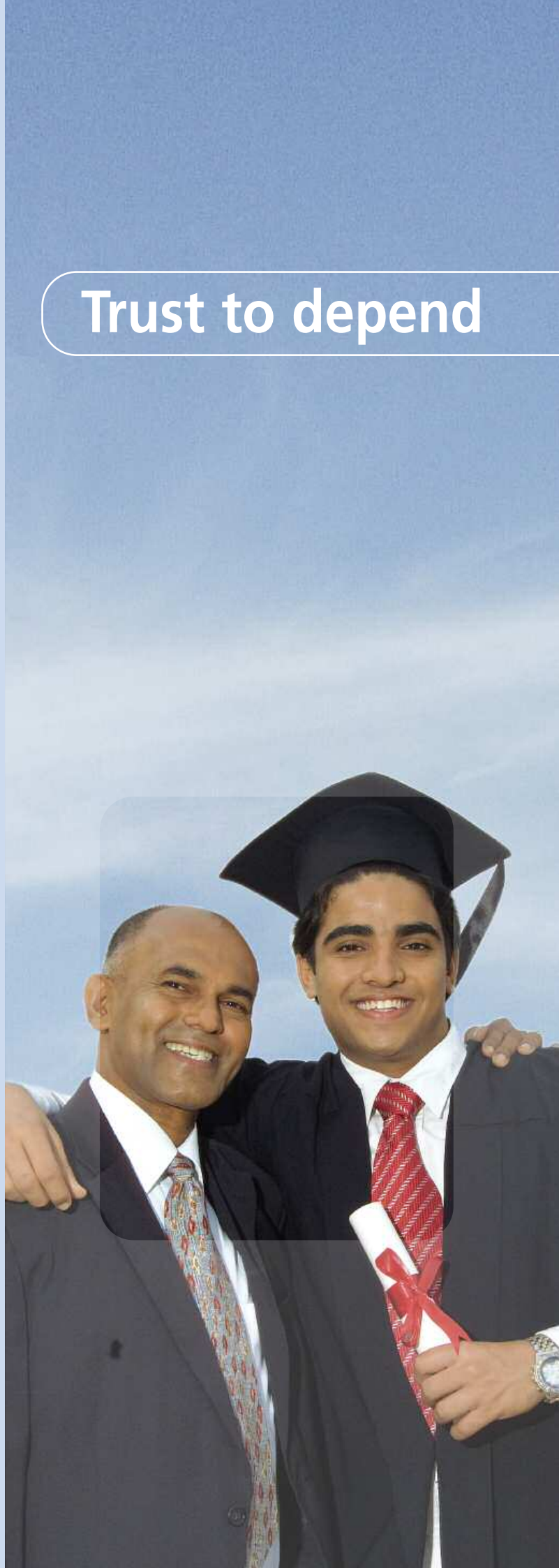
Twenty First Annual General Meeting

Final Dividend 2006	– 30th March 2007
Interim Dividend 2006	– 12th December 2006

Twenty Second Annual General Meeting

Final Dividend 2007	– 28th March 2008
Interim Dividend 2007	– 14th December 2007

Financial Statements



Directors' Report

The Directors have pleasure in presenting the Twenty-Second Annual Report of your Company together with the audited financial statements of Eagle Insurance PLC and the audited consolidated group financial statements for the year ended 31st December 2007 and the Auditors' Report thereon.

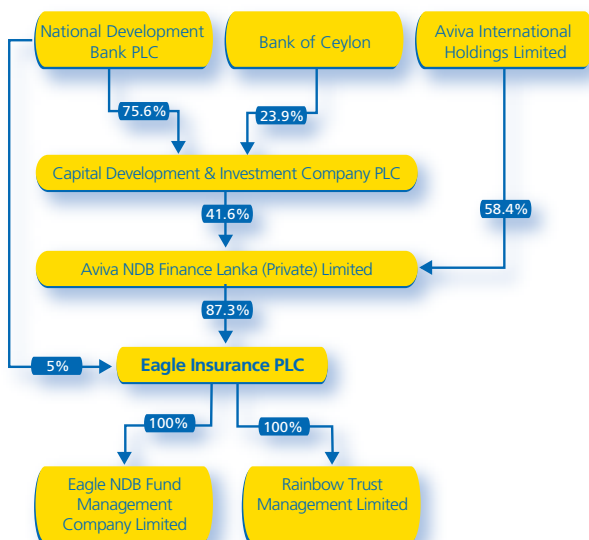
Group activities & structure

The principal activity of the Company continued to be insurance during the year 2007. Eagle NDB Fund Management Company Limited and Rainbow Trust Management Limited, fully owned subsidiaries of the Company provide Asset Management and Trust Services respectively to supplement the core business.

To be in line with the requirements of the Companies Act No 7 of 2007 (Act) the Company & its Subsidiaries applied for re-registration with the Registrar of Companies (ROC). Company has obtained the new Certificate of Incorporation from the ROC. Eagle Insurance Company Ltd. is now known as Eagle Insurance PLC.

Aviva NDB Finance Lanka (Private) Limited is the immediate holding company of Eagle Insurance PLC (Eagle) with a direct shareholding of 87.3%. Aviva International Holdings Ltd. is the ultimate holding company of Eagle with an indirect share holding of 51%. National Development Bank PLC has an indirect shareholding of 27.4% and a direct shareholding of 5% in Eagle.

The shareholding structure of the Company is as follows :-



Stated capital

The Stated Capital of the Company as at 31st December 2007 was Rs. 300,000,000/- comprising of 30,000,000 ordinary shares.

There was no change in the stated capital during the year.

Vision, Mission and corporate conduct

The Company's Vision and Mission are given on page inner back cover of this report. These have been approved by the Board of Directors of the Company. The business activities of the Company & subsidiaries are conducted with the highest level of ethical standards in achieving its Vision and Mission.

Shareholding and share information

There were 2,201 registered shareholders as at 31st December 2007.

The distribution of shareholding and details of the twenty largest shareholders, share performance and share valuation of the Company are given on pages 144 and 145 respectively.

10 year summary of Investor Information and share performance is given on page 143.

Review of business & future developments

A review of the group's financial and operational performance and future developments for 2007, are contained in the Managing Director's Review and Management Discussion and Analysis on pages 04 to 14 respectively. These reports together with the audited financial statements reflect the state of affairs of the Company and the group.

Financial statements & other reports contained in the Annual Report

The financial statements of the group are prepared in conformity with Sri Lanka Accounting Standards (SLAS), provide information required by the Companies Act No. 7 of 2007, and Regulation of Insurance Industry Act No. 43 of 2000 and the Colombo Stock Exchange Listing requirements. In addition the Company is in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice for Insurance Contracts issued by the Institute of Chartered Accountants of Sri Lanka which has been made mandatory by the Insurance Board of Sri Lanka with effect from 01st January 2007. The Company and its subsidiaries are also guided by other recommended best practices.

Financial Results

	2007 Rs. '000	2006 Rs. '000
Group profit		
Net profit for the year	527,081	523,468
Unappropriated profit brought forward	281,915	223,231
Funds available for appropriation	808,996	746,699
Appropriations		
Dividend paid for previous year	(210,000)	(172,500)
Interim dividend paid	(75,000)	(75,000)
Transfer to special reserve fund	(35,690)	(11,784)
Transfer to resilience reserve	(75,500)	(26,500)
Transfer to general reserve	(235,000)	(179,000)
Unappropriated profit carried forward	177,806	281,915
Reserve movements		
General reserve brought forward	720,000	541,000
Appropriation from statement of income	235,000	179,000
General reserve carried forward	955,000	720,000

Revenue

Revenue generated by the Company amounting to Rs. 5,875 billion reflects income from Life, General, Asset Management and Trust Services activities.

Directors' Report

Results and dividends

An interim dividend of Rs. 2.50 per share less withholding tax applicable on 30,000,000 ordinary shares in issue was paid to the shareholders of the Company on 14th December 2007.

The Directors propose a final dividend of Rs. 3/= per share less withholding tax applicable on 30,000,000 ordinary shares in issue. This brings the total dividend for the year to Rs. 5.50 per share.

As required by Section 56 of the Act, the Board of Directors have signed off the Directors' solvency certificate confirming that the Company satisfies the solvency test in accordance with section 57 of the Act and has also obtained a certificate of solvency from the External Auditors. Both Certificates have been filed with the Colombo Stock Exchange prior to paying out the interim dividend.

Similar procedures will be followed prior to obtaining the approval of the shareholders for the final dividend at the forthcoming Annual General Meeting.

Accounting policies

Details of accounting policies and impact due to changes in Sri Lanka Accounting Standards during the year have been disclosed in pages 115 to 119 of the financial statements

Life surplus and policyholders' dividends

The Directors received and adopted a report from the Company's independent actuary (for Life), Mr K K Wadhwa as per page 95, which recommended the dividends payable to policyholders and the surplus available for transfer to the Statement of Income.

Property, Plant and Equipment

As at the Balance Sheet date the book value of Property Plant and Equipment of the group amounted to Rs. 403.4 million.

Capital expenditure for the Company amounted to Rs. 108 million and the group amounted to Rs. 115 million.

Details of Property, Plant and Equipment and their movements during the year are given in Note 04 to the financial statements on page 124.

Market value of properties

The market value of Property, Plant and Equipment is considered not materially different to the book values as given in the notes to the financial statements.

13.40 perches of freehold land at No 76, Kew Road, Colombo 2 and 12.09 perches of freehold land at No. 80 Kew Road Colombo 2 were subject to a valuation during the year, and the revaluation surplus of Rs. 39.9 million has been booked into the accounts.

Investments

Investments of the Group and Company amounted to Rs.13.0 billion and Rs. 12.9 billion respectively. Detailed description of the Investments held as at the Balance Sheet date are given in Notes 2 and 3 to the financial statements on pages 120 and 123 respectively.

Donations

The Directors having due consideration to the best interests of the Company paid a total sum of Rs. 4.2 million as charitable donations

for the year 2007, representing 1% of the average Profits after Tax for the preceding three years.

No donations or any other form of payments or facilitations have been made to political parties or for politically oriented purposes.

Provisions

The Directors have taken all reasonable steps to ensure adequate provisioning for unearned premiums, unexpired risks and claims, including claims incurred but not reported.

The Directors have arranged external actuaries to value the Life Fund and General claims and premium liabilities. Please refer pages 118 & 119 for the basis and policies adopted for provisioning.

As at the date of the report, the Directors are not aware of any circumstances, which would render inadequate the amounts provided for in the financial statements.

Reserves

The total reserves of the group as at 31st December 2007 amounted to Rs. 1,725 million consisting of the Special Reserve Fund, Resilience Reserve, General Reserve and Retained Earnings, all of which are revenue reserves and the revaluation reserve is a capital reserve. Movements in these reserves are given in the Group Statement of Changes in Equity in the financial statements on page 102.

Provision for taxation

Provision for taxation for the Company and its subsidiaries has been computed at the rates given in Note 29 to the financial statements.

Eagle's people development strategy

During the year, the Company concentrated on developing the performance management culture and specific skills and competencies in identified divisions of the Company.

Creating a strong performance management and reward culture, a Company wide performance management programme was rolled out throughout the year. Also, enabling employees to shift their paradigm in life towards betterment and develop new habits to become effective people, company wide personnel development programmes were conducted. In addition, a programme on 'personal financial literacy' was launched with the objective of equipping our employees with the knowledge of managing their personal finances effectively and take saving and investment decisions wisely. A leadership development programme was held for the identified second line managers in the distribution network. The Company continued to contribute in raising the level of professionalism in the customer front by conducting a special training programme, focusing on the improvements towards customer servicing at 'Eagle call centre'.

Eagle employees continued to receive global opportunities in the Aviva group, attending Aviva conferences and familiarisation programmes. In addition, employees attended specific technical and development programmes in foreign countries.

As at balance sheet date the Company provided direct employment to 638 and indirect employment to 2,632 individuals.

Directors' Report

Outstanding litigation

In the opinion of the Directors and the Company's lawyers, pending litigation against the Company will not have a material impact on the reported financial results or future operations of the Company.

Post Balance Sheet events

The Board of Directors of the Company has recommended a declaration of a final dividend of Rs. 3/= per share for the financial year ended 31st December 2007, subject to approval by the shareholders.

There have been no other events subsequent to the Balance Sheet date that would have any material effect on the Company or the group, which would require adjustment or disclosure in the financial statements.

Corporate governance and internal controls

The Board of Directors of the Company has acknowledged the responsibility to ensure good governance in conducting the business activities of the Company. Having reviewed the effectiveness of the internal control system the Directors assure that the Company has taken necessary precautions to safeguard the interests of its stakeholders. To further strengthen the governance framework and ensure transparency to our stakeholders, the Company obtained an independent rating from an International Rating Agency, Det Norske Veritas (DNV) during 2006.

Please refer page 71 for the report on Enterprise Governance and page 93 for the Audit & Compliance Committee Report.

Statutory payments

The Directors confirm that to the best of their knowledge and belief,

all statutory payments in relation to all relevant regulatory and statutory authorities have been paid. A statement of compliance by the Board of Directors in relation to statutory payments is included in the Statement of Directors' Responsibilities on page 97.

Interests register

In terms of the Companies Act No 7 of 2007 an Interests Register was maintained during the accounting period under review. The particulars of the entries entered to the Interests Register during the accounting period under review are given below.

a) Directors' interest in contracts with the Company

Directors' interests in contracts of the Company, both direct and indirect have been included in Note 33 in the related party disclosures to the financial statements on page 137 These have been declared at Directors' meetings.

b) Directors' dealings with the shares of the Company

i) Disclosures in respect of shares held as at 31st December 2007

Name of the Director	Number of shares	Class of shares	Nature of the relevant interest in shares
Lal de Mel	900 *	Ordinary Shares	Beneficial Owner

* these shares were acquired prior to 1st January 2007

ii) Disclosures in respect of shares of the Company which have been acquired during the year

None of the Directors of the Company have acquired shares of the Company during the year under review

Directors of the Company who are also Directors of related entities

Company	Name of Director	Position	Relationship
Eagle NDB Fund Management Company Ltd.	A W Paterson	Director	Fully owned Subsidiary of Eagle Insurance PLC
	D Sooriyaarachchi	Director	
	N S Welikala	Director	
	D S P Wikramanayake	Director	
	S N Jayasinghe	Alternate Director	
Rainbow Trust Management Ltd.	A W Paterson	Director	Fully owned Subsidiary of Eagle Insurance PLC
	D Sooriyaarachchi	Director	
	D S P Wikramanayake	Director	
National Development Bank PLC (NDB)	N S Welikala	Director	NDB has an indirect shareholding of 27.4% and a direct shareholding of 5% in Eagle Insurance PLC
	L de Mel	Director	
	S N Jayasinghe	Vice President - Audit & Compliance	
	D S P Wikramanayake	Consultant	
Aviva NDB Finance Lanka (Private) Limited	A W Paterson	Director	Immediate holding Company of Eagle Insurance PLC
	S Roye	Director	
	N S Welikala	Director	
Bank of Ceylon (BOC)	S N P Paliheena*	General Manager	BOC has an indirect shareholding in Eagle Insurance PLC
Capital Development & Investment Company PLC (CDIC)	L de Mel	Chairman	CDIC has an indirect shareholding in Eagle Insurance PLC
	N S Welikala	Director	

* resigned w.e.f 17th January 2008

Directors' Report

- iii) Disclosures in respect of shares which have been disposed during the year:

None of the Directors of the Company have disposed of the shares of the Company during the year under review

c) Use of Company information by the Directors

Subject matter of information	Date of authorisation by the Board	Authorisation granted at a Board meeting/ by circular resolution
None	None	None

- d) Details of the remuneration and fees paid to the Directors are set out in page 135 of the notes to the financial statements. These have been duly approved by the Board of Directors of the Company.

e) Indemnity provided to Directors and or officers of the Company and its subsidiary Companies

A Directors & Officer Liability Policy (D & O) has been effected by Eagle Insurance PLC, covering past & present Directors & Officers of Eagle Insurance PLC & its subsidiaries. The terms and conditions of the D & O policy is disclosed in the Policy document Number 06 H0-DOL-1194337.

Limit of Liability	LKR 100,000,000.00
The premium	LKR 1,459,861.75 (Inclusive of taxes)
Coverage	Worldwide
Period of Insurance -	from 22nd December 2007 to 22nd December 2008.

The Board of Directors of the Company & its Subsidiaries have noted and approved the issuance of the Directors and Officers Liability Policy.

Directors during the Year/Changes

Name of the Director	Date of Appointment	Date of Resignation	Date of Re-appointment
N S Welikala	15.08.2001	-	-
S N P Palihena	03.07.2003	17.01.2008	-
D S P Wikramanayake	03.07.2003	01.02.2006	14.02.2006
L de Mel	28.07.2003	-	-
D Sooriyaarachchi	17.05.2005	01.02.2006	01.02.2006
G Barrans	01.02.2006	09.11.2007	-
S Roye	01.02.2006	-	-
J McKay	01.02.2006	09.11.2007	-
A W Paterson	02.10.2006	-	-
C Brackenrig	09.11.2007	-	-
Ms. M Sigsworth	09.11.2007	-	-
B A C Fernando	17.01.2008	-	-

- D Sooriyaarachchi was appointed to the Board on 17th May 2005. Due to change of ownership of the holding Company on 01st February 2006, he resigned on 01st February 2006 and was re-appointed on the same day as the Managing Director.
- A W Paterson was appointed as Chairman of the Board of Directors of the Company with effect from 09th November 2007 subsequent to the resignation of Grant Barrans.

- S N Jayasinghe continues to act as the Alternate Director to N S Welikala.

In accordance with Article 82 of the Articles of Association of the Company A W Paterson and D S P Wikramanayake retire from the Board by rotation at the Annual General Meeting and being eligible, will be proposed for re-election.

Directors' Meetings

The number of Directors' meetings (including meetings of the Board sub committees and number of meetings attended by each Director of the Company) during the financial year under review were as follows:

Director	Directors' Meetings		Audit & Compliance Committee Meeting		Investment Committee Meeting		Remuneration Committee Meeting	
	A	B	A	B	A	B	A	B
N S Welikala	05	05	-	-	-	-	02	02
S N P Palihena	05	05	-	-	-	-	-	-
D S P Wikramanayake	04	05	05	05	04	04	-	-
L de Mel	05	05	-	-	-	-	-	-
D Sooriyaarachchi	05	05	-	-	-	-	-	-
G Barrans	03	04	-	-	-	-	02	02
S Roye	04	05	04	05	-	-	-	-
J McKay	02	04	-	-	-	-	-	-
A W Paterson	05	05	05	05	04	04	02	02
C Brackenrig	01	01	-	-	-	-	-	-
Ms. M Sigsworth	-	01	-	-	-	-	-	-
J Mukherji *	-	-	-	-	02	02	-	-
R Arora *	-	-	-	-	02	02	-	-

A - Number of meetings attended.

B - Number of meetings held during the time the Director held office during the period.

* Not a Director on the main Board

Going concern

After making inquiries and having taken into account the financial position and future prospects of the Company the Directors have a reasonable expectation that the Company & its subsidiaries have adequate resources to continue to be in operational existence for the foreseeable future. For this reason, the Company & its subsidiaries continue to adopt the going concern basis in preparing the financial statements.

Environmental protection

The Company has used its best endeavours to comply with the relevant environmental laws and regulations applicable in the country. The Company has not engaged in any activity that is harmful or hazardous to the environment.

Equitable treatment to stakeholders

The Company has made all endeavours to ensure equitable treatment to all its stakeholders.

Auditors

The present auditors Messrs. Ernst & Young have signified their willingness to continue in office, and a resolution to re-appoint them as auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting. The Auditors'

Directors' Report

remuneration for both audit and non audit for the period under review is given below.

	Group Rs.'000	Company Rs.'000
Audit fees and expenses	5,165	4,669
Fees and expenses for other services	-	-

The Auditors of the Company, Messrs Ernst & Young do not have any relationship (other than that of Auditor) in the Company or any of its subsidiaries.

The Auditors' Report is given on page 99.

Annual Report

The Board of Directors approved the Company and Consolidated financial statements together with the reviews which form part of the Annual Report on 19th February 2008. The appropriate number of copies of the report will be submitted to the Colombo Stock Exchange, Insurance Board of Sri Lanka, Sri Lanka Accounting and Auditing

Standards Monitoring Board and the Registrar of Companies within the given time frame.

Annual General Meeting

The Annual General Meeting will be held at 'Earls Court', Trans Asia Hotel on 28th March 2008 at 10.00 am. The notice of Annual General Meeting appears on page 153.

On behalf of the Board



Albert Paterson
Chairman

Colombo
19th February 2008



Deepal Sooriyaarachchi
Managing Director

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act, No 7 of 2007 and Regulation of Insurance Industry Act No 43 of 2000. There are no departures from the prescribed Accounting Standards in their adoption. The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied.

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 the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing 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 ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by M/s Ernst & Young Chartered Accountants, the external auditors.

The Audit & Compliance Committee of the Company meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit & Compliance Committee to discuss any matter of substance.

It is also declared and confirmed that the Company has complied with the ensured compliance by the auditor with the guidelines for the audit of Listed Companies where mandatory compliance is required. It is further confirmed that all the other guidelines have been complied with.



Deepal Sooriyaarachchi
Chief Executive Officer



Priya Aponso
Chief Financial Officer

19th February 2008

Audit & Compliance Committee Report

The Audit and Compliance Committee

The Audit and Compliance Committee of Eagle Insurance PLC consists of three Non-executive Directors. All members of the Committee possess a wealth of expertise in the fields of insurance and finance to discharge their duties effectively. The Company's Head of Enterprise Risk Management & Control functions as the convenor and Secretary to the Committee.

The key objectives of the Committee are to support the Board of Directors in discharging its responsibilities towards all stakeholders and to ensure sound corporate governance practices are upheld within the Company. A Terms of Reference governs the objectives of the Committee, which is set-out on page 83 under the Enterprise Governance section of this Annual Report. The Committee is empowered, amongst other things to examine the financial statements of the Company, to review all internal control procedures, business risk assessments, accounting policies and adherence to statutory and regulatory compliance requirements etc., thereby ensuring a sound financial reporting system is in place to provide accurate, appropriate and timely information to the Board of Directors, management, regulatory authorities and shareholders.

Meetings of the Audit and Compliance Committee

Five meetings of the Audit and Compliance Committee were held during the year under consideration. The Managing Director, General Manager Finance and the External Auditors attended all meetings by invitation. Members of the top management team and senior officers of the Company were invited to attend these meetings when required.

Summary of main activities:

- The Committee received and reviewed interim and preliminary financial statements and the applicable accounting policies, practices and standards, and made recommendations to the Board as to the approval of the Interim and Annual Report & Accounts of the Company,
- The External Auditors were given adequate access and hearing by the Committee to ensure their independence and objectivity. Application of accounting standards and any amendments thereto were done in consultation with the External Auditors. The External Audit programme was tabled and noted by the Committee. The Management Letter issued by the External Auditors was reviewed by the Committee, giving due attention to the nature of issues raised, management responses and timely implementation of recommendations.

- The Internal Audit programme for the year was pre-approved by the Committee and reports on all internal audit assurances carried out during the period were tabled and reviewed by the Committee. Progress on implementation of internal audit recommendations were regularly followed up by the Committee to ensure operating of effective internal controls and enhancement of the overall control environment.
- The effectiveness of the business Risk Management process for identifying and managing risks faced by the Company was appraised by the Committee. Quarterly Risk Assessment reports were tabled and reviewed by the Committee to ensure that the Company's Risk Profile remains current and relevant. The Committee routinely monitored the effectiveness of key controls and implementation status of future mitigating actions to manage identified risks,
- The Quarterly Compliance and other assurance reports pertaining to Control Exceptions, Fraud & Malpractice, Anti-Money Laundering, Pending Litigation etc. were tabled and reviewed by the Committee. The Committee further appraised the actions in place to control any issues identified in these reports.

Appointment of the External Auditors

The Committee has recommended to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants be re-appointed as the Statutory Auditors of the Company for the financial year ending 31st December 2008, subject to approval by the Shareholders at the forthcoming Annual General Meeting.

Conclusion

The Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements of the Company are reliable.

In addition, the Committee observes that the Company's compliance framework provides reasonable assurance that all relevant laws, rules, regulations, codes of ethics and standards of conduct have been followed.



C Brackenrig

Chairman, Audit & Compliance Committee, Eagle Insurance PLC

19th February 2008

Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors from amongst the Directors of the Company and comprises of three non-executive Directors. The Managing Director and the Head of HR, attend the meeting on invitation by the Committee.

The overall duties of the Remuneration Committee are :

- (i) to review and approve remuneration policy of the Company ;
- (ii) to recommend to the Board of Directors, the remuneration to be paid to the executive directors, their perquisites and allowances;
- (iii) to review and to approve the grant of employees' stock options (if and when such schemes are applicable) subject to the necessary approvals including the approval of the Board of Directors ;

The Committee shall meet not less than two times a year. The minutes of the Committee are circulated to and affirmed by the Board of Directors. The Committee has the authority to seek external independent professional advice on matters within the purview of the Committee. The Committee is also authorised to invite professional advisers or others with relevant experience to assist it in its duties and to attend meetings.

In 2007, the Committee held two meetings in order to dispatch its businesses.



Ms. Marie Sigsworth

Chairperson

22 February 2008

Actuary's Report - Life

K K Wadhwa
Consultant Actuary

To the Shareholders of Eagle Insurance PLC

I hereby certify

- 1 That I have satisfied myself about the accuracy of the valuation data furnished to me by making a number of random test checks and going through the books of the Company,
- 2 That adequate and proper reserves have been provided for all liabilities in respect of Long Term business as on 31st December 2007, taking into account the dividend declared for the year,
- 3 That the liabilities so provided and the surplus of fund transferred to the shareholders' account are matched by corresponding assets whose value are not less than the total liabilities,
- 4 That in accordance with the policy conditions for Eagle Insurance for Living policies, I have recommended an annual dividend of 9.00% for the financial year ending 31st December 2007.
- 5 That I have enquired into the affairs of the Life Long Term insurance business and have satisfied myself with the solvency requirements as per criteria laid down in section 26 of the Regulation of the Insurance Industry Act No. 43 of 2000 read together with Solvency Margin (Long Term Insurance) Rules 2002.



K K Wadhwa

Fellow Member, Institute of Actuaries, India

Associate Member, Institute of Actuaries, England

23rd January 2008

K K Wadhwa - Consultant Actuary

321-B, Pocket 2, Mayur Vihar, Phase 1, Delhi - 110091

Telephone +911249000 (Extn. 9810) \ Fax +911242709007 \ e-mail k.wadhwa@avivaindia.com

Actuary's Report - General Insurance



31 January 2008

To the Shareholders of Eagle Insurance PLC

Actuarial Investigation of Eagle Insurance Company's policy liabilities as at 31 December 2007

Watson Wyatt has conducted an investigation into the valuation of the general insurance policy liabilities as required under paragraph 3 of the Solvency Margin (General Insurance) Rules, 2004, and confirms that the valuation is in accordance with the requirements stipulated in the Insurance Regulations.

We have examined the actuarial assumptions used in determining the loss reserves for Eagle. We have based our analysis on a gross and net of reinsurance basis in Sri Lanka Rupee currency.

We have also been asked by Eagle to calculate a level of prudential margin for the claim liabilities. There are no established requirements or guidelines in Sri Lanka which specify how these items are to be calculated. We have for illustrative purposes estimated the margin which, together with the best estimate of claim liabilities, produces a 75% probability of adequacy of the claim liabilities.

In our opinion, the policy liabilities as at 31 December 2007 based on the data provided by Eagle:

- are computed in accordance with generally accepted loss reserving standards and principles; and
- make a reasonable provision for all unpaid insurance losses and external claim management expenses of the Company. In particular, we have assumed that Unallocated Loss Adjustment Expenses ('ULAE') represents 6% of the net estimate of the outstanding claims. In making these assumptions, we have assumed that the Company would continue as a going concern over this period.

We estimated the premium liability on a net of reinsurance basis to be less than the unearned premium reserve amount. Therefore, the Company has adopted the unearned premium reserve amount as the premium liability as at 31 December 2007.

We have not been advised, at this stage, of Eagle's reinsurance arrangements as of 1 January 2008 onwards. Our calculation of the premium liability assumes that a similar program will be adopted with high quality reinsurers, and we therefore have not considered the non-recoverability from reinsurers.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Baker', with a horizontal line underneath.

Verne Baker

Head of General Insurance Consulting, Asia Pacific

Watson Wyatt Insurance Consulting Pte Ltd (199901917M)

135 Cecil Street \ #09-01 \ Singapore 069536 \ 65 6880 5688 Telephone \ 65 6880 5699 Fax

Statement of Directors' Responsibilities

The following statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and its subsidiaries. These differ from the responsibilities of the External Auditors, which are set out in their report given on page 99.

The Companies Act No. 07 of 2007 (Act) requires the Directors to prepare financial statements of the Company & its subsidiaries for each financial year and place before general meeting financial statements which comprise:

- An Income Statement, which presents a true and fair view of the profit and loss of the Company and its subsidiaries for the financial year, and
- A Balance Sheet, which represents a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year, and which comply with the requirements of the Act.

In preparing these financial statements the Directors are required to:

- Select appropriate accounting policies and apply them consistently, subject to any material departures being disclosed and explained;
- Make judgments and estimates that are reasonable and prudent;
- Ensure applicable accounting standards have been followed;

The Directors adopt the going concern basis in preparing the financial statements. The Directors having reviewed the Business plan for the period 2008-2010 consider that the Company and the subsidiaries have adequate resources to continue in operation.

The Directors are required by the Act to ensure that the companies within the Group keep sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and its subsidiaries.

The financial statements of the Group are prepared in conformity with the Sri Lanka Accounting Standards (SLAS), provide information required by Companies Act No 07 of 2007, and the Regulation of Insurance Industry Act No 43 of 2000 and the Colombo Stock Exchange Listing requirements. In addition the Company is in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice for Insurance Contracts issued by the ICASL which has been made mandatory by the Insurance Board of Sri Lanka with effect from 01st January 2007. The Company is also guided by other recommended best practices. The Directors further confirm that all financial & non – financial requirements stipulated under the Companies Act No. 07 of 2007 pertaining to Directors duties and responsibilities have been complied with wherever applicable.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, prevent and detect frauds and other irregularities. They have also ensured that proper records are maintained and that the information generated is reliable.

The Directors are responsible for providing the Auditors with every opportunity to undertake whatever inspections they consider appropriate to enable them to form their opinion on the financial statements.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company and its subsidiaries as at the Balance Sheet date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By Order of the Board



Ms. C. Munaweera
Company Secretary

Eagle Insurance PLC

19th February 2008.

Statement of Directors and Company Secretary for the Annual Report 2007

The Reports / Disclosures contained herein have been approved by the Board of Directors of Eagle Insurance PLC on 19th February 2008 and collectively constitute the Annual Report for the year ended 31st December 2007.

Signed for and on
behalf of the Board of Directors of Eagle Insurance PLC.



Chairman



Managing Director



Company Secretary

19th February 2008



■ **Chartered Accountants**
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

■ **Telephone :** (0) 11 2463500
Fax : (0) 11 2697369
Gen : (0) 11 5578180
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF EAGLE INSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Eagle Insurance PLC, the consolidated financial statements of the Company and its subsidiaries which comprise the balance sheets as at December 31, 2007, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2007 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2007 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

In our Opinion

1. These financial statements also comply with the requirements of Section 151(2) and Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.
2. The accounting records of Eagle Insurance PLC have also been maintained by the management in the manner required by the rules made by the Insurance Board of Sri Lanka established under the Regulation of Insurance Industry Act No 43 of 2000 so as to clearly indicate the true and fair view of the financial position of the insurer.

Colombo

19th February 2008

■ **Partners** : A D B Talwatte FCA FCMA T K Bandaranayake FCA M P D Cooray FCA FCMA
Ms. Y A De Silva ACA W R H Fernando FCA FCMA W K B S Fernando FCA ACMA
A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond)
A S M Ismail FCA FCMA H M A Jayasinghe FCA FCMA Ms. G G S Manatunga ACA
Ms. L C G Nanayakkara FCA FCMA

Balance Sheet

As at 31st December			Group		Company	
			2007	2006	2007	2006
	Note	(Page No.)	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets						
Investments	2	(120)	12,738,944	11,467,119	12,655,942	11,387,395
Investments - Unit linked	3	(123)	241,130	48,436	241,130	48,436
Property, plant and equipment	4	(124)	403,431	386,671	396,508	384,388
Other fund assets	5	(126)	272,739	313,162	272,739	313,162
Policy loans and other loans	6	(126)	1,142,763	912,251	1,142,763	912,251
Investments in subsidiaries	7	(127)	-	-	51,000	51,000
Reinsurance receivable			330,579	549,294	330,579	549,294
Amounts due from subsidiaries	8	(127)	-	-	6,690	4,313
Trade receivables	9	(127)	673,738	557,544	668,912	555,408
Other assets	10	(127)	762,645	314,219	752,578	311,007
Cash and cash equivalents	11	(127)	399,076	376,294	398,104	372,538
Cash and cash equivalents - Unit linked	12	(128)	1,767	6,071	1,767	6,071
Total Assets			16,966,812	14,931,061	16,918,712	14,895,263
Liabilities and Shareholders' Equity						
Liabilities						
Insurance provision - Long Term Conventional	13	(128)	12,063,506	10,453,542	12,063,506	10,453,542
Insurance provision - Long Term Unit linked	13	(128)	242,897	54,507	242,897	54,507
Insurance provision - General	14	(128)	1,088,994	1,122,631	1,088,994	1,122,631
Other funds	15	(129)	272,739	313,162	272,739	313,162
Reinsurance creditors	16	(129)	376,969	291,143	376,969	291,143
Income tax liability	17	(129)	10,652	5,964	3,955	2,733
Other liabilities	18	(129)	885,823	946,877	884,624	942,076
Total Liabilities			14,941,580	13,187,826	14,933,684	13,179,794
Shareholders' Equity						
Stated capital	20	(131)	300,000	300,000	300,000	300,000
Capital reserves	21	(131)	39,916	-	39,916	-
Revenue reserves	22	(131)	1,685,316	1,443,235	1,645,112	1,415,469
Total Shareholders' Equity			2,025,232	1,743,235	1,985,028	1,715,469
Liabilities and Shareholders' Equity			16,966,812	14,931,061	16,918,712	14,895,263

The accounting policies and notes as set out on pages 115 to 139 form an integral part of the financial statements.

The CFO certifies that the financial statements have been prepared in compliance with the requirements of the Companies Act No.7 of 2007.

On behalf of the Board



Albert Paterson
Chairman



Deepal Sooriyaarachchi
Managing Director



Priya Aponso
Chief Financial Officer

Colombo
19th February 2008

Statement of Income

For the year ended 31st December			Group		Company	
			2007	2006	2007	2006
	Note	(Page No.)	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Revenue	1	(120)	5,874,842	4,813,426	5,840,058	4,784,322
Gross written premium	23	(132)	5,655,245	4,618,462	5,655,245	4,618,462
Reinsurance premium			(1,092,119)	(932,626)	(1,092,119)	(932,626)
Net written premium			4,563,126	3,685,836	4,563,126	3,685,836
Net change in reserves for unearned premium			(176,475)	(123,944)	(176,475)	(123,944)
Net earned premium			4,386,651	3,561,892	4,386,651	3,561,892
Benefits, losses and expenses						
Net claims and benefits	24	(133)	(1,687,382)	(1,489,065)	(1,687,382)	(1,489,065)
Commission (net of reinsurance commission)			(432,587)	(353,900)	(432,587)	(353,900)
Deferred commission			(335)	5,669	(335)	5,669
Increase in Long Term insurance fund			(1,798,355)	(1,269,864)	(1,798,355)	(1,269,864)
			467,992	454,732	467,992	454,732
Other revenue						
Asset management fees and related income			18,989	16,077	-	-
Investment income	25	(133)	1,279,223	1,021,016	1,269,416	1,012,259
Other income	26	(134)	189,979	214,441	183,991	210,171
Expenses						
Operating and administrative expenses	27	(134)	(1,410,067)	(1,167,303)	(1,397,502)	(1,157,111)
Profit before taxation	28	(135)	546,116	538,963	523,897	520,051
Income tax expenses	29	(135)	(19,035)	(15,495)	(9,254)	(10,108)
Net profit for the year			527,081	523,468	514,643	509,943
Basic earnings per share (Rs.)	31	(137)	17.57	17.45	17.15	17.00
Dividend per share						
Final dividend paid for previous year (Rs.)	32	(137)	7.00	5.75	7.00	5.75
Interim dividend paid (Rs.)	32	(137)	2.50	2.50	2.50	2.50
			9.50	8.25	9.50	8.25

The accounting policies and notes as set out on pages 115 to 139 form an integral part of the financial statements.

Colombo
19th February 2008

Group Statement of Changes in Equity

For the year ended 31st December 2007

	Note	(Page No)	Stated capital	Revaluation reserve	Special reserve fund	Resilience reserve	General reserve	Retained earnings	Total equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 31st December 2005			300,000	-	268,036	135,000	541,000	223,231	1,467,267
Final dividend paid for 2005	30	(136)	-	-	-	-	-	(172,500)	(172,500)
Net profit for the year			-	-	-	-	-	523,468	523,468
Interim dividend paid	30	(136)	-	-	-	-	-	(75,000)	(75,000)
Transfer to special reserve fund			-	-	11,784	-	-	(11,784)	-
Transfer to resilience reserve			-	-	-	26,500	-	(26,500)	-
Transfer to general reserve			-	-	-	-	179,000	(179,000)	-
Balance as at 31st December 2006			300,000	-	279,820	161,500	720,000	281,915	1,743,235
Final dividend paid for 2006	30	(136)	-	-	-	-	-	(210,000)	(210,000)
Net profit for the year			-	-	-	-	-	527,081	527,081
Interim dividend paid	30	(136)	-	-	-	-	-	(75,000)	(75,000)
Revaluation reserve			-	39,916	-	-	-	-	39,916
Transfer to special reserve fund			-	-	35,690	-	-	(35,690)	-
Transfer to resilience reserve			-	-	-	75,500	-	(75,500)	-
Transfer to general reserve			-	-	-	-	235,000	(235,000)	-
Balance as at 31st December 2007			<u>300,000</u>	<u>39,916</u>	<u>315,510</u>	<u>237,000</u>	<u>955,000</u>	<u>177,806</u>	<u>2,025,232</u>

The authorised capital and par value concept in relation to share capital were abolished by the Companies Act No 07 of 2007, therefore comparative figures have been restated accordingly. The total amount received by the company or due and payable to the company in respect of the issue and calls of the shares are referred to as Stated Capital.

Company Statement of Changes in Equity

For the year ended 31st December 2007

	Note	(Page No)	Stated capital	Revaluation reserve	Special reserve fund	Resilience reserve	General reserve	Retained earnings	Total equity
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 31st December 2005			300,000	-	268,036	135,000	540,750	209,240	1,453,026
Final dividend paid for 2005	30	(136)	-	-	-	-	-	(172,500)	(172,500)
Net profit for the year			-	-	-	-	-	509,943	509,943
Interim dividend paid	30	(136)	-	-	-	-	-	(75,000)	(75,000)
Transfer to special reserve fund			-	-	11,784	-	-	(11,784)	-
Transfer to resilience reserve			-	-	-	26,500	-	(26,500)	-
Transfer to general reserve			-	-	-	-	159,250	(159,250)	-
Balance as at 31st December 2006			300,000	-	279,820	161,500	700,000	274,149	1,715,469
Final dividend paid for 2006	30	(136)	-	-	-	-	-	(210,000)	(210,000)
Net profit for the year			-	-	-	-	-	514,643	514,643
Interim dividend paid	30	(136)	-	-	-	-	-	(75,000)	(75,000)
Revaluation reserve			-	39,916	-	-	-	-	39,916
Transfer to special reserve fund			-	-	35,690	-	-	(35,690)	-
Transfer to resilience reserve			-	-	-	75,500	-	(75,500)	-
Transfer to general reserve			-	-	-	-	225,000	(225,000)	-
Balance as at 31st December 2007			300,000	39,916	315,510	237,000	925,000	167,602	1,985,028

The authorised capital and par value concept in relation to share capital were abolished by the Companies Act No 07 of 2007, therefore comparative figures have been restated accordingly. The total amount received by the company or due and payable to the company in respect of the issue and calls of the shares are referred to as Stated Capital.

Cash Flow Statement

For the year ended 31st December	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Cash flows from operating activities				
Premiums / fees received from customers	5,900,422	4,772,417	5,880,773	4,751,714
Reinsurance premium (net of commission) paid	(754,457)	(582,089)	(754,457)	(582,089)
Claims and benefits paid	(2,189,871)	(1,567,374)	(2,189,871)	(1,567,374)
Reinsurance receipts in respect of claims and benefits	355,843	222,298	355,843	222,298
Cash paid to and on behalf of employees	(385,037)	(346,153)	(367,271)	(329,768)
Cash received from Long Term funds	-	-	-	-
Interest received	1,071,469	1,049,642	1,062,109	1,042,527
Dividends received	28,612	23,446	31,317	23,386
Other operating cash payments	(1,862,755)	(1,232,461)	(1,869,267)	(1,240,639)
Cash flow from operating activities (Note a)	2,164,226	2,339,726	2,149,176	2,320,055
Income tax / ESC paid	(20,436)	(13,753)	(14,120)	(9,639)
Net cash flow from operating activities	2,143,790	2,325,973	2,135,056	2,310,416
Cash flows from investing activities				
Purchase of liquid investments	(2,409,698)	(4,104,117)	(2,403,356)	(4,089,153)
Purchase of other investments	(8,353,860)	(10,731,728)	(8,353,860)	(10,731,728)
Sale of liquid investments	4,221,234	4,020,740	4,219,213	4,020,740
Sale of other investments	4,798,047	9,145,668	4,798,047	9,145,668
Purchase of property, plant and equipment	(116,694)	(327,223)	(109,497)	(326,440)
Proceeds from sale of property, plant and equipment	20,659	3,662	20,659	3,582
Net cash used in investing activities	(1,840,312)	(1,992,998)	(1,828,794)	(1,977,331)
Cash flows from financing activities				
Final dividend paid for the previous year	(210,000)	(172,500)	(210,000)	(172,500)
Interim dividend paid	(75,000)	(75,000)	(75,000)	(75,000)
Net cash used in financing activities	(285,000)	(247,500)	(285,000)	(247,500)
Increase in cash and cash equivalents (Note b)	18,478	85,475	21,262	85,585
Note a :				
Reconciliation of profit before taxation with cash flow from operating activities				
Profit before taxation	546,116	538,963	523,897	520,051
Depreciation	120,304	89,435	117,748	87,816
Increase in debtors and other assets	(642,163)	(156,767)	(630,495)	(159,992)
Decrease in provision for doubtful debts	(706)	(962)	(706)	(872)
Increase in Long Term insurance funds	1,798,354	1,269,864	1,798,354	1,269,864
Increase in net unearned premium	176,809	118,276	176,809	118,276
Increase / (decrease) in net claims provision	(12,327)	46,423	(12,327)	46,423
Increase in creditors	69,940	433,582	69,040	435,956
Gain on disposal of property, plant and equipment	(1,117)	(1,833)	(1,117)	(1,793)
Loss on fair value change in investments	109,016	2,745	107,973	4,326
Cash flow from operating activities	2,164,226	2,339,726	2,149,176	2,320,055
Note b :				
Increase in cash and cash equivalents				
Cash and cash equivalents at the end of the year	400,843	382,365	399,871	378,609
Cash and cash equivalents at the beginning of the year	382,365	296,890	378,609	293,024
	18,478	85,475	21,262	85,585

Insurance Revenue Accounts

For the year ended 31st December		Glossary item (Page 150 to 152)	2007 Rs. '000	2006 Rs. '000
General insurance				
Gross written premium	(24)		1,867,142	1,468,420
Net earned premium	(33)		813,334	589,299
Net claims incurred	(37)		(581,669)	(430,829)
Reinsurance commission net of acquisition expenses	(49 and 2)		38,223	27,299
Operating and administrative expenses excluding non technical expenses			(370,802)	(307,964)
Other technical income	(42)		63,643	102,892
Net underwriting result	(58)		(37,271)	(19,303)
Investment income and other income excluding other technical income			167,353	119,821
Non technical expenses	(39)		(6,185)	(15,467)
Profit before taxation			123,897	85,051
Key ratios - General insurance				
Net loss ratio	(35)		71.5%	73.1%
Net expense ratio	(34)		33.1%	30.2%
Net combined ratio	(32)		104.6%	103.3%
Combined operating ratio (COR)	(14)		98.7%	98.8%
Long Term insurance business				
Gross written premium	(23)		3,788,103	3,150,042
Net written premium (net of reinsurance premium and commission)	(36)		3,620,911	3,013,135
Investment income and other income			1,222,411	999,717
Net claims and benefits			(1,105,713)	(1,058,236)
Commission	(15)		(518,739)	(416,072)
Operating and administrative expenses			(1,020,515)	(833,680)
Increase in Long Term insurance fund			(1,798,355)	(1,269,864)
Surplus transfer to shareholders' fund	(29)		400,000	435,000

Industry Segment Data - Balance Sheet 2007

As at 31st December 2007

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Assets						
Investments	1,660,362	10,995,580	79,182	3,820	-	12,738,944
Investments - Unit linked	-	241,130	-	-	-	241,130
Property, plant and equipment	396,508	-	6,813	110	-	403,431
Other fund assets	272,739	-	-	-	-	272,739
Policy loans and other loans	230,662	912,101	-	-	-	1,142,763
Investments in subsidiaries	51,000	-	-	-	(51,000)	-
Reinsurance receivable	266,472	64,107	-	-	-	330,579
Amounts due from subsidiaries	6,690	-	-	-	(6,690)	-
Trade receivables	668,912	-	4,719	107	-	673,738
Other assets	233,591	518,987	9,898	174	(5)	762,645
Cash and cash equivalents	97,551	300,553	41	931	-	399,076
Cash and cash equivalents - Unit linked	-	1,767	-	-	-	1,767
Total Assets	3,884,487	13,034,225	100,653	5,142	(57,695)	16,966,812
Liabilities and Shareholders' Equity						
Liabilities						
Insurance provision - Long Term Conventional	-	12,063,506	-	-	-	12,063,506
Insurance provision - Long Term Unit linked	-	242,897	-	-	-	242,897
Insurance provision - General	1,088,994	-	-	-	-	1,088,994
Other funds	272,739	-	-	-	-	272,739
Reinsurance creditors	259,607	117,362	-	-	-	376,969
Income tax liability	3,955	-	6,356	341	-	10,652
Other liabilities	274,164	610,460	7,264	630	(6,695)	885,823
Total Liabilities	1,899,459	13,034,225	13,620	971	(6,695)	14,941,580
Shareholders' Equity						
Stated capital	300,000	-	50,000	1,000	(51,000)	300,000
Capital reserves	39,916	-	-	-	-	39,916
Revenue reserves	1,645,112	-	37,033	3,171	-	1,685,316
Total Shareholders' Equity	1,985,028	-	87,033	4,171	(51,000)	2,025,232
Liabilities and Shareholders' Equity	3,884,487	13,034,225	100,653	5,142	(57,695)	16,966,812

Industry Segment Data - Balance Sheet 2006

As at 31st December 2006

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Assets						
Investments	1,394,451	9,992,944	73,883	5,841	-	11,467,119
Investments - Unit linked	-	48,436	-	-	-	48,436
Property, plant and equipment	384,388	-	2,031	252	-	386,671
Other fund assets	313,162	-	-	-	-	313,162
Policy loans and other loans	209,382	702,869	-	-	-	912,251
Investments in subsidiaries	51,000	-	-	-	(51,000)	-
Reinsurance receivable	461,023	88,271	-	-	-	549,294
Amounts due from subsidiaries	4,313	-	-	-	(4,313)	-
Trade receivables	555,408	-	2,083	53	-	557,544
Other assets	111,102	199,905	2,681	564	(33)	314,219
Cash and cash equivalents	140,542	231,996	2,776	980	-	376,294
Cash and cash equivalents - Unit linked	-	6,071	-	-	-	6,071
Total Assets	3,624,771	11,270,492	83,454	7,690	(55,346)	14,931,061
Liabilities and Shareholders' Equity						
Liabilities						
Insurance provision - Long Term Conventional	-	10,453,542	-	-	-	10,453,542
Insurance provision - Long Term Unit linked	-	54,507	-	-	-	54,507
Insurance provision - General	1,122,631	-	-	-	-	1,122,631
Other funds	313,162	-	-	-	-	313,162
Reinsurance creditors	215,250	75,893	-	-	-	291,143
Income tax liability	2,733	-	3,231	-	-	5,964
Other liabilities	255,526	686,550	3,198	5,949	(4,346)	946,877
Total Liabilities	1,909,302	11,270,492	6,429	5,949	(4,346)	13,187,826
Shareholders' Equity						
Stated capital	300,000	-	50,000	1,000	(51,000)	300,000
Capital reserves	-	-	-	-	-	-
Revenue reserves	1,415,469	-	27,025	741	-	1,443,235
Total Shareholders' Equity	1,715,469	-	77,025	1,741	(51,000)	1,743,235
Liabilities and Shareholders' Equity	3,624,771	11,270,492	83,454	7,690	(55,346)	14,931,061

Industry Segment Data - Statement of Income 2007

For the year ended 31st December 2007

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Revenue	1,044,330	4,795,728	63,118	6,301	(34,635)	5,874,842
Gross written premium	1,867,142	3,788,103	-	-	-	5,655,245
Reinsurance premium	(877,333)	(214,786)	-	-	-	(1,092,119)
Net written premium	989,809	3,573,317	-	-	-	4,563,126
Increase in net unearned premium	(176,475)	-	-	-	-	(176,475)
Net earned premium	813,334	3,573,317	-	-	-	4,386,651
Benefits, losses and expenses						
Net claims and benefits	(581,669)	(1,105,713)	-	-	-	(1,687,382)
Commission (net of reinsurance commission)	38,558	(471,145)	-	-	-	(432,587)
Deferred commission	(335)	-	-	-	-	(335)
Increase in Long Term insurance fund	-	(1,798,355)	-	-	-	(1,798,355)
	269,888	198,104	-	-	-	467,992
Other revenue						
Asset management fees and related income	-	-	50,322	510	(31,843)	18,989
Investment income	149,399	1,120,017	11,770	829	(2,792)	1,279,223
Other income	81,597	102,394	1,026	4,962	-	189,979
Expenses						
Operating and administrative expenses	(376,987)	(1,020,515)	(41,131)	(3,277)	31,843	(1,410,067)
Profit before taxation / Transfer to shareholders' fund	123,897	400,000	21,987	3,024	(2,792)	546,116
Income tax expenses	(9,254)	-	(9,079)	(392)	(310)	(19,035)
Net profit for the year / Transfer to shareholders' fund	114,643	400,000	12,908	2,632	(3,102)	527,081
Capital expenditure	107,793	-	7,182	14	-	114,989

Industry Segment Data - Statement of Income 2006

For the year ended 31st December 2006

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Revenue	812,012	3,972,310	52,218	4,456	(27,570)	4,813,426
Gross written premium	1,468,420	3,150,042	-	-	-	4,618,462
Reinsurance premium	(755,177)	(177,449)	-	-	-	(932,626)
Net written premium	713,243	2,972,593	-	-	-	3,685,836
Increase in net unearned premium	(123,944)	-	-	-	-	(123,944)
Net earned premium	589,299	2,972,593	-	-	-	3,561,892
Benefits, losses and expenses						
Net claims and benefits	(430,829)	(1,058,236)	-	-	-	(1,489,065)
Commission (net of reinsurance commission)	21,630	(375,530)	-	-	-	(353,900)
Deferred commission	5,669	-	-	-	-	5,669
Increase in Long Term insurance fund	-	(1,269,864)	-	-	-	(1,269,864)
	185,769	268,963	-	-	-	454,732
Other revenue						
Asset management fees and related income	-	-	43,180	467	(27,570)	16,077
Investment income	103,519	908,740	8,134	623	-	1,021,016
Other income	119,194	90,977	904	3,366	-	214,441
Expenses						
Operating and administrative expenses	(323,431)	(833,680)	(34,351)	(3,411)	27,570	(1,167,303)
Profit before taxation / Transfer to shareholders' fund	85,051	435,000	17,867	1,045	-	538,963
Income tax expenses	(10,108)	-	(5,289)	(98)	-	(15,495)
Net profit for the year / Transfer to shareholders' fund	74,943	435,000	12,578	947	-	523,468
Capital expenditure	325,028	-	561	183	-	325,772

Industry Segment Data - Cash Flow Statement 2007

For the year ended 31st December 2007

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Cash flows from operating activities						
Premiums / fees received from customers	2,040,268	3,840,505	48,714	2,778	(31,843)	5,900,422
Reinsurance premiums (net of commission) paid	(628,734)	(125,723)	-	-	-	(754,457)
Claims and benefits paid	(884,841)	(1,305,030)	-	-	-	(2,189,871)
Reinsurance receipts in respect of claims and benefits	290,847	64,996	-	-	-	355,843
Cash paid to and on behalf of employees	(117,354)	(249,917)	(16,489)	(1,277)	-	(385,037)
Cash received from Long Term funds	400,000	(400,000)	-	-	-	-
Interest received	130,068	932,041	8,531	829	-	1,071,469
Dividends received	11,214	20,103	87	-	(2,792)	28,612
Other operating cash payments	(623,190)	(1,246,077)	(21,199)	(4,132)	31,843	(1,862,755)
Cash flow from operating activities (Note a)	618,278	1,530,898	19,644	(1,802)	(2,792)	2,164,226
Income tax / ESC paid	(14,120)	-	(5,955)	(51)	(310)	(20,436)
Net cash flow from operating activities	604,158	1,530,898	13,689	(1,853)	(3,102)	2,143,790
Cash flows from investing activities						
Purchase of liquid investments	(874,310)	(1,529,046)	(6,342)	-	-	(2,409,698)
Purchase of other investments	(1,337,667)	(7,016,193)	-	-	-	(8,353,860)
Sale of liquid investments	985,655	3,233,558	-	2,021	-	4,221,234
Sale of other investments	953,011	3,845,036	-	-	-	4,798,047
Purchase of property, plant and equipment	(109,497)	-	(7,182)	(15)	-	(116,694)
Proceeds from sale of property, plant and equipment	20,659	-	-	-	-	20,659
Net cash used in investing activities	(362,149)	(1,466,645)	(13,524)	2,006	-	(1,840,312)
Cash flows from financing activities						
Final dividend paid for the previous year	(210,000)	-	-	-	-	(210,000)
Interim dividend paid	(75,000)	-	(2,900)	(202)	3,102	(75,000)
Net cash used in financing activities	(285,000)	-	(2,900)	(202)	3,102	(285,000)
Increase / (decrease) in cash and cash equivalents (Note b)	(42,991)	64,253	(2,735)	(49)	-	18,478
Note a :						
Reconciliation of profit before taxation with cash flow from operating activities						
Profit before taxation	523,897	-	21,987	3,024	(2,792)	546,116
Depreciation	117,748	-	2,399	157	-	120,304
Increase in debtors and other assets	(268,702)	(361,793)	(9,886)	(1,782)	-	(642,163)
Increase / (decrease) in provision for doubtful debts	(1,939)	1,233	-	-	-	(706)
Increase in long term insurance funds	-	1,798,354	-	-	-	1,798,354
Increase in net unearned premium	176,809	-	-	-	-	176,809
Decrease in net claims provision	(12,327)	-	-	-	-	(12,327)
Increase / (decrease) in creditors	74,787	(5,747)	4,101	(3,201)	-	69,940
Gain on disposal of property, plant and equipment	(1,117)	-	-	-	-	(1,117)
Loss on fair value change in investments	9,122	98,851	1,043	-	-	109,016
Cash flow from operating activities	618,278	1,530,898	19,644	(1,802)	(2,792)	2,164,226
Note b :						
Increase / (decrease) in cash and cash equivalents						
Cash and cash equivalents at the end of the year	97,551	302,320	41	931	-	400,843
Cash and cash equivalents at the beginning of the year	140,542	238,067	2,776	980	-	382,365
	(42,991)	64,253	(2,735)	(49)	-	18,478

Industry Segment Data - Cash Flow Statement 2006

For the year ended 31st December 2006

	General Insurance Rs. '000	Long Term Insurance Rs. '000	Asset Management Rs. '000	Services Rs. '000	Eliminations Rs. '000	Group Rs. '000
Cash flows from operating activities						
Premiums / fees received from customers	1,501,729	3,249,985	44,262	4,011	(27,570)	4,772,417
Reinsurance premiums (net of commission) paid	(452,724)	(129,365)	-	-	-	(582,089)
Claims and benefits paid	(564,089)	(1,003,285)	-	-	-	(1,567,374)
Reinsurance receipts in respect of claims and benefits	179,683	42,615	-	-	-	222,298
Cash paid to and on behalf of employees	(97,349)	(232,419)	(15,400)	(985)	-	(346,153)
Cash received from Long Term funds	435,000	(435,000)	-	-	-	-
Interest received	109,111	933,416	6,492	623	-	1,049,642
Dividends received	14,086	9,300	60	-	-	23,446
Other operating cash payments	(286,699)	(953,940)	(17,389)	(2,003)	27,570	(1,232,461)
Cash flow from operating activities (Note a)	838,748	1,481,307	18,025	1,646	-	2,339,726
Income tax / ESC paid	(9,639)	-	(4,016)	(98)	-	(13,753)
Net cash flow from operating activities	829,109	1,481,307	14,009	1,548	-	2,325,973
Cash flows from investing activities						
Purchase of liquid investments	(867,807)	(3,221,346)	(14,423)	(541)	-	(4,104,117)
Purchase of other investments	(716,611)	(10,015,117)	-	-	-	(10,731,728)
Sale of liquid investments	663,502	3,357,238	-	-	-	4,020,740
Sale of other investments	715,538	8,430,130	-	-	-	9,145,668
Purchase of property, plant and equipment	(326,440)	-	(601)	(182)	-	(327,223)
Proceeds from sale of property, plant and equipment	3,510	72	80	-	-	3,662
Net cash used in investing activities	(528,308)	(1,449,023)	(14,944)	(723)	-	(1,992,998)
Cash flows from financing activities						
Final dividend paid for the previous year	(172,500)	-	-	-	-	(172,500)
Interim dividend paid	(75,000)	-	-	-	-	(75,000)
Net cash used in financing activities	(247,500)	-	-	-	-	(247,500)
Increase / (decrease) in cash and cash equivalents (Note b)	53,301	32,284	(935)	825	-	85,475
Note a :						
Reconciliation of profit before taxation with cash flow from operating activities						
Profit before taxation	520,051	-	17,867	1,045	-	538,963
Depreciation	87,816	-	1,466	153	-	89,435
(Increase) / decrease in debtors and other assets	(90,749)	(69,243)	649	2,576	-	(156,767)
Decrease in provision for doubtful debts	(101)	(771)	(90)	-	-	(962)
Increase in long term insurance funds	-	1,269,864	-	-	-	1,269,864
Increase in net unearned premium	118,276	-	-	-	-	118,276
Increase in net claims provision	46,423	-	-	-	-	46,423
Increase / (decrease) in creditors	151,677	284,279	(246)	(2,128)	-	433,582
Gain on disposal of property, plant and equipment	(1,793)	-	(40)	-	-	(1,833)
(Gain) / loss on fair value change in investments	7,148	(2,822)	(1,581)	-	-	2,745
Cash flow from operating activities	838,748	1,481,307	18,025	1,646	-	2,339,726
Note b :						
Increase / (decrease) in cash and cash equivalents						
Cash and cash equivalents at the end of the year	140,542	238,067	2,776	980	-	382,365
Cash and cash equivalents at the beginning of the year	87,241	205,783	3,711	155	-	296,890
	53,301	32,284	(935)	825	-	85,475

Long Term Insurance Balance Sheet - Supplemental

As at 31st December		2007		2006	
		Rs. '000		Rs. '000	
Assets					
Investments					
Government bonds & treasury bills		8,568,999		6,706,252	
Repurchase agreements		21,070		2,334,097	
Corporate debts		1,644,427		744,427	
Quoted shares	(Notes a & b)	634,295		84,673	
Unit trusts	(Note c)	101,789		98,495	
Bank deposits		25,000	10,995,580	25,000	9,992,944
Investments - Unit linked					
Government securities		111,129		9,334	
Repurchase agreements		32,556		18,592	
Quoted shares		97,445	241,130	20,510	48,436
Policy loans					
Other loans		859,106		680,421	
Reinsurance receivable		52,995		22,448	
Other assets		64,107		88,271	
Cash and cash equivalents		518,987		199,905	
Cash and cash equivalents - Unit linked		300,553		231,996	
		1,767	302,320	6,071	238,067
Total assets			13,034,225		11,270,492
Liabilities					
Insurance provision - Long Term Conventional		12,063,506		10,453,542	
Insurance provision - Long Term Unit linked		242,897		54,507	
Policyholders' advance payments		199,945		145,871	
Reinsurance creditors		117,362		75,893	
Agency commission payable		65,273		73,335	
Other liabilities		345,242		467,344	
Total liabilities			13,034,225		11,270,492

The above Long Term Insurance Balance Sheet is to be read in conjunction with the Balance Sheet on page 100, accounting policies and notes to the financial statements on pages 113 to 139.

Notes to the Supplemental Long Term Insurance Balance Sheet

(a) Quoted Shares

	2007		Long Term		2006	
	Number of Shares	Market value Rs. '000	Number of Shares	Market value Rs. '000	Number of Shares	Market value Rs. '000
Banks, Finance & Insurance						
Central Finance Company PLC	42,800	8,517	-	-	-	-
Commercial Bank of Ceylon Limited	302,466	44,463	800	152	-	-
Commercial Bank of Ceylon Limited - Preference shares	410,000	3,690	410,000	4,100	-	-
Development Finance Corporation of Ceylon	75,000	9,525	-	-	-	-
Hatton National Bank PLC	253,200	31,017	-	-	-	-
Nations Trust Bank PLC	610,600	18,165	-	-	-	-
Sampath Bank Limited	250,000	30,000	-	-	-	-
		145,377		4,252		
Construction & Engineering						
Colombo Dockyard Limited	316,800	16,790	-	-	-	-
		16,790		-		
Diversified Holdings						
Aitken Spence & Company PLC	76,000	30,400	-	-	-	-
Hayleys PLC	195,000	21,011	-	-	-	-
Hemas Holdings PLC	153,800	14,610	-	-	-	-
John Keells Holdings PLC	478,708	60,916	-	-	-	-
		126,937		-		
Food & Beverages						
Distilleries Co. of Sri Lanka Limited	240,000	24,120	-	-	-	-
		24,120		-		
Land & Property						
Serendib Land Limited	25,714	6,171	25,714	6,428	-	-
		6,171		6,428		
Manufacturing						
ACL Cables Limited	130,000	12,284	-	-	-	-
Chevron Lubricants Lanka PLC	311,400	26,547	-	-	-	-
Dankotuwa Porcelain Ltd.	-	-	75,000	750	-	-
Tokyo Cement Co. (Lanka) Ltd. - Non voting shares	960,000	17,519	-	-	-	-
		56,350		750		
Power & Energy						
Lanka IOC PLC	733,100	15,761	-	-	-	-
		15,761		-		
Telecommunications						
Dialog Telekom PLC	6,114,730	122,297	-	-	-	-
Sri Lanka Telecom PLC	1,499,900	47,249	-	-	-	-
		169,546		-		
Quoted shares		561,052		11,430		

Notes to the Supplemental Long Term Insurance Balance Sheet

(b) Strategic Investment - Quoted Shares

	2007		Long Term		2006	
	Number of Shares	Cost Rs. '000			Number of Shares	Cost Rs. '000
Union Assurance PLC	1,875,000	73,243			1,250,000	73,243

(c) Unit Trusts

	2007		Long Term		2006	
	Units	Market value Rs. '000			Units	Market value Rs. '000
Eagle Gilt Edged Fund	2,260,253	25,496			2,084,659	22,702
Eagle Growth Fund	2,000,000	50,420			2,000,000	53,040
Eagle Income Fund	2,269,550	25,873			2,095,127	22,753
Unit trusts		101,789				98,495

Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:

1 GENERAL

Eagle Insurance PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The corporate information of the Company is given in the inner back cover. The registered office and principal place of business of the Company is located at No.75, Kumaran Ratnam Road, Colombo 2.

In the report of the Directors and in the financial statements, 'the Company' refers to Eagle Insurance PLC as the holding company and 'the Group' refers to Eagle Insurance PLC, Eagle NDB Fund Management Company Limited and Rainbow Trust Management Limited the companies whose accounts have been consolidated therein.

The consolidated financial statements of the Group for the year ended 31 December 2007 were authorised for issue by the Directors on 19th February 2008.

The notes to the financial statements on pages 120 to 139 form an integral part of the financial statements.

All values presented in the financial statements are in Sri Lanka Rupees thousands (Rs. '000s) unless otherwise indicated.

The Board of Directors is responsible for the preparation and presentation of the financial statements.

The Company's parent entity is Aviva NDB Finance Lanka (Private) Ltd. The Company's ultimate parent undertaking and controlling party is Aviva International Holdings Ltd., which is incorporated in the United Kingdom.

2 ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise.

The Company Balance Sheet represents the assets, liabilities and equity of shareholders. The Group Balance Sheet includes the assets and liabilities of Eagle Insurance PLC, Eagle NDB Fund Management Company Limited and Rainbow Trust Management Limited. The Long Term insurance Balance Sheet represents the assets and liabilities of Life Policyholders.

The Statement of Income reflects the underwriting results of General Insurance business, surplus from Long Term insurance business and the, investment and other income of General Insurance and Life shareholders. The results of Eagle NDB Fund Management Company Limited and Rainbow Trust Management Limited are also included in the Group Statement of Income.

2.2 Statement of Compliance

The consolidated financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000. The formats and disclosures are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SoRP), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

2.3 Changes in Accounting Policies and Adoption of New and Revised Sri Lanka Accounting Standards during the year

The accounting policies adopted by the Company are consistent with those of the previous financial year.

The Group has adopted SLAS 41-Impairment of Assets which is applicable and effective in the current financial year. The accounting policies of the Group have been revised where applicable to reflect the changes in the provisions of the Standard.

Significant changes to the group financial statements, disclosure requirements and processes on the adoption of the new SLAS is discussed below:

2.4 SLAS 41- Impairment of Assets

A process was implemented by the group in compliance with SLAS 41 where carrying amounts of property, plant and equipment and long term investments were reviewed to determine any indication of impairment. Where there was an indication of impairment, the recoverable value was estimated based on the higher of fair value less cost to sell or value in use. No significant impairment losses were identified based on the above review.

2.5 Comparative Information

The accounting policies applied by the Group are, unless otherwise stated, consistent with those used in the previous year. Previous years figures and phrases have been re-arranged wherever necessary, to conform to the current year's presentation.

2.6 Basis of Consolidation

The group financial statements comprise the financial statements of Eagle Insurance PLC and its wholly owned subsidiaries Eagle NDB Fund Management Company Limited and Rainbow Trust Management Limited.

2.7 Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial

Accounting Policies

statements from the date that control effectively commences until the date that control effectively ceases.

The results of the fully owned subsidiaries for the year are included in the consolidated statement of income.

The assets and liabilities of the subsidiaries as at the balance sheet date are included in the consolidated balance sheet.

Intra-group balances and transactions and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

All companies in the group have a common financial year, which ends on 31st December.

2.8 Segmental Reporting

A segment is a distinguishable component of the Group engaged in providing services subject to risks and rewards that are different to those of other segments. The primary format is based on the core businesses of General Insurance, Long Term Insurance, Asset Management and Trust Services.

The Group's activities are located mainly in Sri Lanka. Consequently, the economic environment in which the Group operates is not subject to risks and returns that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided. Expenses directly identified to a particular segment are charged accordingly.

Expenses that cannot be directly identified to a particular segment are allocated on bases decided by the management and applied consistently throughout the year.

2.9 Foreign Currencies

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. Transactions in foreign currencies are translated to rupees at the functional currency rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are taken to the statement of income.

3 VALUATION OF ASSETS AND THEIR BASES OF MEASUREMENT

3.1 Property, Plant and Equipment

Property, plant and equipment is stated at cost or fair value less accumulated depreciation and any accumulated impairment in value.

The carrying values of property plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is revalued at fair value.

The group has adopted a policy of revaluing the assets held at valuation every five years. When an asset is revalued, any increase in the carrying amount is credited directly to a Revaluation Reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. Any revaluation deficit that offsets a previous surplus in the same asset is directly offset against the surplus in the revaluation reserve and any excess recognised as an expense. On disposal, any revaluation reserve relating to the asset sold is transferred to retained earnings.

Items of property, plant and equipment are derecognised upon replacement, disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset is included in the income statement in the year the asset is derecognised.

3.2 Depreciation

Provision for depreciation is calculated by using a straight-line method on the cost or valuation of all property, plant and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic life of such assets. The estimated useful lives of assets are as follows:

	Period (Years)
Freehold buildings	40
Plant and machinery	5
Main frames / mini computers	5
Personal computers and other computer equipment	3
Computer software	5
Equipment and furniture	5
Motor vehicles	4

Full depreciation is charged in the month of purchase and no depreciation is provided in the month of disposal.

3.3 Operating Leases

Leases, where the lessor effectively retains substantially all of the risks and benefits of ownership over the term of the lease, are classified as operating leases.

Lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

3.4 Investments

3.4.1 Investment in Subsidiaries

In the Company's financial statements, investments in subsidiaries have been accounted for at cost, net of any impairment losses which are charged to the income statement.

Accounting Policies

3.4.2 Shareholder Fund and Long Term Insurance Fund Investments.

Quoted shares and unit trusts are stated at market value except for strategic investments which are stated at cost. Necessary provision is made for any permanent diminution in value of strategic investments.

Investments in Government securities, Government bonds, debt instruments and repurchase agreements are stated at cost and interest is accrued up to year end.

3.4.3 Unit Linked Investments

Unit linked investments are stated at market value.

3.4.4 Other Fund Investments

Other fund investments include monies that are held for the benefit of persons associated with the company, namely the Agents superannuation fund and the scholarship fund and also the claims fund.

Movements in the market values of the investments held under these funds are to be borne by the respective funds. These investments are stated at market value.

3.5 Impairment of assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

Impairment losses are recognised in the income statement, except that, impairment losses in respect of property, plant and equipment are recognised against the revaluation reserve to the extent that it reverses a previous revaluation surplus. An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Previously recognised impairment losses are reversed only if there has been an increase in the recoverable amount of the asset. Such increase is recognised to the extent of the carrying amount had no impairment losses been recognised previously.

3.6 Trade and Other Receivables

Trade and other receivables are stated at their estimated realisable value. Collectability of premiums and other debtors is reviewed on an ongoing basis. Debts which are uncollectible are written off, while adequate provision is made for any long outstanding receivables in terms of a policy agreed by the Board of Directors and also in line with the solvency rules of IBSL.

3.7 Reinsurance Receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the consolidated balance sheet unless a right to offset exists. If a reinsurance asset is impaired, the company reduces the carrying amount accordingly and recognises a loss in the statement of income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after the initial recognition of the reinsurance asset, that the company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amount that the company will receive from the reinsurer.

3.8 Other Assets and Receivables

Other assets and receivables are stated at their net realisable value.

3.9 Cash and Cash Equivalents

For the purpose of the Cash Flow Statement cash and cash equivalents comprise cash in hand, deposits held at call with banks and other demand deposits net of book overdraft. In the Balance sheet book overdrafts are included under liabilities.

4 LIABILITIES AND PROVISIONS

All known liabilities have been accounted for in preparing the financial statements.

4.1 Interest Bearing Borrowings

Interest bearing borrowings are recognised at cost.

4.2 Provision for Taxation

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislations.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

4.3 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the balance sheet between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Accounting Policies

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each balance sheet 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 assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised 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 tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

4.4 Trade and other payables

Trade and other payables are stated at their cost.

4.5 Provisions (excluding insurance contracts)

Provisions are made for all obligations existing as at the Balance Sheet date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote.

Contingent assets are disclosed, where the inflow of economic benefit is probable.

4.6 Retirement Benefits

4.6.1 Defined Benefit Plans

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with SLAS 16. However under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service. This liability is fully funded through insurance policies.

The Projected Unit Credit Method (PUCM) is used for the actuarial valuation of the gratuity liability.

4.6.2 Defined Contribution Plans

The Company and employees contribute to the Provident Fund in terms of the Employees' Provident Fund Act, No. 15 of 1958 as amended. Contributions in respect of permanent employees are made to a private fund approved by the Commissioner of Labour. Contributions in respect of contractual employees are remitted to the Central Bank of Sri Lanka. The Company also contributes to the Employees Trust Fund in terms of the Employees Trust Fund Act, No. 46 of 1980 as amended.

Obligations for contributions to provident and trust funds covering all employees are recognised as an expense in the Statement of Income as incurred.

5 GENERAL INSURANCE BUSINESS

5.1 Gross Written Premium

Premium is generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. However for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided.

5.2 Reinsurance Premium

Reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates or in accordance with the pattern of reinsurance services received.

5.3 Unearned Premium

Unearned premium is the portion of gross written premium and reinsurance premium written in the current year in respect of risk related to subsequent periods. Unearned premium is calculated on the 24th basis in accordance with the Rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No. 43 of 2000.

5.4 Unexpired Risks

Provision is made where appropriate for the estimated amount required over and above unearned premium to meet future claims and related expenses on the business in force as at 31st December.

5.5 Deferred Acquisition Expenses

Deferred acquisition expenses represent commission related to unearned premium and calculated on the 24th basis in accordance with the Rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Accounting Policies

5.6 Claims

Claims incurred include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to 31st December.

Claims outstanding are assessed by reviewing of individual claim files and estimating changes in the ultimate cost of settling claims.

The provision in respect of Claims Incurred but Not Reported (IBNR) is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. Whilst the Directors consider that the provision for claims related reinsurance recoveries are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such adjustments are reflected in the financial statements for that period. The methods used, and the estimates made, are reviewed regularly.

6 LONG TERM INSURANCE

6.1 Gross Written Premium

Premium is accounted as and when cash is received and in the same period as the policy liabilities are created. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies. Moreover, for single premium contracts, premiums are recorded as income when received with any excess profit deferred and recognised as income in a constant relationship to the insurance in force or, for annuities, the amount of expected benefit payments.

6.2 Reinsurance Premium

Reinsurance premium expense is accrued on active policies on a monthly basis.

6.3 Benefits, Losses and Expenses

Expenses relate to the acquisition and maintenance of Long Term insurance business. Claims by death or maturity are charged against revenue on notification of death or on expiry of the term. Claims payable includes direct cost of settlement.

Interim payments and surrenders are accounted for at the time of settlement.

6.4 Actuarial Valuation for Long term Insurance Provision

The Directors agree to the Long term and unit linked insurance business provisions for the Company on the recommendation of the Reporting Actuary following his annual investigation of the Life insurance business. The actuarial valuation takes into account of all liabilities including contingent liabilities and is based on assumptions recommended by the Reporting Actuary.

7 ASSET MANAGEMENT

7.1 Asset Management Fees

Asset management fees consist of portfolio management fees in respect of corporate and individual clients and fund management fees arising from unit trust funds. Asset management fees are based on a contractual fee arrangement applied to assets under management and recognised as earned when the service has been provided. Performance fee is accounted for on a cash basis.

8 TRUST MANAGEMENT SERVICES

8.1 Trust Management Fee and Service Charges

Trust management fees and service charges are recognised on an accrual basis in accordance with Sri Lanka Accounting Standards.

9 INVESTMENT INCOME

Interest income : on an accrual basis

Dividends : accrued on declaration

Capital gains / (losses) on quoted investments and units:

Total net gains / (losses) arising on realisation and movements in market value of investments on an aggregate portfolio basis are credited / (charged) to the Statement of Income.

10 OTHER INCOME

Other income is recognised on an accrual basis.

11 EXPENDITURE RECOGNITION

Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the income statement.

Notes to the Financial Statements

1 Revenue

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross written premium	5,655,245	4,618,462	5,655,245	4,618,462
Reinsurance premium	(1,092,119)	(932,626)	(1,092,119)	(932,626)
Net written premium	4,563,126	3,685,836	4,563,126	3,685,836
Increase in net unearned premium	(176,475)	(123,944)	(176,475)	(123,944)
Net earned premium	4,386,651	3,561,892	4,386,651	3,561,892
Asset management fees and related income	18,989	16,077	-	-
Investment income	1,279,223	1,021,016	1,269,416	1,012,259
Other income	189,979	214,441	183,991	210,171
Revenue	5,874,842	4,813,426	5,840,058	4,784,322

2 Investments

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government bonds & treasury bills	9,634,196	6,840,363	9,576,696	6,840,363
Repurchase agreements	122,289	3,159,044	100,265	3,083,509
Corporate debts (Note 2.1)	1,884,098	946,599	1,884,098	946,599
Quoted shares (Note 2.2 & 2.3)	840,700	259,056	837,222	254,867
Unit trusts (Note 2.4)	166,962	161,716	166,962	161,716
Bank deposits	90,699	100,341	90,699	100,341
	12,738,944	11,467,119	12,655,942	11,387,395

2.1 Corporate debts

Quoted Debentures - Group

	2007				2006			
	No. of debentures	Cost Rs. '000	Market value Rs. '000	Coupon Rate %	No. of debentures	Cost Rs. '000	Market value Rs. '000	Coupon Rate %
Commercial Bank of Ceylon Limited	180,000	180,000	189,164	20.20%	180,000	180,000	185,685	12.53%
Development Finance Corporation of Ceylon	300,000	300,000	342,000	14.00%	300,000	300,000	311,046	14.00%
Development Finance Corporation of Ceylon	100,000	100,000	113,750	13.75%	100,000	100,000	103,616	13.75%
Development Finance Corporation of Ceylon	100,000	100,000	110,179	20.41%	100,000	100,000	103,375	12.83%
Hatton National Bank PLC	96,000	9,427	9,950	10.00%	96,000	9,427	9,950	10.00%
Hatton National Bank PLC	500,000	500,000	534,877	16.75%	-	-	-	-
Sampath Bank Limited	70,000	70,000	73,564	20.20%	70,000	70,000	72,211	12.53%
		1,259,427	1,373,484			759,427	785,883	

Unquoted Debentures, Commercial Papers and Fixed Income Loans - Group

	2007				2006			
	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %
Unquoted Debentures								
Singer Sri Lanka PLC	1,805	180,500	180,500	12.00%	1,805	180,500	180,500	12.00%
Tangerine Beach Sri Lanka PLC	-	-	-	-	-	13	13	-
		180,500	180,500			180,513	180,513	
Commercial Papers								
Commercial Leasing PLC	-	3,998	3,998	20.75%	-	-	-	-
Commercial Leasing PLC	-	-	-	-	-	128	128	11.85%
Mercantile Leasing PLC	-	-	-	-	-	1,286	1,286	11.90%
Mercantile Leasing PLC	-	-	-	-	-	1,183	1,183	11.95%
Mercantile Leasing PLC	-	-	-	-	-	823	823	12.00%
Mercantile Leasing PLC	-	-	-	-	-	597	597	12.00%
		3,998	3,998			4,017	4,017	

Notes to the Financial Statements

Unquoted Debentures, Commercial Papers and Fixed Income Loans - Group (Contd.,)

	2007				2006			
	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %
Commercial Paper Repos								
Waldock Mackenzie Co Limited								
- Guaranteed by Nations Trust Bank PLC	-	440,000	440,000	18.00%	-	-	-	-
		<u>440,000</u>	<u>440,000</u>			<u>-</u>	<u>-</u>	
Fixed Income Loans								
Serandib Land Limited	-	173	173	15.00%	-	2,642	2,642	15.00%
		<u>173</u>	<u>173</u>			<u>2,642</u>	<u>2,642</u>	
Corporate debts - Group		<u>1,884,098</u>				<u>946,599</u>		

Quoted Debentures - Company

	2007				2006			
	No. of debentures	Cost Rs. '000	Market value Rs. '000	Coupon Rate %	No. of debentures	Cost Rs. '000	Market value Rs. '000	Coupon Rate %
Commercial Bank of Ceylon Limited	180,000	180,000	189,164	20.20%	180,000	180,000	185,685	12.53%
Development Finance Corporation of Ceylon	300,000	300,000	342,000	14.00%	300,000	300,000	311,046	14.00%
Development Finance Corporation of Ceylon	100,000	100,000	113,750	13.75%	100,000	100,000	103,616	13.75%
Development Finance Corporation of Ceylon	100,000	100,000	110,179	20.41%	100,000	100,000	103,375	12.83%
Hatton National Bank PLC	96,000	9,427	9,950	10.00%	96,000	9,427	9,950	10.00%
Hatton National Bank PLC	500,000	500,000	534,877	16.75%	-	-	-	-
Sampath Bank Limited	70,000	70,000	73,564	20.20%	70,000	70,000	72,211	12.53%
		<u>1,259,427</u>	<u>1,373,484</u>			<u>759,427</u>	<u>785,883</u>	

Unquoted Debentures, Commercial Papers and Fixed Income Loans - Company

	2007				2006			
	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %	No. of debentures	Cost Rs. '000	Directors' Valuation Rs. '000	Coupon Rate %
Unquoted Debentures								
Singer Sri Lanka PLC	1,805	180,500	180,500	12.00%	1,805	180,500	180,500	12.00%
Tangerine Beach Sri Lanka PLC	-	-	-	-	-	13	13	-
		<u>180,500</u>	<u>180,500</u>			<u>180,513</u>	<u>180,513</u>	
Commercial Papers								
Commercial Leasing PLC	-	3,998	3,998	20.75%	-	-	-	-
Commercial Leasing PLC	-	-	-	-	-	128	128	11.85%
Mercantile Leasing PLC	-	-	-	-	-	1,286	1,286	11.90%
Mercantile Leasing PLC	-	-	-	-	-	1,183	1,183	11.95%
Mercantile Leasing PLC	-	-	-	-	-	823	823	12.00%
Mercantile Leasing PLC	-	-	-	-	-	597	597	12.00%
		<u>3,998</u>	<u>3,998</u>			<u>4,017</u>	<u>4,017</u>	
Commercial Paper Repos								
Waldock Mackenzie Co Limited								
- Guaranteed By Nations Trust Bank PLC	-	440,000	440,000	18.00%	-	-	-	-
		<u>440,000</u>	<u>440,000</u>			<u>-</u>	<u>-</u>	
Fixed Income Loans								
Serendib Land Limited	-	173	173	15.00%	-	2,642	2,642	15.00%
		<u>173</u>	<u>173</u>			<u>2,642</u>	<u>2,642</u>	
Corporate debts - Company		<u>1,884,098</u>				<u>946,599</u>		

Notes to the Financial Statements

2.2 Quoted Shares

	Group				Company			
	2007	Market value	2006	Market value	2007	Market value	2006	Market value
	Number of Shares	Rs. '000	Number of Shares	Rs. '000	Number of Shares	Rs. '000	Number of Shares	Rs. '000
Banks, Finance & Insurance								
Central Finance Company PLC	44,800	8,916	10,000	2,338	44,800	8,916	10,000	2,338
Commercial Bank of Ceylon Limited	325,486	47,847	10,082	1,917	325,486	47,847	10,082	1,917
Commercial Bank of Ceylon Limited - Preference shares	410,000	3,690	410,000	4,100	410,000	3,690	410,000	4,100
Development Finance Corporation of Ceylon	75,000	9,525	-	-	75,000	9,525	-	-
Hatton National Bank PLC	280,000	34,300	-	-	280,000	34,300	-	-
National Development Bank PLC	9,000	1,519	-	-	9,000	1,519	-	-
Nations Trust Bank PLC	625,600	18,611	-	-	625,600	18,611	-	-
Sampath Bank Limited	250,000	30,000	-	-	250,000	30,000	-	-
The Finance Company PLC	-	-	20,000	1,090	-	-	20,000	1,090
		154,408		9,445		154,408		9,445
Chemicals & Pharmaceuticals								
Chemical Industry (Colombo) PLC	8,100	314	-	-	8,100	314	-	-
		314		-		314		-
Construction & Engineering								
Colombo Dockyard Limited	316,800	16,790	-	-	316,800	16,790	-	-
		16,790		-		16,790		-
Diversified Holdings								
Aitken Spence & Company PLC	77,500	31,000	-	-	77,500	31,000	-	-
Hayleys PLC	200,000	21,550	-	-	200,000	21,550	-	-
Hemas Holdings PLC	160,588	15,255	4,988	582	160,588	15,255	4,988	582
John Keells Holdings PLC	526,706	67,023	12	2	526,706	67,023	12	2
		134,828		584		134,828		584
Food & Beverages								
Distilleries Co. of Sri Lanka Limited	268,000	26,934	-	-	268,000	26,934	-	-
		26,934		-		26,934		-
Hotels & Travels								
Aitken Spence Hotel Holdings PLC	10,000	677	10,000	785	10,000	677	10,000	785
Asian Hotels Corporation PLC	22,800	912	25,000	1,275	22,800	912	25,000	1,275
Stafford Hotels PLC	-	-	30,000	330	-	-	30,000	330
		1,589		2,390		1,589		2,390
Land & Property								
Serendib Land Limited	80,768	19,384	80,768	20,194	80,768	19,384	80,768	20,194
		19,384		20,194		19,384		20,194
Manufacturing								
ACL Cables Limited	144,400	13,645	-	-	144,400	13,645	-	-
Chevron Lubricants Lanka PLC	311,400	26,547	-	-	311,400	26,547	-	-
Dankotuwa Porcelain Limited	-	-	125,000	1,250	-	-	125,000	1,250
Tokyo Cement Co. (Lanka) Limited - Non voting shares	1,052,500	19,208	75,000	1,275	1,052,500	19,208	75,000	1,275
		59,400		2,525		59,400		2,525
Power & Energy								
Lanka IOC PLC	803,100	17,266	-	-	803,100	17,266	-	-
		17,266		-		17,266		-
Telecommunications								
Dialog Telekom PLC.	6,858,440	137,170	158,100	4,189	6,684,530	133,692	-	-
Sri Lanka Telecom PLC	1,678,900	52,888	-	-	1,678,900	52,888	-	-
		190,058		4,189		186,580		-
Quoted shares		620,971		39,327		617,493		35,138

Notes to the Financial Statements

2.3 Strategic Investment - Quoted Shares

	Group				Company			
	2007		2006		2007		2006	
	Number of Shares	Cost Rs. '000	Number of Shares	Cost Rs. '000	Number of Shares	Cost Rs. '000	Number of Shares	Cost Rs. '000
Union Assurance PLC	5,625,000	219,729	3,750,000	219,729	5,625,000	219,729	3,750,000	219,729
Total		840,700		259,056		837,222		254,867

2.4 Unit Trusts

	Group				Company			
	2007		2006		2007		2006	
	Units	Market value Rs. '000	Units	Market value Rs. '000	Units	Market value Rs. '000	Units	Market value Rs. '000
Eagle Gilt Edged Fund	2,938,328	33,146	2,710,057	29,513	2,938,328	33,146	2,710,057	29,513
Eagle Growth Fund	3,052,500	76,953	3,052,500	80,952	3,052,500	76,953	3,052,500	80,952
Eagle Income Fund	4,442,817	50,648	4,101,370	44,541	4,442,817	50,648	4,101,370	44,541
Pyramid Unit Trust	500,000	6,215	500,000	6,710	500,000	6,215	500,000	6,710
Unit trusts		166,962		161,716		166,962		161,716

3 Investments - Unit Linked

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Government bonds & treasury bills	111,129	9,334	111,129	9,334
Repurchase agreements	32,556	18,592	32,556	18,592
Quoted shares (Note 3.1)	97,445	20,510	97,445	20,510
	241,130	48,436	241,130	48,436

3.1 Quoted Shares - Unit Linked

	Group				Company			
	2007		2006		2007		2006	
	Number of Shares	Market value Rs. '000	Number of Shares	Market value Rs. '000	Number of Shares	Market value Rs. '000	Number of Shares	Market value Rs. '000
Banks, Finance & Insurance								
Commercial Bank of Ceylon Limited	57,732	8,486	6,700	1,273	57,732	8,486	6,700	1,273
Hatton National Bank PLC	57,300	7,019	9,500	1,480	57,300	7,019	9,500	1,480
Lanka ORIX Leasing PLC	-	-	6,400	659	-	-	6,400	659
Nations Trust Bank PLC	113,400	3,374	38,300	1,082	113,400	3,374	38,300	1,082
Sampath Bank Limited	51,700	6,204	15,400	1,667	51,700	6,204	15,400	1,667
		25,083		6,161		25,083		6,161
Beverages Food & Tobacco								
Distilleries Co. of Sri Lanka Limited	76,300	7,668	18,700	1,693	76,300	7,668	18,700	1,693
		7,668		1,693		7,668		1,693

Notes to the Financial Statements

3.1 Quoted Shares - Unit Linked (Contd.,)

	Group				Company			
	2007	Market value	2006	Market value	2007	Market value	2006	Market value
	Number of Shares	Rs. '000	Number of Shares	Rs. '000	Number of Shares	Rs. '000	Number of Shares	Rs. '000
Construction and Engineering								
Colombo Dockyard Limited	65,200	3,456	-	-	65,200	3,456	-	-
		3,456		-		3,456		-
Diversified Holdings								
Hayleys PLC	28,000	3,017	-	-	28,000	3,017	-	-
Hemas Holdings PLC.	41,300	3,924	9,000	1,051	41,300	3,924	9,000	1,051
John Keells Holdings PLC.	108,103	13,756	16,056	3,131	108,103	13,756	16,056	3,131
		20,697		4,182		20,697		4,182
Manufacturing								
ACL Cables Limited	26,300	2,486	-	-	26,300	2,486	-	-
Tokyo Cement Co. (Lanka) Limited - Non voting shares	146,500	2,674	-	-	146,500	2,674	-	-
		5,160		-		5,160		-
Power and Energy								
Lanka IOC PLC	217,200	4,670	48,500	1,382	217,200	4,670	48,500	1,382
		4,670		1,382		4,670		1,382
Telecommunications								
Dialog Telekom PLC	1,074,260	21,485	211,600	5,607	1,074,260	21,485	211,600	5,607
Sri Lanka Telecom PLC	292,900	9,226	53,500	1,485	292,900	9,226	53,500	1,485
		30,711		7,092		30,711		7,092
Quoted shares		97,445		20,510		97,445		20,510

4 Property, Plant and Equipment

4.1 Group

	Cost as at 01.01.2007	Additions during the year	Revaluation during the year	Disposals during the year	Derecognition	Cost / Valuation as at 31.12.2007
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Freehold land	27,970	-	39,916	10,886	-	57,000
Freehold buildings	7,058	-	-	7,058	-	-
Plant and machinery	29,370	-	-	-	76	29,294
Main frames / mini computers	69,985	-	-	399	-	69,586
Personal computers and other computer equipment	236,858	28,636	-	1,341	26,873	237,280
Computer software	338,581	11,150	-	-	5,589	344,142
Equipment and furniture	139,836	43,235	-	12,335	9,340	161,396
Motor vehicles	70,775	31,968	-	2,978	114	99,651
Total	920,433	114,989	39,916	34,997	41,992	998,349

Notes to the Financial Statements

4.1 Group (Contd.)

	Depreciation as at 01.01.2007 Rs. '000	Charge for the year Rs. '000	Revaluation during the year Rs. '000	Depreciation on disposal Rs. '000	Derecognition Rs. '000	Depreciation as at 31.12.2007 Rs. '000
Freehold buildings	1,455	162	-	1,617	-	-
Plant and machinery	21,747	1,598	-	-	76	23,269
Main frames / mini computers	69,968	17	-	399	-	69,586
Personal computers and other computer equipment	149,850	41,342	-	1,266	26,873	163,053
Computer software	165,639	41,639	-	-	5,589	201,689
Equipment and furniture	99,663	17,068	-	12,071	9,340	95,320
Motor vehicles	25,440	18,478	-	1,803	114	42,001
Total	533,762	120,304	-	17,156	41,992	594,918
Net book value	386,671					403,431

Group property, plant and equipment with a cost of Rs. 343.0 million (2006 - Rs. 428.7 million) have been fully depreciated and continue to be in use by the Group.

4.2 Company

	Cost as at 01.01.2007 Rs. '000	Additions during the year Rs. '000	Revaluation during the year Rs. '000	Disposals during the year Rs. '000	Derecognition Rs. '000	Cost / Valuation as at 31.12.2007 Rs. '000
Freehold land	27,970	-	39,916	10,886	-	57,000
Freehold buildings	7,058	-	-	7,058	-	-
Plant and machinery	29,370	-	-	-	76	29,294
Main frames / mini computers	69,985	-	-	399	-	69,586
Personal computers and other computer equipment	228,995	28,455	-	1,342	23,385	232,723
Computer software	324,071	11,150	-	-	2,545	332,676
Equipment and furniture	132,957	42,830	-	12,317	4,426	159,044
Motor vehicles	70,611	25,358	-	2,978	114	92,877
Total	891,017	107,793	39,916	34,980	30,546	973,200

	Depreciation as at 01.01.2007 Rs. '000	Charge for the year Rs. '000	Revaluation during the year Rs. '000	Depreciation on disposal Rs. '000	Derecognition Rs. '000	Depreciation as at 31.12.2007 Rs. '000
Freehold buildings	1,455	162	-	1,617	-	-
Plant and machinery	21,747	1,598	-	-	76	23,269
Main frames / mini computers	69,968	17	-	399	-	69,586
Personal computers and other computer equipment	143,528	40,374	-	1,266	23,385	159,251
Computer software	151,225	41,543	-	-	2,545	190,223
Equipment and furniture	93,383	16,718	-	12,054	4,426	93,621
Motor vehicles	25,323	17,336	-	1,803	114	40,742
Total	506,629	117,748	-	17,139	30,546	576,692
Net book value	384,388					396,508

Company property, plant and equipment with a cost of Rs. 332.5 million (2006 - Rs. 404.5 million) have been fully depreciated and continue to be in use by the Company.

- 4.3 The land held by the Company was revalued as of 06.12.2007, by Mr. B.L.Ariyaratne - Chartered Valuer approved by IBSL. The result of such valuation was incorporated into the financial statements from its effective date. The carrying amount of revalued land that would have been included in the financial statements had the asset been carried at cost is Rs. 28.0 million. (2006 - 28.0 million)
- 4.4 The property at No.2, Greenlands Avenue, Colombo 5 was transferred to Mr. C. Jayaratne, the former Managing Director of the Company, during the year at its net book value in accordance with his contract of employment. Net book value of the property at the time of transfer was Rs. 16.3 million.

Notes to the Financial Statements

5 Other Fund Assets

	Group & Company					
	Units	2007 Cost Rs. '000	Market value Rs. '000	Units	2006 Cost Rs. '000	Market value Rs. '000
Unit Trusts						
Eagle Income Fund	511,583	4,878	5,832	534,412	5,168	6,074
Eagle Growth Fund	50,000	500	1,243	50,000	500	1,326
Unit trusts		5,378	7,075		5,668	7,400
Government securities		88,699	92,916		49,607	50,276
Fixed deposits at commercial banks		171,352	171,352		228,372	228,372
Cash at bank		1,396	1,396		27,114	27,114
		<u>266,824</u>	<u>272,739</u>		<u>310,761</u>	<u>313,162</u>

6 Policy Loans and Other Loans

		Group		Company	
		2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Policy loans	(Note 6.1)	859,106	680,421	859,106	680,421
Other loans	(Note 6.2)	283,657	231,830	283,657	231,830
		<u>1,142,763</u>	<u>912,251</u>	<u>1,142,763</u>	<u>912,251</u>

6.1 Policy loans

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Balance as at 1st January	680,421	555,920	680,421	555,920
Loans granted during the year	530,613	475,035	530,613	475,035
Repayments during the year	(351,928)	(350,534)	(351,928)	(350,534)
Balance as at 31st December	<u>859,106</u>	<u>680,421</u>	<u>859,106</u>	<u>680,421</u>

6.2 Other loans

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Staff loans	175,973	132,019	175,973	132,019
Field staff loans	107,684	99,811	107,684	99,811
	<u>283,657</u>	<u>231,830</u>	<u>283,657</u>	<u>231,830</u>
Balance as at 1st January	239,487	176,871	239,487	176,871
Loans granted during the year	229,852	237,891	229,852	237,891
Repayments during the year	(176,792)	(175,275)	(176,792)	(175,275)
	<u>292,547</u>	<u>239,487</u>	<u>292,547</u>	<u>239,487</u>
Provision for bad and doubtful debts	(8,890)	(7,657)	(8,890)	(7,657)
Balance as at 31st December	<u>283,657</u>	<u>231,830</u>	<u>283,657</u>	<u>231,830</u>

6.3 The Company has not granted any loans or advances to Directors during the year

Notes to the Financial Statements

7 Investment in Subsidiaries (Unquoted) at cost

Investee	% Holding		Number of shares		Opening carrying value		Closing carrying value		Directors' valuation	
	31.12.07	31.12.06	31.12.07	31.12.06	01.01.07	01.01.06	31.12.07	31.12.06	31.12.07	31.12.06
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Eagle NDB Fund Management Company Ltd.	100	100	5,000,000	5,000,000	50,000	50,000	50,000	50,000	50,000	50,000
Rainbow Trust Management Ltd.	100	100	100,000	100,000	1,000	1,000	1,000	1,000	1,000	1,000
Total			5,100,000	5,100,000	51,000	51,000	51,000	51,000	51,000	51,000

8 Amounts due from Subsidiaries

	Company	
	2007	2006
	Rs. '000	Rs. '000
Eagle NDB Fund Management Company Ltd.	6,259	1,801
Rainbow Trust Management Ltd.	431	2,512
	6,690	4,313

9 Trade Receivables

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Premium receivable from:				
- Policyholders	143,263	117,445	143,263	117,445
- Brokers, Agents and Intermediaries	527,386	441,639	527,386	441,639
Other receivables	4,826	2,136	-	-
Less : Provision for doubtful debts	(1,737)	(3,676)	(1,737)	(3,676)
	673,738	557,544	668,912	555,408

10 Other Assets

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Inventory	3,859	-	3,859	-
Interest receivable	514,967	130,443	514,967	130,443
ACT recoverable	66,397	66,397	66,397	66,397
ESC recoverable	6,349	-	6,089	-
Other recoverables	171,073	117,379	161,266	114,167
	762,645	314,219	752,578	311,007

11 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Call deposits	320,438	333,255	319,600	332,368
Current accounts	76,380	40,255	76,246	37,386
Cash in hand	2,258	2,784	2,258	2,784
	399,076	376,294	398,104	372,538

Notes to the Financial Statements

12 Cash and cash equivalents - Unit Linked

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Call deposits	-	-	-	-
Current accounts	1,767	6,071	1,767	6,071
Cash in hand	-	-	-	-
	<u>1,767</u>	<u>6,071</u>	<u>1,767</u>	<u>6,071</u>

13 Insurance Provision - Long Term

Insurance provision - Long Term Conventional is relating to the long duration contract liabilities included in the Life Insurance Fund, primarily from traditional non-participating Life insurance products. Annually renewable contracts are only for group insurance products. The Non-unit fund of the linked long term business is also included under this provision.

The insurance provision has been established in accordance with the 'Solvency Margin (Long Term Insurance) Rules 2002' made by the IBSL, under section 105 read with section 26 of the Regulation of Insurance Industry Act No. 43 of 2000. The amount of policyholder dividend is determined annually by the Company. The dividend includes life policyholders share of net income that is required to be allocated by the insurance contract or by insurance regulations.

The valuation of the Insurance Provision - Long Term insurance business as at 31.12.2007 was made by the Consultant Actuary Mr. K K Wadhwa. According to the results of the valuation the provision of Rs. 11,406.87 million (2006 Rs. 10,398.9 million) is adequate to cover the liabilities pertaining to the long term insurance business inclusive of the liability in respect of policyholders dividends.

The value of Life Fund Assets as at 31.12.2007 was Rs. 12,487.83 million (2006 - Rs. 11,074.7 million). The Board of Directors decided to transfer Rs. 415.0 million (2006 - Rs. 450.0 million) from the Long Term insurance fund to the shareholders' fund. Subsequent to this transfer, the Long Term insurance fund stands at Rs. 12,072.83 million (2006 - Rs. 10,624.7 million). This figure includes the net claims outstanding of Rs. 46.6 million (2006 - Rs. 180.4 million) as per the requirement of the IBSL regulation which came into effect from 31.12.2005. Further, there was a transfer of Rs. 15.0 million (2006 - Rs. 15.0 million) to Non-unit fund of Unit-linked business from shareholder's fund during the course of the year. The Non-unit fund of linked long term business stands at Rs. 37.23 million (2006 - Rs. 9.3 million). Hence the net surplus transferred to shareholder's fund is Rs. 400 million.

The valuation of the Insurance Provision - Unit-linked non participating business, as at 31.12.2007 was made by the Consultant Actuary, using a cash flow projection method. The Non-unit reserve as at 31.12.2007 was Rs. 15.12 million (2006 - Rs. 1.5 million). The assets and liabilities of the Unit fund are matched at Rs. 242.9 million (2006 - Rs. 54.5 million).

14 Insurance Provision - General

The General insurance provision shown in the Balance Sheet is as follows:

		2007 Rs. '000	2006 Rs. '000
Premium			
Unearned premium	Gross	1,017,413	802,250
	Reinsurance	(396,741)	(358,053)
	Unexpired risk provision	-	-
	Net	<u>620,672</u>	<u>444,197</u>
Deferred acquisition expenses		<u>13,348</u>	<u>13,013</u>
		<u>634,020</u>	<u>457,210</u>
Gross claims reserve			
Claims outstanding		308,679	508,902
Claims incurred but not reported (IBNR)		146,295	156,519
Gross claims reserve		<u>454,974</u>	<u>665,421</u>
Insurance provision		<u>1,088,994</u>	<u>1,122,631</u>
Reconciliation between insurance provision and technical reserve			
Insurance provision		1,088,994	1,122,631
Claims outstanding	Reinsurance recovery	(178,189)	(355,753)
Claims incurred but not reported (IBNR)	Reinsurance recovery	(49,201)	(69,757)
Technical reserve		<u>861,604</u>	<u>697,121</u>

The computation of claims incurred but not reported (IBNR) reserve which includes provisions for internal and external claim handling expenses and a prudential margin in line with internationally accepted benchmarks, and validation of technical reserves for 2007 was done by an independent firm of actuaries.

Notes to the Financial Statements

15 Other Funds

A brief description of each fund is given below.

15.1 Claims Fund - General Insurance

This fund consists of amounts received by Eagle Insurance PLC from Zurich Group Reinsurance on portfolio transfer (on a clean-cut basis). These funds are invested in call deposits to be utilised upon settlement of claims.

15.2 Eagle Insurance - Scholarship Fund

The fund is created to ensure continuity of the payments committed to policyholders' children who have been awarded scholarships under the Company's Life policy scholarship schemes. The Fund invests 100% in Eagle Mutual Funds.

15.3 Agents Superannuation Fund

This is created for the benefit of the Agency Force. The fund accumulates contributions from both the Company and agents, based on a qualifying performance criteria which is a fixed percentage linked to their commissions. The Agents Superannuation Life fund invests 100% in Government Securities and Agents Superannuation General fund invests 100% in Mutual funds.

16 Reinsurance Creditors

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	291,143	125,240	291,143	125,240
Premium net of commission and recoveries on paid claims	482,456	462,878	482,456	462,878
Receipts during the year	39,668	72,296	39,668	72,296
Payments made during the year	(436,298)	(369,271)	(436,298)	(369,271)
Balance as at 31st December	376,969	291,143	376,969	291,143

17 Income Tax Liabilities

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January	5,964	4,221	2,733	2,263
Provision	24,996	15,397	15,823	10,108
Payments	(5,234)	(3,895)	-	-
Over / under provisions and set off against ESC / refunds	(15,074)	(9,759)	(14,601)	(9,638)
Balance as at 31st December	10,652	5,964	3,955	2,733

18 Other Liabilities

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Policyholders' advance payments	199,945	145,871	199,945	145,871
Life claims payable	110,174	268,661	110,174	268,661
Agency commission payable	135,249	147,213	135,249	147,213
Government taxes and levies (Note 18.1)	68,406	68,717	68,042	68,371
Provisions	337,060	297,203	336,402	295,918
Other creditors	34,989	19,212	34,812	16,042
	885,823	946,877	884,624	942,076

Notes to the Financial Statements

18.1 Government taxes and levies

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
VAT payable	55,365	52,210	55,001	51,865
Stamp duty payable	1,703	1,215	1,703	1,215
Withholding tax payable	1,064	888	1,064	887
PAYE tax payable	3,038	11,026	3,038	11,026
IBSL fees and cess payable	4,506	2,089	4,506	2,089
Other tax payable	2,730	1,289	2,730	1,289
	<u>68,406</u>	<u>68,717</u>	<u>68,042</u>	<u>68,371</u>

19 Retirement Benefits

19.1 Provision is made by way of two insurance policies purchased from Eagle Insurance PLC, which covers 638 (2006 - 531) employees attached to the Company. The liability is recognised based on the actuarial valuation carried out annually and the last valuation was carried out as at 31st December 2007 using the Projected Unit Credit Method (2006 - Projected Unit Credit Method). The actuarial present value of promised retirement / withdrawal benefits as at the latest valuation was Rs. 140.2 million.

The value of the insurance policies (equal to the fair value of the plan's assets) as at 31st December 2007 was Rs. 142.1 million (2006 - Rs. 118.1 million). The accrued benefits covered by the policy amounts to Rs. 84.3 million (2006 - Rs. 69.5 million).

There are no unfunded liabilities and all liabilities are covered by the insurance policies.

Amount recognised as expense in current year

	Rs. Million
Future service component	18.5
Current service component	1.3
	<u>19.8</u>

Principal actuarial assumptions used

	% per annum
(a) Interest rate	6.5
(b) Salary increase	12.5
(c) Incidence of withdrawals	5

19.2 The staff of Eagle NDB Fund Management Company Ltd. and Rainbow Trust Management Ltd. have contracts of employment with Eagle Insurance PLC. The gratuity premium in respect of such staff is borne by the respective companies.

19.3 Contributions made to the Provident Fund during the year were as follows:

	Company Rs. '000	Contributions Employees Rs. '000	Total Rs. '000
Permanent employees	30,095	24,971	55,066
Contractual employees	44	29	73
Total	<u>30,139</u>	<u>25,000</u>	<u>55,139</u>

19.4 Contributions made to the Trust Fund during the year were as follows:

	Contributions Rs. '000
Permanent employees	6,019
Contractual employees	11
Total	<u>6,030</u>

Notes to the Financial Statements

20 Stated Capital

	Company			
	2007 No. of shares	2007 Rs. '000	2006 No. of shares	2006 Rs. '000
Fully paid ordinary shares	30,000,000	300,000	30,000,000	300,000

The Authorised capital and par value concept in relation to share capital were abolished by the Companies Act No 07 of 2007, therefore comparative figures have been restated accordingly. The total amount received by the company or due and payable to the company in respect of the issue and calls of the shares are referred to as Stated Capital.

21 Capital Reserves

21.1 Revaluation Reserve

Revaluation reserve consists of the net surplus on the revaluation of property, plant and equipment as described in note 4.3 on page 125. The unrealised surplus cannot be directly distributed to Shareholders.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Balance as at 1st January	-	-	-	-
Revaluation surplus arising during the year	39,916	-	39,916	-
Balance as at 31st December	39,916	-	39,916	-

22 Revenue Reserves

22.1 Special Reserve Fund

A Special reserve fund of Rs. 200 million was established in 2004 with funds appropriated from general reserves, in order to facilitate the internal risk retention capacity enhancement and the provision of a higher level of security to the Life and General policyholders. This reserve has been further strengthened by appropriation from profits, being the surplus derived from additional retention and the investment income of the fund assets.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
At beginning of the year	279,820	268,036	279,820	268,036
Appropriation from profits	35,690	11,784	35,690	11,784
At end of the year	315,510	279,820	315,510	279,820

22.2 Resilience Reserve

A Resilience reserve of Rs. 65 million was established in 2004 with funds appropriated from profits in order to strengthen the capability of the Company to meet temporary variations in asset values of Life business. This reserve has been further strengthened by an appropriation from profits.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
At beginning of the year	161,500	135,000	161,500	135,000
Appropriation from profits	75,500	26,500	75,500	26,500
At end of the year	237,000	161,500	237,000	161,500

Notes to the Financial Statements

22.3 General Reserve

General reserve represents amounts set aside by the Directors for future expansion and to meet any contingencies.

This forms a part of the Company's distributable reserves.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
At beginning of the year	720,000	541,000	700,000	540,750
Appropriation from profits	235,000	179,000	225,000	159,250
At end of the year	955,000	720,000	925,000	700,000

22.4 Retained Earnings

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Eagle Insurance PLC	164,500	274,149	167,602	274,149
Eagle NDB Fund Management Company Ltd.	9,933	7,025	-	-
Rainbow Trust Management Ltd.	3,373	741	-	-
	177,806	281,915	167,602	274,149
Revenue Reserves	1,685,316	1,443,235	1,645,112	1,415,469

23 Gross Written Premium

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
23.1 General insurance				
Accident	504,162	362,594	504,162	362,594
Fire	483,731	469,694	483,731	469,694
Marine	154,950	154,108	154,950	154,108
Motor	659,655	453,775	659,655	453,775
Terrorism	64,644	28,249	64,644	28,249
	1,867,142	1,468,420	1,867,142	1,468,420
23.2 Long Term insurance				
Individual policies - Long Term	3,230,368	2,848,611	3,230,368	2,848,611
Individual policies - Unit linked	278,141	68,069	278,141	68,069
Corporate policies	279,594	233,362	279,594	233,362
	3,788,103	3,150,042	3,788,103	3,150,042
	5,655,245	4,618,462	5,655,245	4,618,462

23 (a) Annual Premium Equivalent

	Long Term insurance	
	2007 Rs. '000	2006 Rs. '000
Individual policies - Long Term	1,357,275	1,172,253
Individual policies - Unit linked	242,532	54,954
Corporate policies	35,837	21,698
	1,635,644	1,248,905

Notes to the Financial Statements

24 Net Claims and Benefits

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
24.1 General insurance				
Gross Claims				
Accident	(296,643)	(189,499)	(296,643)	(189,499)
Fire	27,331	(232,016)	27,331	(232,016)
Marine	(31,083)	(88,689)	(31,083)	(88,689)
Motor	(373,999)	(199,481)	(373,999)	(199,481)
Terrorism	-	-	-	-
	(674,394)	(709,685)	(674,394)	(709,685)
Reinsurance recoveries	92,725	278,856	92,725	278,856
General insurance net claims	(581,669)	(430,829)	(581,669)	(430,829)
24.2 Long Term insurance				
Net claims and benefits				
Gross claims - death, disability and hospitalisation	(123,440)	(190,683)	(123,440)	(190,683)
Reinsurance recoveries	40,832	73,218	40,832	73,218
Net claims	(82,608)	(117,465)	(82,608)	(117,465)
Gratuity payments	(224,636)	(226,771)	(224,636)	(226,771)
Surrenders	(399,647)	(236,766)	(399,647)	(236,766)
Policy maturities	(288,271)	(380,792)	(288,271)	(380,792)
Annuities	(51,799)	(21,003)	(51,799)	(21,003)
Interim payments on anticipated endowment plans	(58,752)	(75,439)	(58,752)	(75,439)
Long Term insurance net claims and benefits	(1,105,713)	(1,058,236)	(1,105,713)	(1,058,236)
Net claims and benefits	(1,687,382)	(1,489,065)	(1,687,382)	(1,489,065)

25 Investment Income

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Interest income on government bonds & treasury bills	943,730	672,837	936,445	669,943
Interest income on repurchase agreements	172,216	235,222	166,152	231,082
Interest income on corporate debts	228,599	81,942	228,599	81,942
Interest income on cash and cash equivalents	14,989	10,332	14,783	10,250
Dividend income - quoted shares and units	28,706	23,428	28,619	23,368
Dividend income - unquoted shares	-	-	2,792	-
Net realised capital gain / (loss)	2,595	(12,634)	2,595	(12,634)
Net unrealised capital gain / (loss)	(111,612)	9,889	(110,569)	8,308
	1,279,223	1,021,016	1,269,416	1,012,259

Notes to the Financial Statements

26 Other Income

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Interest on policy loans	98,305	72,153	98,305	72,153
Gain on disposal of property, plant and equipment	1,117	1,833	1,117	1,793
Other technical income	70,884	123,880	64,896	119,650
Other non technical income	19,673	16,575	19,673	16,575
	<u>189,979</u>	<u>214,441</u>	<u>183,991</u>	<u>210,171</u>

27 Operating and Administrative Expenses

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Staff expenses (Note 27.1)	(511,805)	(433,032)	(489,491)	(411,445)
Administration and establishment expenses	(428,282)	(364,857)	(409,266)	(350,631)
Selling expenses	(321,662)	(249,658)	(321,534)	(249,631)
Depreciation	(120,304)	(89,435)	(117,748)	(87,816)
Other expenses (Note 27.2)	(28,014)	(30,321)	(59,463)	(57,588)
	<u>(1,410,067)</u>	<u>(1,167,303)</u>	<u>(1,397,502)</u>	<u>(1,157,111)</u>

27.1 Staff Expenses

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Salaries and bonus	(306,175)	(254,396)	(293,274)	(241,030)
Contribution to defined contribution plans	(36,169)	(30,863)	(34,650)	(29,218)
Staff welfare	(44,812)	(37,101)	(42,676)	(34,819)
Staff training	(28,287)	(34,149)	(26,979)	(33,126)
Others	(96,362)	(76,523)	(91,912)	(73,252)
	<u>(511,805)</u>	<u>(433,032)</u>	<u>(489,491)</u>	<u>(411,445)</u>

27.2 Other Expenses

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Decrease in provision for doubtful debts	699	944	699	854
Other technical expenses	(10,803)	(9,331)	(10,803)	(9,331)
Other non technical expenses	(17,910)	(21,934)	(49,359)	(49,111)
	<u>(28,014)</u>	<u>(30,321)</u>	<u>(59,463)</u>	<u>(57,588)</u>

Notes to the Financial Statements

28 Profit before taxation

Profit before taxation for the year is stated after charging the following expenses:

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Directors' remuneration	15,366	14,179	15,366	14,179
Directors' fees	300	660	300	600
Defined contribution plan cost - EPF and ETF	36,169	30,863	34,650	29,218
Legal fees	3,594	4,460	3,478	4,460
Operating lease payments	66,030	67,260	66,030	67,260
Depreciation	120,304	89,435	117,748	87,816
Donations	4,173	3,625	4,173	3,625
Premium on gratuity insurance policies	19,827	16,074	18,652	15,140

29 Taxation

29.1 Taxation is made up as follows :

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Current income tax				
Current tax charge	24,996	15,495	15,823	10,108
(Over) / under provisions of previous years	298	-	-	-
ESC of previous years set-off against income tax	(6,569)	-	(6,569)	-
10% WHT on inter-company dividends	310	-	-	-
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax expense reported	19,035	15,495	9,254	10,108

Social responsibility levy has been charged at the rate of 1% (2006 - 0.25%) on the income tax liability and on the dividend tax which is included in the income tax expense.

29.2 Numerical reconciliation between tax charge and the product of accounting profit multiplied by the applicable tax rate.

	Group		Company	
	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Accounting profit	548,908	538,963	523,897	520,051
Applicable tax rate	35%	35%	35%	35%
Tax at applicable rate	191,513	188,428	183,364	182,018
Add / (less) tax effect of the following items:				
Expenses not allowable for tax purposes	33,138	22,650	32,443	22,242
Withholding tax on government securities	42,879	35,301	42,879	35,040
Realised / unrealised gains and losses not subject to tax	34,671	(3,364)	34,306	(2,811)
Brought forward tax losses set-off against taxable income	(17,793)	(2,327)	(17,667)	(1,911)
Dividend income taxed at source	(7,968)	(5,548)	(8,278)	(5,548)
Insurance related items not subject to tax - Long-term insurance*	(234,238)	(225,573)	(234,238)	(225,573)
Economic Service Charge / Income tax set off against ESC paid	(6,569)	6,651	(6,569)	6,651
Income tax set off against notional tax	(17,143)	(781)	(17,143)	-
Under provision of income tax in previous year	298	58	-	-
Social Responsibility Levy	247	-	157	-
Tax charge for the year	19,035	15,495	9,254	10,108

* Taxation on Long-term insurance business is computed on investment income less administrative and commission expenses, which is known as the I - E basis.

Notes to the Financial Statements

29.3 Eagle Insurance PLC is liable for income tax at 35% (2006 - 35%) on the taxable income.

29.4 Eagle NDB Fund Management Company Ltd. is liable for income tax at 35% (2006 - 35%).

29.5 Rainbow Trust Management Ltd. is liable for income tax at 15% (2006 - 15%).

29.6 The full benefit of capital allowances arising in terms of Section 25 of the Inland Revenue Act No. 10 of 2006 has been taken into account in determining tax charge / loss for the year.

29.7 Deferred income tax

No deferred tax asset has been recognised in the financial statements in respect of brought forward tax losses of Life business as the company is of the view that it is not prudent to recognise such asset due to the proposed changes to tax legislation of insurance companies.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Tax losses carried forward				
Tax losses brought forward	1,022,327	1,029,210	1,021,484	1,026,943
Tax losses arising during the year	-	-	-	-
Utilisation of tax losses	(51,319)	(6,883)	(50,476)	(5,459)
	<u>971,008</u>	<u>1,022,327</u>	<u>971,008</u>	<u>1,021,484</u>

Utilisation of tax losses in the current year has resulted in tax savings of Rs. 17.8 mn (2006 - Rs. 2.3 mn), inclusive of the deferred tax benefit on tax losses. There are no tax losses arising during the year (2006 - Nil).

Deferred tax asset / (liability) arising from other temporary differences, which is quantified below has not been recognised as the amount is not significant.

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Deferred tax liabilities	(1,016)	(550)	(1,217)	(447)
	<u>(1,016)</u>	<u>(550)</u>	<u>(1,217)</u>	<u>(447)</u>

Deferred tax assets / liabilities have been computed taking into consideration the tax rate effective from 1 January 2007. The deferred tax effect on undistributed reserves of subsidiaries has not been accounted for since the parent can control the timing of the reversal of these temporary differences.

30 Dividend

	Group		Company	
	2007 Rs. '000	2006 Rs. '000	2007 Rs. '000	2006 Rs. '000
Final dividend paid for previous year	(210,000)	(172,500)	(210,000)	(172,500)
Interim dividend paid	(75,000)	(75,000)	(75,000)	(75,000)
	<u>(285,000)</u>	<u>(247,500)</u>	<u>(285,000)</u>	<u>(247,500)</u>

Dividend distributed out of taxable profits is subject to withholding tax of 10% to be deducted at source from the shareholders. To the extent that dividends received by the company forms part of the dividend declared, this will not be subject to the 10% withholding tax deduction.

Notes to the Financial Statements

31 Basic Earnings per Share

Basic earnings per share is calculated by dividing the net profit after tax for the year by the weighted average number of ordinary shares in issue as at the year end.

		Group		Company	
		2007	2006	2007	2006
Net profit for the year	(Rs. '000)	527,081	523,468	514,643	509,943
Number of ordinary shares	('000)	30,000	30,000	30,000	30,000
Basic earnings per share	(Rs.)	17.57	17.45	17.15	17.00

32 Dividend per Share

Dividend per share is calculated by dividing total dividends by the number of ordinary shares in issue as at the year end.

		Group		Company	
		2007	2006	2007	2006
Number of ordinary shares	('000)	30,000	30,000	30,000	30,000
Dividend per share					
Final dividend paid for previous year	(Rs.)	7.00	5.75	7.00	5.75
Interim dividend paid	(Rs.)	2.50	2.50	2.50	2.50
		9.50	8.25	9.50	8.25

33 Related Party Disclosures

Details of significant related party disclosures are as follows:

33.1 Transactions with the parent and related entities

Nature of transaction	Name of the Company & Relationship							
	Eagle NDB Fund Management Co. Ltd		Rainbow Trust Management Ltd.		National Development Bank PLC		Bank of Ceylon	
	Subsidiary		Subsidiary		Significant Investor		Investor	
	2007	2006	2007	2006	2007	2006	2007	2006
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Management Fees Paid	31,462	27,268	-	-	-	-	-	-
Franchise Fee Paid	-	-	-	-	10,767	3,817	-	-
Investment Income Received	-	-	-	-	90,800	7,100	-	-
Allocation of overheads	37,113	32,581	2,769	2,907	-	-	-	-
Investments in Government Securities and fixed deposits	-	-	-	-	643,600	670,400	-	-
Insurance premium Received	-	-	-	-	54,365	46,002	-	-
Claims incurred	-	-	-	-	20,610	18,171	-	-
Rent paid	-	-	-	-	3,002	15,400	-	-
Collecting commission and expenses paid	-	-	-	-	-	-	4,285	3,500

- There were no transactions with Aviva NDB Finance Lanka (Private) Ltd, Aviva International Holdings Ltd. the parent and ultimate parent respectively. There have been no transactions with Capital Development & Investment Company who is the minority shareholder of Aviva NDB Finance Lanka (Private) Ltd. during the year.
- Eagle NDB Fund Management Co. Ltd. paid trust management fees of Rs. 331,000 (2006-Rs. 263,000) to Rainbow Trust Management Ltd.
- National Development Bank paid management fees of Rs. 1,460,000 (2006 - Rs. 1,592,000) to Eagle NDB Fund Management Co. Ltd.
- Expenses amounting to Rs. 350,000 (2006-Rs. 351,000) was allocated from Eagle NDB Fund Management Co. Ltd. to Rainbow Trust Management Ltd.

Notes to the Financial Statements

33.2 Transactions with Key Management Personnel of the Company or Parent and their close family members

The key management personnel of the Company are the members of its Board of Directors and those of its Parent and Ultimate Parent.

a) Key Management Personnel Compensation

	2007 Rs. '000	2006 Rs. '000
Directors Emoluments	13,884	12,707
Short-term employee benefits	313	181
Other long term benefits	-	-
Termination benefits	-	-
Premiums paid for Directors and Officers Liability policy *	1,460	1,565
Directors' fees	300	660
	<u>15,957</u>	<u>15,113</u>

* The Insurance Policy covers past and present Directors and Officers of the Company and its subsidiaries.

b) No loans have been granted to Key Management personnel, during the year.

c) Other Transactions

Business transactions of Key Management Personnel.

	2007 Rs. '000	2006 Rs. '000
Premium paid on insurance policies taken by directors in their individual capacity	532	563
Claims paid	-	-
	<u>532</u>	<u>563</u>

There have been no transactions with close family members of Key Management Personnel and shareholders who have either control, significant influence or joint control over the Company.

33.3 Transactions with other related parties

Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close family members, or shareholders who have either control, significant influences or joint control over the entity .

a) Transactions by Key Management Personnel with related companies.

Company	Relationship	Details of Financial Dealings
Eagle NDB Fund Management Company Ltd.	Fully owned Subsidiary of Eagle Insurance PLC	Transactions to the value of Rs. 644,693.67 (2006 - Rs.653,772.08)
Rainbow Trust Management Ltd.	Fully owned Subsidiary of Eagle Insurance PLC	No transactions
National Development Bank PLC (NDB)	NDB has an indirect shareholding of 27.41% and a direct shareholdings of 5% in Eagle Insurance PLC	No transactions
Aviva NDB Finance Lanka (Private) Ltd.	Immediate holding Company of Eagle Insurance PLC	No transactions
Bank of Ceylon	Investor	No transactions
Capital Development & Investment Company PLC	Minority Shareholder of Aviva NDB Finance Lanka (Private) Ltd.	No transactions

b) Transactions by Key Management Personnel with Other Companies

(Directors of the Company who are also Directors of the following entities which have insurance policies from the Company at normal commercial terms)

Company	Details of Financial Dealings
Chemanex Ltd.	Life Insurance business to the value of Rs. 157,608 (2006 - nil) and General insurance business to the value of Rs. 3,807,000 (2006 - Rs. 2,664,000) and the payment of claims Rs. 1,729,000 (2006 - 1,785,000)
N Chandrarathne Decorators (Pvt) Ltd.	General insurance business of Rs. 20,000 (2006 - Rs. 55,000) and claims paid Rs. 14,000 (2006 - Rs. 2,000)

Notes to the Financial Statements

Company	Details of Financial Dealings
Cisco Speciality Packaging Ltd.	General insurance business of Rs. 83,000 (2006 - Rs. 115,000) and claims paid Rs. 56,000 (2006 - Rs. 143,000).
Japan Lanka Industrial Development Centre	General insurance business of Rs. 3,000 (2006 - Rs. 3,000).
Aureos Lanka Advisers (Private) Ltd.	Life insurance business to the value of Rs. 785,553 (2006 - Rs. 712,100) and no claims during 2007 (2006 - Rs. 765,000).
Maldives Finance Leasing Co. Ltd.	General insurance business of Rs. 368,000 (2006 - Rs. 364,000) and claims paid Rs. 86,000 (2006 - nil).
Development Holdings (Private) Ltd.	General insurance business of Rs. 3,786,000 (2006 - Rs. 4,753,000) & claims paid Rs. 55,000 (2006 - nil).
D P Lanka (Pvt) Ltd.	General insurance business of Rs. 17,000 (2006 - nil).
Rose Educational Academy (Private) Ltd.	General insurance business of Rs. 16,000 (2006 - nil).
Aviva Global Services Lanka (Pvt) Ltd.	General insurance business of Rs. 20,000 (2006 - nil).

33.4 Transactions with post employment benefit plans of the Company and its related parties.

	2007 Rs. '000	2006 Rs. '000
Contributions made by the Company to the provident fund in respect of Key Management Personnel compensation	974	1,076
Contributions made by the Company to the Trust Fund in respect of Key Management Personnel compensation	195	215
	<u>1,169</u>	<u>1,291</u>

34 Capital Commitments

As at 31st December 2007, capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements is as follows:

	2007 Rs. '000	2006 Rs. '000
Approved and contracted for	4,518	8,100
Approved but not contracted for	6,454	-
	<u>10,972</u>	<u>8,100</u>

35 Outstanding Litigation

In the opinion of the Directors and the Company's lawyers, pending litigation against the company will not have a material impact on the reported financial results or future operations of the Company.

36 Events after the Balance Sheet date

The Board of Directors of the Company has recommended a declaration of a final dividend of Rs. 3/- per share for the financial year ended 31st December 2007, subject to approval by the shareholders.

There have been no other events subsequent to the Balance Sheet date that would have any material effect on the Company or the Group, which would require adjustment or disclosure in the Financial Statements.

37 Shareholders' Interest in Long Term Insurance Provision

The value of future profits on existing Long Term insurance business constitutes an asset and has not been accounted for.

38 Ultimate Holding Company

Aviva International Holdings Ltd. is the ultimate holding company of Eagle Insurance PLC with a share holding of 51%.

Quarterly Analysis 2007

Group Statement of Income

	1st quarter Jan - Mar 07 Rs. '000	2nd quarter Apr - Jun 07 Rs. '000	3rd quarter Jul - Sep 07 Rs. '000	4th quarter Oct - Dec 07 Rs. '000	Total Jan - Dec 07 Rs. '000
Revenue	1,352,325	1,322,055	1,444,144	1,756,318	5,874,842
Gross written premium	1,327,336	1,221,536	1,267,877	1,838,496	5,655,245
Reinsurance premium	(271,869)	(267,246)	(209,186)	(343,818)	(1,092,119)
Net written premium	1,055,467	954,290	1,058,691	1,494,678	4,563,126
(Increase) / decrease in net unearned premium	(37,894)	20,486	(5,070)	(153,997)	(176,475)
Net earned premium	1,017,573	974,776	1,053,621	1,340,681	4,386,651
Benefits, losses and expenses					
Net claims and benefits	(365,176)	(427,404)	(466,502)	(428,300)	(1,687,382)
Commission (net of reinsurance commission)	(113,160)	(113,145)	(138,243)	(68,039)	(432,587)
Deferred commission	11	(2,820)	10,369	(7,895)	(335)
Increase in Long Term insurance fund	(530,453)	(416,069)	(518,598)	(333,235)	(1,798,355)
	8,795	15,338	(59,353)	503,212	467,992
Other revenue					
Asset management fees and related income	4,285	5,362	4,927	4,415	18,989
Investment income	295,361	276,447	337,158	370,257	1,279,223
Other income	35,105	65,471	48,438	40,965	189,979
Expenses					
Operating and administrative expenses	(305,234)	(305,392)	(308,125)	(491,316)	(1,410,067)
Profit before taxation	38,312	57,226	23,045	427,533	546,116
Income tax expenses	(6,510)	(6,873)	(7,143)	1,491	(19,035)
Net profit for the period	31,802	50,353	15,902	429,024	527,081

Company Statement of Income

	1st quarter Jan - Mar 07 Rs. '000	2nd quarter Apr - Jun 07 Rs. '000	3rd quarter Jul - Sep 07 Rs. '000	4th quarter Oct - Dec 07 Rs. '000	Total Jan - Dec 07 Rs. '000
Revenue	1,344,769	1,313,095	1,435,229	1,746,965	5,840,058
Gross written premium	1,327,336	1,221,536	1,267,877	1,838,496	5,655,245
Reinsurance premium	(271,869)	(267,246)	(209,186)	(343,818)	(1,092,119)
Net written premium	1,055,467	954,290	1,058,691	1,494,678	4,563,126
(Increase) / decrease in net unearned premium	(37,894)	20,486	(5,070)	(153,997)	(176,475)
Net earned premium	1,017,573	974,776	1,053,621	1,340,681	4,386,651
Benefits, losses and expenses					
Net claims and benefits	(365,176)	(427,404)	(466,502)	(428,300)	(1,687,382)
Commission (net of reinsurance commission)	(113,160)	(113,145)	(138,243)	(68,039)	(432,587)
Deferred commission	11	(2,820)	10,369	(7,895)	(335)
Increase in Long Term insurance fund	(530,453)	(416,069)	(518,598)	(333,235)	(1,798,355)
	8,795	15,338	(59,353)	503,212	467,992
Other revenue					
Investment income	292,968	273,556	334,083	368,809	1,269,416
Other income	34,228	64,763	47,525	37,475	183,991
Expenses					
Operating and administrative expenses	(304,011)	(304,605)	(305,983)	(482,903)	(1,397,502)
Profit before taxation	31,980	49,052	16,272	426,593	523,897
Income tax expenses	(5,252)	(2,731)	(4,544)	3,273	(9,254)
Net profit for the period	26,728	46,321	11,728	429,866	514,643

Quarterly Analysis 2006

Group Statement of Income

	1st quarter Jan - Mar 06 Rs. '000	2nd quarter Apr - Jun 06 Rs. '000	3rd quarter Jul - Sep 06 Rs. '000	4th quarter Oct - Dec 06 Rs. '000	Total Jan - Dec 06 Rs. '000
Revenue	<u>1,089,339</u>	<u>1,112,185</u>	<u>1,107,156</u>	<u>1,504,746</u>	<u>4,813,426</u>
Gross written premium	1,055,484	1,029,019	1,006,781	1,527,178	4,618,462
Reinsurance premium	(222,157)	(197,979)	(195,171)	(317,319)	(932,626)
Net written premium	833,327	831,040	811,610	1,209,859	3,685,836
(Increase) / decrease in net unearned premium	(16,089)	4,590	10,041	(122,486)	(123,944)
Net earned premium	817,238	835,630	821,651	1,087,373	3,561,892
Benefits, losses and expenses					
Net claims and benefits	(310,538)	(277,243)	(455,549)	(445,735)	(1,489,065)
Commission (net of reinsurance commission)	(76,640)	(91,637)	(80,237)	(105,386)	(353,900)
Deferred commission	844	3,940	5,706	(4,821)	5,669
Increase in Long Term insurance fund	(423,391)	(451,410)	(308,729)	(86,334)	(1,269,864)
	7,513	19,280	(17,158)	445,097	454,732
Other revenue					
Asset management fees and related income	3,886	4,026	3,851	4,314	16,077
Investment income	237,884	216,813	258,287	308,032	1,021,016
Other income	30,331	55,716	23,367	105,027	214,441
Expenses					
Operating and administrative expenses	(240,082)	(275,908)	(256,210)	(395,103)	(1,167,303)
Profit before taxation	<u>39,532</u>	<u>19,927</u>	<u>12,137</u>	<u>467,367</u>	<u>538,963</u>
Income tax expenses	(3,159)	(3,321)	(2,885)	(6,130)	(15,495)
Net profit for the period	<u>36,373</u>	<u>16,606</u>	<u>9,252</u>	<u>461,237</u>	<u>523,468</u>

Company Statement of Income

	1st quarter Jan - Mar 06 Rs. '000	2nd quarter Apr - Jun 06 Rs. '000	3rd quarter Jul - Sep 06 Rs. '000	4th quarter Oct - Dec 06 Rs. '000	Total Jan - Dec 06 Rs. '000
Revenue	<u>1,082,557</u>	<u>1,104,505</u>	<u>1,100,369</u>	<u>1,496,891</u>	<u>4,784,322</u>
Gross written premium	1,055,484	1,029,019	1,006,781	1,527,178	4,618,462
Reinsurance premium	(222,157)	(197,979)	(195,171)	(317,319)	(932,626)
Net written premium	833,327	831,040	811,610	1,209,859	3,685,836
(Increase) / decrease in net unearned premium	(16,089)	4,590	10,041	(122,486)	(123,944)
Net earned premium	817,238	835,630	821,651	1,087,373	3,561,892
Benefits, losses and expenses					
Net claims and benefits	(310,538)	(277,243)	(455,549)	(445,735)	(1,489,065)
Commission (net of reinsurance commission)	(76,640)	(91,637)	(80,237)	(105,386)	(353,900)
Deferred commission	844	3,940	5,706	(4,821)	5,669
Increase in Long Term insurance fund	(423,391)	(451,410)	(308,729)	(86,334)	(1,269,864)
	7,513	19,280	(17,158)	445,097	454,732
Other revenue					
Investment income	235,825	215,081	256,095	305,258	1,012,259
Other income	29,494	53,794	22,623	104,260	210,171
Expenses					
Operating and administrative expenses	(237,735)	(273,754)	(252,227)	(393,395)	(1,157,111)
Profit before taxation	<u>35,097</u>	<u>14,401</u>	<u>9,333</u>	<u>461,220</u>	<u>520,051</u>
Income tax expenses	(2,344)	(2,507)	(2,091)	(3,166)	(10,108)
Net profit for the period	<u>32,753</u>	<u>11,894</u>	<u>7,242</u>	<u>458,054</u>	<u>509,943</u>

Decade at a Glance

Statement of Income

(Values are to the nearest rupees thousand)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
General Insurance										
Gross written premium	1,867,142	1,468,420	1,210,936	1,058,024	1,072,666	909,884	730,511	686,113	666,823	598,512
Net earned premium	813,334	589,299	465,779	404,482	449,357	338,869	317,073	289,883	234,016	188,639
Investment income and other income	230,996	222,713	184,125	240,162	129,242	148,052	117,052	76,585	49,076	43,676
Net claims	(581,669)	(430,829)	(252,243)	(312,811)	(261,756)	(189,128)	(151,554)	(139,089)	(126,265)	(84,718)
Reinsurance commission net of acquisition expenses	38,223	27,299	42,301	36,833	120,253	72,432	15,821	28,495	22,937	10,318
Operating and administrative expenses	(376,987)	(323,431)	(304,952)	(277,692)	(324,763)	(248,104)	(219,713)	(173,928)	(139,613)	(106,269)
Special Tsunami relief expenses	-	-	-	(89,000)	-	-	-	-	-	-
Expenditure on restructure and intangible items	-	-	-	-	-	-	-	(12,916)	(63,363)	-
Finance costs	-	-	-	(3,886)	(23,446)	(53,901)	(35,523)	(18,034)	-	-
Profit / (loss) before taxation	123,897	85,051	135,010	(1,912)	88,887	68,220	43,156	50,996	(23,212)	51,646
Long Term Insurance										
Annual Premium equivalent	1,635,644	1,248,905	1,009,258	783,197	735,713	662,032	571,585	500,814	441,835	444,876
Gross written premium	3,788,103	3,150,042	2,832,541	2,500,131	2,169,842	1,827,208	1,677,344	1,473,964	1,141,265	1,007,790
Net written premium	3,573,317	2,972,593	2,680,092	2,368,051	2,052,715	1,725,379	1,597,206	1,409,948	1,089,914	964,133
Investment income and other income	1,222,411	999,717	920,132	690,128	689,580	716,614	654,091	442,844	329,225	242,056
Net claims and benefits	(1,105,713)	(1,058,236)	(917,336)	(564,232)	(780,660)	(463,224)	(408,472)	(273,451)	(292,508)	(236,874)
Commission (net of reinsurance commission)	(471,145)	(375,530)	(349,501)	(321,321)	(274,511)	(226,570)	(193,368)	(179,217)	(145,526)	(140,821)
Increase in Long Term insurance fund	(1,798,355)	(1,269,864)	(1,252,803)	(1,372,545)	(924,921)	(1,035,241)	(1,001,129)	(882,505)	(537,525)	(465,502)
Operating and administrative expenses	(1,020,515)	(833,680)	(705,584)	(550,081)	(547,203)	(524,054)	(503,123)	(408,764)	(318,479)	(288,921)
Surplus transfer to shareholders' fund	400,000	435,000	375,000	250,000	215,000	192,904	145,205	108,855	125,101	74,071
Total business (Group)										
Gross written premium	5,655,245	4,618,462	4,043,477	3,558,155	3,242,508	2,737,092	2,407,855	2,160,077	1,808,088	1,606,302
Revenue	5,874,842	4,813,426	4,276,524	3,728,323	3,347,232	2,950,453	2,711,696	2,242,911	1,722,749	1,456,944
Net earned premium	4,386,651	3,561,892	3,145,871	2,772,533	2,502,072	2,064,248	1,914,279	1,699,831	1,323,930	1,152,772
Benefits, losses and expenses	(3,918,659)	(3,107,160)	(2,729,582)	(2,534,076)	(2,121,595)	(1,841,731)	(1,738,702)	(1,445,767)	(1,078,887)	(917,596)
Other revenue	1,488,191	1,251,534	1,130,653	955,790	845,160	886,205	797,417	543,080	398,819	304,172
Operating and administrative expenses	(1,410,067)	(1,167,303)	(1,018,972)	(838,152)	(883,779)	(785,185)	(739,959)	(601,076)	(491,653)	(429,441)
Special Tsunami relief expenses	-	-	-	(89,000)	-	-	-	-	-	-
Expenditure on restructure and intangible items	-	-	-	-	-	-	-	(12,916)	(63,363)	-
Finance costs	-	-	-	(3,886)	(23,446)	(53,901)	(35,523)	(18,034)	-	-
Profit before taxation	546,116	538,963	527,970	263,209	318,412	269,636	197,512	165,118	88,846	109,907
Income tax expenses	(19,035)	(15,495)	(12,593)	(9,545)	-	(183)	(206)	(239)	(172)	(124)
Profit after taxation	527,081	523,468	515,377	253,664	318,412	269,453	197,306	164,879	88,674	109,783
Minority interest	-	-	-	-	-	-	-	-	6,676	7,808
Net profit for the year	527,081	523,468	515,377	253,664	318,412	269,453	197,306	164,879	95,350	117,591

Decade at a Glance

Balance Sheet

(Values are to the nearest rupees thousand)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Group										
Assets										
Investments	12,738,944	11,467,119	9,970,620	8,646,435	7,034,788	6,217,796	4,917,869	3,916,167	2,997,160	2,135,934
Investments - Unit linked	241,130	48,436	-	-	-	-	-	-	-	-
Property, plant and equipment	403,431	386,671	296,332	244,336	204,687	211,304	255,785	209,060	119,457	103,025
Other assets	3,583,307	3,028,835	2,391,279	2,983,017	2,397,225	1,576,405	1,418,273	1,128,671	1,021,278	1,137,577
Total assets	16,966,812	14,931,061	12,658,231	11,873,788	9,636,700	8,005,505	6,591,927	5,253,898	4,137,895	3,376,536
Equity and liabilities										
Stated capital	300,000	300,000	300,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Revaluation reserve	39,916	-	-	-	-	-	-	-	-	-
Special reserve fund	315,510	279,820	268,036	235,588	-	-	-	-	-	-
Resilience reserve	237,000	161,500	135,000	65,000	-	-	-	-	-	-
General reserve	955,000	720,000	541,000	516,000	666,000	533,000	418,000	348,000	273,000	212,878
Retained earnings	177,806	281,915	223,231	60,302	117,226	46,814**	42,361**	35,055**	15,176**	137,948**
Total capital and reserves	2,025,232	1,743,235	1,467,267	1,076,890	983,226	779,814	660,361	583,055	488,176	550,826
Minority interest	-	-	-	-	-	-	-	-	-	6,695
Liabilities										
Insurance provision - Long Term	12,063,506	10,453,542	9,238,184	7,985,381	6,612,836	5,687,915	4,652,674	3,651,545	2,769,040	2,231,515
Insurance provision - Unit linked	242,897	54,507	-	-	-	-	-	-	-	-
Insurance provision - General	1,088,994	1,122,631	858,759	1,512,900	1,171,089	461,676	400,006	301,689	278,288	170,409
Other liabilities	1,546,183	1,557,146	1,094,021	1,298,617	869,549	1,076,100**	878,886**	717,609**	602,391**	417,091**
Total liabilities	14,941,580	13,187,826	11,190,964	10,796,898	8,653,474	7,225,691	5,931,566	4,670,843	3,649,719	2,819,015
Total equity and liabilities	16,966,812	14,931,061	12,658,231	11,873,788	9,636,700	8,005,505	6,591,927	5,253,898	4,137,895	3,376,536
Long Term - supplemental Assets										
Investments	10,995,580	9,992,944	8,713,775	7,502,053	5,871,267	5,114,610	4,135,508	3,377,726	2,563,415	1,707,550
Investments - Unit linked	241,130	48,436	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-	-	-	172
Other assets	1,797,515	1,229,112	965,998	947,165	1,066,629	871,668	737,544	509,615	373,239	676,073
Total assets	13,034,225	11,270,492	9,679,773	8,449,218	6,937,896	5,986,278	4,873,052	3,887,341	2,936,654	2,383,795
Liabilities										
Insurance provision - Long Term	12,063,506	10,453,542	9,238,184	7,985,381	6,612,836	5,687,915	4,652,674	3,651,545	2,769,040	2,231,515
Insurance provision - Unit linked	242,897	54,507	-	-	-	-	-	-	-	-
Other liabilities	727,822	762,443	441,589	463,837	325,060	298,363	220,378	235,796	167,614	152,280
Total liabilities	13,034,225	11,270,492	9,679,773	8,449,218	6,937,896	5,986,278	4,873,052	3,887,341	2,936,654	2,383,795
Investor Information										
Return on net assets (%)	26.97	30.92	35.98	24.44	32.38	34.58**	29.91**	28.32**	18.20**	19.95**
Net assets per share (Rs.)	67.51	58.11	48.91	35.90*	32.77*	25.99**	22.01**	19.44**	16.27**	18.36**
Market price per share - 31st December (Rs.)	150.75	135.50	85.00	110.00	120.00	62.50	43.00	34.00	36.00	35.00
Basic earnings per share (Rs.)	17.57	17.45	17.18	8.46*	10.61*	8.98*	6.58*	5.50*	3.18*	3.92*
Price earnings ratio (times)	8.58	7.77	4.95	13.01*	11.31*	6.96*	6.54*	6.19*	11.33*	8.93*
Market capitalisation (Rs. Mn)	4,523	4,065	2,550	2,200	2,400	1,250	860	680	720	700
Dividend per share (Rs.)	9.50	8.25*	4.17*	5.34*	7.83*	4.00**	3.00**	2.00**	5.00**	1.40**
Employee Information										
Revenue per employee (Rs. Mn)	9.21	9.06	9.57	8.30	7.68	6.88	6.61	5.07	3.61	3.30
Net profit per employee (Rs. '000)	826	986	1,153	565	730	628	481	373	200	267
Number of employees (nos.)	638	531	447	449	436	429	410	442	477	441

* Adjusted for subsequent bonus issues.

** Adjusted as stipulated by SLAS 12 (revised - applicable w.e.f. 01/01/2006).

Share Information

Stock Exchange Listing

Eagle Insurance PLC is a public quoted company, whose shares are listed with the Colombo Stock Exchange.

Shareholdings

As at 31st December 2007 there were 2,201 registered shareholders.

Distribution of Ordinary Shares

Shareholding	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
1 - 1000	1,885	549,849	1.83	8	3,449	0.01	1,893	553,298	1.84
1001 - 5,000	251	516,134	1.72	2	4,698	0.02	253	520,832	1.74
5,001 - 10,000	30	211,582	0.71	-	-	-	30	211,582	0.71
10,001 - 50,000	16	268,698	0.90	-	-	-	16	268,698	0.90
50,001 - 100,000	3	238,981	0.80	-	-	-	3	238,981	0.80
100,001 - 500,000	4	524,447	1.75	-	-	-	4	524,447	1.75
500,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Over 1,000,000	2	27,682,162	92.26	-	-	-	2	27,682,162	92.26
Total	2,191	29,991,853	99.97	10	8,147	0.03	2,201	30,000,000	100.00

The percentage of shares held by the public 12.72%.

Categories of Shareholdings

	No. of Shareholders	No. of Shares	%
Individual	2,120	1,662,510	5.50
Institutions	81	28,337,490	94.50
Total	2,201	30,000,000	100.00

Substantial Shareholdings

	No. of shares	%
Aviva NDB Finance Lanka (Private) Limited	26,182,162	87.27
National Development Bank PLC	1,500,000	5.00

Share Information

Major Shareholders

The 20 largest shareholders as at 31st December 2007 are given below:

	No. of shares	%
Aviva NDB Finance Lanka (Private) Limited	26,182,162	87.27
National Development Bank PLC	1,500,000	5
Mr. R. Senathirajah	298,147	0.99
Jacey Trust Services (Private) Limited	115,000	0.38
Union Investments Ltd	111,300	0.37
Colonial Motors Ltd	90,750	0.3
Merchant Bank of Sri Lanka Limited/ Union Investments Ltd.,	83,700	0.28
Mr. D.F.G. Dalpethado	64,531	0.22
Mr. R. Srikantha	37,498	0.12
Mr. S.K. Hathiramani	35,348	0.12
Mr. W.R.H. Perera	20,598	0.07
Dr. H.G.P.A. Ratnaweera	16,999	0.07
Mr. J.S. Goonewardene	15,000	0.05
Ms. D. Wickremesinghe	15,000	0.05
Mr. J. Nawinne	15,000	0.05
Mr. N.W.H.D. Gunaratne	15,000	0.05
Ms A.S. Gunaratne	15,000	0.05
The Ceylon Desiccated Coconut & Oil Co.	15,000	0.05
Mr. C. Jayaratne	12,898	0.04
Prof. H.V.J. Fernando	12,000	0.04
	28,670,931	95.57

Record of Scrip Issues

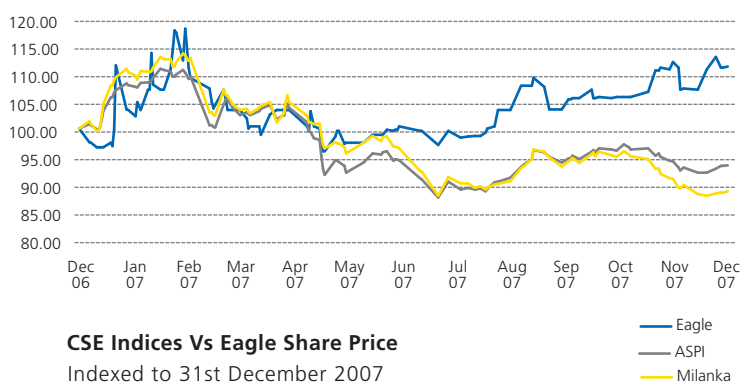
Year of issue	Type of issue	Ratio
1994	Bonus	1 : 5
1995	Bonus	1 : 4
1996	Bonus	1 : 4
1997	Bonus	1 : 15
2005	Bonus	1 : 2

Share Performance

	2007	2006
No. of transactions	472	1,153
No. of shares traded	295,100	2,076,700
Total value of shares traded (Rs.)	42,706,150	340,345,150
CSE Turnover (Rs. million)	104,984	105,154
Eagle market cap. (Rs. million)	4,523	4,065
CSE market cap. (Rs. million)	820,652	834,763
All Share Price Index - 31st December	2,540.99	2,722.36
Eagle Share Price - 31st December	150.75	135.50
Eagle Share Price - High	161.00	150.00
Eagle Share Price - Low	130.00	80.00
Earnings per share (Rs.)	17.57	17.45
P/E Ratio	8.58	7.77
Net assets per share	67.51	58.11
Return on net assets (%)	26.97	30.92

Share Valuation

The market value of the Company's ordinary shares as at 31st December 2007 was Rs. 150.75 (31st December 2006 - Rs. 135.50).



Milestones 2007

1st January

Eagle Investment Insurance – the Company's Unit-linked Life insurance product range was introduced through the Eagle Life field force. The launch was backed by a wider campaign using TV, Radio, Press and Hoardings.

8th - 9th January

The Eagle Management Seminar 2007 for the management staff of the Company was

3rd April

The Annual Eagle Awards night was held at the BMICH to recognise high flyers in the Eagle Life field force. Two of the most talented and most popular screen personalities - Joe Abeywickrema and Malini Fonseka were presented with the Eagle Excellence Award 2007 for their contribution to the field of Sri Lankan cinema at this event.

6th June

Sampath Bank and Eagle Insurance announced the launch of their Bancassurance partnership to offer a wide spectrum of financial solutions including Life and General insurance products to the Bank's clientele.

10th – 13th June

Eagle produced the highest number of MDRT 'Court of the Table' participants this



held at the Heritance Hotels and Resorts, Kandalama.

10th March

The Annual Eagle Company Conference was held at the Ceylon Continental Hotel, Colombo. This event recognises the high achievers amongst the Company's employees and bestows the Managing Director's award for outstanding individual contributions and Quill awards – for quality and excellence by individuals and teams.

29th April

It was a night to remember for the top performers of the Eagle 'Team with Wings', the Company's Life field force when they attended the Company's second overseas Sales Convention which was held at the Berjaya Times Square Hotel in Kuala Lumpur, Malaysia. Over 400 participants including 287 top achievers and their spouses attended the Company's Overseas Sales Convention.

year. 22 members of the 'Team with Wings' qualified to attend the Conference in Colorado, USA.

14th June

The 14th National Civilian Bravery Awards organised by the Foundation for Civilian Bravery with the strategic partnership of Eagle was held at the Main Auditorium of the Bandaranaike Memorial International Conference Hall (BMICH), Colombo to felicitate real-life Heroes.

30th June – 2nd July

For the 14th consecutive year, Eagle Poson Safety Campaign was held in Anuradhapura with the support of Sri Lanka Police, Sri Lanka Navy and the Life Saving Association of Sri Lanka with the participation of 365 professional life guards.

21st July

Jim Webber – Group Actuary and Economic Capital Director, Aviva, shared global best

7th September

Star Performers were felicitated at Eagle's General Insurance Sales Convention held at Hilton, Colombo. Chief Guest at the event was Mr. Kishu Gomes – CEO, Chevron Lanka

19th September

Powered by the global expertise of Aviva, Eagle launched IFS Global Health Insurance -

9th October

Eagle raised its own bar in professionalism by launching 'Eagle Professional Sessions' - the inaugural formal knowledge sharing session at Galle Face Hotel, for the entire management team. Albert Paterson, Managing Director, AVIVA India was Chief Guest at the event.

12th October

Eagle Insurance and NDB bank signed the eZ



practices in Risk Based Capital at Trans Asia - Colombo. The workshops were attended by CEO's, CFOs and Actuaries of the Sri Lankan Insurance industry and the IBSL Board of Directors.

29th August

Eagle Centre for Excellence – the Company's upgraded training centre was formally opened in Colombo with Dr. Gamini Wickramasinghe, Chairman - Insurance Board of Sri Lanka as the Chief Guest.

one of the most comprehensive international health plans.

28th September

The first ever 'Bancassurance Awards Night' was held at 'Waters Edge – Battaramulla'. Eagle felicitated Bancassurance-NDB bank highfliers and recognised them for their commitment and performance excellence.

Pay partnership agreement in a revolutionary service that enables Eagle insurance policyholders to enjoy the convenience of paying premiums via mobile phones.

31st October

Eagle's inaugural Samana Workshop was successfully conducted at the B.M.I.C.H. and was attended by over 1000 teachers and parents of children with special needs and volunteers from across the island.

Distribution Network



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Fax 036 223 3550

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Fax 055 223 0772

Bandarawela

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Chilaw

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Fax 032 222 1217

Dambulla

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Tel 066 228 3335

Embilipitiya

1st Floor Lakmini Supermarket Bldg
51 Main Street Embilipitiya
Tel 047 226 1919
Tel/Fax 047 223 0416

Galle

16 1/1 Colombo Road Kaluwella Galle
Tel 091 224 6733
Fax 091 223 2261

Gampaha

85 Baddhaloka Mw Gampaha
Tel 033 222 7393 / 222 1177 /
223 4700
Fax 033 222 6840

Horana

135 Panadura Road Horana
Tel/Fax 034 226 2359

Kalutara

183 1/1 Main Street Kalutara
Tel 034 222 2820
Fax 034 222 9783

Kandy

Commercial Bank Bldg
6th Floor 90-92 Kotugodella Veediya
Kandy
Tel 081 222 2321 / 220 0100
220 0101 / 222 2322
Fax 081 223 2668

Kegalle

447/8 Main Street Kegalle
Tel 035 222 3141
Fax 035 223 1780

Kiribathgoda

No: 412/2 Kandy Road
Gala Junction Kiribathgoda
Tel/Fax 011 2901664

Kotte

119 Pannipitiya Road Battaramulla
Tel 287 5258 / 288 9809 -11
Fax 552 5394

Kuliyaipitiya

149/7 Main Street Kuliyaipitiya
Tel/Fax 037 228 1867

Kurunegala

110/1 Noel Seneviratne Mw
Colombo Road Kurunegala
Tel/Fax 037 222 3540 / 222 7707 /
222 9998

Matara

26 1/2 Anagarika Dharmapala Mw
Matara
Tel 041 222 2844 / 222 1051 / 222 0674
Fax 041 222 7344

Matale

Arunadisi Building
No: 181 Trincomalee Street Matale
Tel/Fax 066 2232401

Moneragala

308A Kachcheri Junction
Wellawaya Road Moneragala
Tel/Fax 055 227 6496

Negombo

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Nuwara Eliya

1st Floor Siva Shopping Complex
48 Lawson Street Nuwara Eliya
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Polonnaruwa

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Ratnapura

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Fax 045 222 2601

Trincomalee

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Introduction to Insurance Accounting

Insurance Accounting is different from the accounting for a manufacturing or trading organisation, due to the uniqueness of the business and terminology associated with the transactions. As a result, understanding the accounts of an insurance company is a challenge from a layman's point of view.

This brief note is to facilitate the reviewer in understanding our finances and is to be read with the additional information provided in the glossary.

Revenue

The main source of income of an insurance company consists of the premiums paid by customers for the risk/s which they transfer to the Company. This consists of premiums for Life insurance policies and General insurance policies.

Life insurance income is accounted when premiums are received whereas, General insurance is accounted on commencement of the insurance cover, even if premiums are not received by the Company. A General insurance policy is issued for a period of one year or less. For example, a Motor insurance policy is generally issued for a period of one year whereas, a Marine insurance policy is issued for a lesser period to cover the duration of the voyage. The premium is split into the period covered by the policy which is generally a period of twelve months, and amount applicable for the reporting period is taken as premium income. This portion of premium taken as income in every month is known as the *Earned Premium*. The balance portion is maintained in a reserve and is known as the *Unearned Premium Reserve*.

Another important source of income of an insurance company is the investment income earned by investing the premiums it receives. This is facilitated through a structured investment function which forms an integral part of the operations of an insurance company.

The main expense items of an insurance company consist of *Reinsurance Premium*, *Claims* and *Commissions*.

Reinsurance is the process whereby part of the risk/s undertaken by the insurance company is transferred to another entity called the re-insurance company, for which the insurance company pays a premium known as the *Reinsurance Premium*. The agreed risk transfer takes place at the same rate as the rate charged for the policy. In view of this, the reinsurer offers a discount to the insurer to cover the expenses incurred in acquiring the business. In insurance accounting this is known as the *Reinsurance Commission*, which is an income to the insurance company.

Claims

If the incident against which the insurance cover was obtained occurs, the insurance company indemnifies the insured with an agreed sum, which is known as a *Claim*. At the same time a part of this claim payment is reimbursed by the reinsurance company to the insurance company based on the proportion of risk/s transferred. This is known as the *Reinsurance Recoveries*.

Commission

Insurance business is predominantly transacted through intermediaries such as brokers and direct agents. When policies are sold by intermediaries, the insurance company pays them a commission at a specified percentage of the premium which is a key expense item.

In General insurance business the commission is split into the period covered by the policy and amount applicable for the reporting period is taken as the commission charge. The balance portion is maintained in a reserve and is known as the *Deferred Acquisition Expenses Reserve*.

The terms Written Premium, Earned premium, Commission and Claims when stated as 'Gross' refers to the absolute amount and 'Net' refers to the amount left after deducting the reinsurance portion.

The Underwriting Process

The term 'underwriting' refers to the process of an insurance company evaluating and accepting the risks which customers wish to transfer and determining a price for such risks.

In General insurance, the profit or loss of the underwriting process is known as the '*Underwriting Result*' which is the net of earned premium, claims, acquisition and other expenses.

The Long Term Insurance Fund

In Long Term insurance business, due to the longer duration of the policy period, insurance companies are required to maintain a separate fund to meet future policy holders' obligations. This is known as the '*Insurance Provision Long Term*'. The size of the fund that needs to be maintained is determined by the actuarial valuation which happens annually. This process estimates the excess of the assets over the policyholder's liabilities of the fund after distribution of dividends to the policyholders as at the year end. The excess is generally known as the Life Surplus and referred to as *Transfer to Shareholders Funds* in the financial statements.

Insurance Provisions – General Insurance

The reserve that is maintained in respect of General insurance business consisting of unearned premium reserve, claims outstanding and deferred acquisition expenses is known as the '*Insurance Provision – General Insurance*'.

Glossary of Insurance Terms

1 Acquisition Expenses - Life

All expenses which vary with and are primarily related to, the acquisition of new insurance contracts.

2 Acquisition Expenses - General insurance

All expenses which vary with and are primarily related to the acquisition of new insurance contracts and the renewal of existing insurance contracts.

3 Actuary

An expert who uses applied mathematics (in particular, probability) to provide solutions to insurance-related problems. Actuarial techniques are used to design new insurance products and to assess the profitability of new and existing business.

4 Admissible Assets

Value of assets that are included in determining an insurer's statutory solvency margin (No.52 and No.53), specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000 (RII Act)

5 Annuity

A contract that provides an income for a specific period.

6 Annual Premium Equivalent (APE)

A method for calculating levels of life, pensions and investment new business levels, to smooth out the effect of large, one-off payments. It is the total of new annual premiums plus 10% of single premiums.

7 Approved Assets

Assets that represent the technical reserve and the Long term insurance fund as per the Determination made under the RII Act.

8 Beneficiary

A person or financial institution named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholder's death.

9 Bancassurance

An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial solution providers.

10 Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event such as destruction or damage of property and related death or injuries, the incurring of hospital or medical bills, death or disability of the insured and gratuity claims.

11 Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by the gross claims reserve (No. 22) at the beginning and end of the accounting period.

12 Claims Incurred But Not Reported (IBNR)

A reserve to cover the expected cost of losses that have occurred by the Balance Sheet date but have not yet been reported to the insurer.

13 Claims Outstanding - Long Term Insurance

The amounts provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the Balance Sheet date, being sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

14 Combined Operating Ratio (COR) - General insurance

A financial measure of insurance underwriting profitability that expresses the total of claim costs, commission and expenses as a percentage of premiums. A COR below 100% indicates profitable underwriting. Companies with a COR over 100% can still be profitable if they earn sufficient investment income from the premiums paid by policyholders.

15 Commission

Remuneration to an intermediary for services such as selling and servicing an insurer's products. This is one component of acquisition expenses (No.1 and No. 2).

16 Deferred Acquisition Expenses / Deferred Acquisition Expenses Reserve

Expenses which vary with and are primarily related to the acquisition of new insurance contracts and renewal of existing contracts, which are deferred as they relate to a period of risk subsequent to the Balance Sheet date.

17 Earned Premium

Written premium (No. 62) adjusted by the unearned premium reserve (No. 59) at the beginning and end of the accounting period.

18 Equity

Another word for 'share'. A shareholder's equity is the value of the shares they hold.

19 Embedded Value

A way of measuring the current value of future profits. Embedded value represents the total of the profits expected to emerge in the future and the net assets already invested in the business.

20 Fair Value

The price that a reasonable buyer would be willing to pay and a reasonable seller would be willing to accept for a product in the open market.

21 Fund Management

Management of money invested, typically, in stocks and shares, fixed interest, property and cash on behalf of individual and institutional customers. Also known as asset management or investment management.

Glossary of Insurance Terms

22 Gross Claims Reserve - General insurance

The amount provided, including claims incurred but not reported (No.12) and claims handling expenses, to cover the estimated ultimate cost, arising out of events occurred by the end of the accounting period, less amounts already paid in respect of those claims.

23 Gross Written Premium - Life

Premium to which the insurer is contractually entitled and received in the accounting period.

24 Gross Written Premium - General insurance

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period. See also net premiums written.

25 Insurance

Insurance is a contract whereby one party, the insurer, in return for a consideration i.e.: the premium, undertakes to pay to the other party, the insured, a sum of money or its equivalent in kind, upon the happening of a specified event that is contrary to the interest of the insured.

26 Insurance Provision - General insurance

This comprises of the gross claims reserve (No.22), unearned premium reserve (No.59) net of reinsurance and the deferred acquisition expenses (No.16).

27 Insurance Provision - Long term

The fund or funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the RII Act

28 Interim Payments

Periodic payments to the policyholders on a specific type of policy.

29 Life Surplus

The excess of the assets over the liabilities as determined by the actuary (taking into account solvency requirements) and after distribution of dividends to policyholders.

30 Long Term Insurance

Commonly referred to Life insurance contracts, as opposed to annual General insurance policies.

31 Maturity

The time at which payment of the sum insured under a Life insurance policy falls due at the end of its term.

32 Net Combined Ratio - General Insurance

This ratio indicates the profitability of the insurer's operations by combining the net loss ratio (No. 35) with net expense ratio (No. 34). The combined ratio does not take account of investment income.

33 Net Earned Premium

Gross written premium adjusted for the reinsurance incurred and for the increase or decrease in unearned premium (No.59).

34 Net Expense Ratio - General insurance

A formula used by insurance companies to relate income to acquisition and administrative expenses.(e.g. commissions, taxes, staff, selling and operating expenses).

Formula:

$$\frac{\text{Reinsurance commission (net of acquisition expenses) and expenses excluding non technical expenses}}{\text{Net earned premium}}$$

35 Net Loss Ratio - General insurance

A formula used by insurers to relate net claims incurred (No.37) to net earned premium. (i.e. after deducting relevant reinsurances)

Formula:

$$\frac{\text{Net claims incurred}}{\text{Net earned premium}}$$

36 Net Written Premium

Gross written premium (No.22 & No.23) less reinsurance premium payable (No.48 & No.50).

37 Net Claims Incurred

Claims Incurred (No.11) less reinsurance recoveries.

38 New Business Strain

The technical name given to an initial depletion of cash and/or erosion of shareholders' net assets at the moment an insurance contract is sold. This 'strain' arises because, in addition to meeting costs associated with the sale of contracts, insurance companies must make actuarial provisions at the outset of a contract that are often significantly higher than the premiums received. To begin with, therefore, cash outflows exceed inflows, creating a strain.

39 Non Technical Expenses

Expenses that are not related to insurance activities other than staff, selling and operating expenses and depreciation.

40 Non Technical Income

Income derived from activities that are not related to insurance other than investment and other related income.

41 Other Technical Expenses

Expenses incurred in insurance related activities other than claims (No. 10), reinsurance premium (No. 50) and commission (No. 15).

42 Other Technical Income

Income derived from insurance related activities other than premium and reinsurance commission (No.49).

43 Policy Loan

A loan given to the policyholder on the security of the surrender value (No. 55) of a Life insurance policy. The loan is limited to a percentage of the current surrender value of the policy and interest is charged on such loan.

Glossary of Insurance Terms

44 Portfolio Transfer

Amounts payable in respect of the transfer between a cedent and a reinsurer of the liability under a reinsurance contract for premium expiring after a fixed date or on claims incurred prior to a fixed date, normally the date on which the contract commences or ends.

45 Premium

The consideration payable by the insured for an insurance contract.

46 Profit Commission

Commission received from the reinsurer based on the net profit of the reinsurer as defined in the agreement between the insurer and the reinsurer.

47 Revenue Account

An account which shows a financial summary of the insurance related revenue transactions for the accounting period.

48 Reinsurance

Transfer of all or part of the risk assumed by an insurer under one or more insurances to another insurer, called the reinsurer.

49 Reinsurance Commission

Commission received or receivable in respect of premium paid or payable to a reinsurer.

50 Reinsurance Premium

The premium payable to the reinsurer.

51 Segment

Constituent business units grouped in terms of nature and similarity of operations.

52 Solvency Margin - Life

The difference between the value of assets and the value of liabilities, required to be maintained by the insurer who carries on Long Term insurance business, determined as per Solvency Margin (Long Term Insurance) Rules, 2002

53 Solvency Margin - General Insurance

The difference between the value of the assets and the value of the liabilities required to be maintained by the insurer who carries on general insurance business as per Solvency Margin (General Insurance) Rules, 2004.

54 Surrender

The act of cancelling or cashing in the proceeds of an insurance contract before it becomes payable or reaches its maturity date for a surrender value.

55 Surrender Value

The amount of money payable on cancellation ('surrender') of a policy with an investment element, before the benefit becomes payable (normally on death or maturity). Surrender values will depend on premiums paid and time elapsed.

56 Technical Reserve

This comprises of the claims reserve (No.22) net of re- insurance, Unearned premium reserve (No.59) net of re insurance and the deferred acquisition expenses (No.16).

57 Underwriting

The process of selecting which risks an insurance company can cover, and deciding the premiums and terms of acceptance.

58 Underwriting Result

This is the profit generated purely from the General insurance business without taking into account the investment income and other non technical income and expenses. (No. 39 and No. 40).

59 Unearned Premium / Unearned Premium Reserve.

It represents the portion of premiums already entered in the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

60 Unit trust

Fund of stocks and shares held by a manager for the benefit of investors. Individuals buy units in the fund, which then invests in a wide range of shares. This approach offers small investors the opportunity to pool their money with others and benefit from a greater spread of risk and investment opportunities

61 Unit-linked Insurance

It is a Long term insurance product where benefits are wholly or partially determined by reference to an index or to the value of or to the income from assets of any description, as mentioned under Section 114 of the Regulation of Insurance Industry Act, 2000 (RII Act).

62 Written Premium

Total premium received or due from all sources, including premium for reinsurance assumed, during a period.

63 Yield

Rate of return on an investment in percentage terms, taking into account annual income and any change in capital value. Also the dividend payable on a share expressed as a percentage of the market price.

Notice of Meeting

NOTICE IS HEREBY given that the Twenty - Second Annual General Meeting of Eagle Insurance PLC will be held on Friday 28th March, 2008 at 10.00 a.m at 'Earls Court' Trans Asia Hotel, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02, for the following purposes:

- 1 To receive and consider the Report of the Directors and the financial statements for the year ended 31st December 2007 and the Report of the Auditors thereon.
- 2 To declare a final dividend of Rs. 3.00 (Rupees Three only) per share as recommended by the Directors.
- 3 To re-elect Mr. A W Paterson as a Director who retires by rotation in terms of Article 82 of the Articles of Association.
- 4 To re-elect Mr. D S P Wikramanayake as a Director who retires by rotation in terms of Article 82 of the Articles of Association.
- 5 To ratify the total donations of Rs. 4.2 million which had been made by the Company during the year ended 31st December 2007 constituting 1% of the average Profits after Tax for the preceding three years.
- 6 To authorise the Directors, to make on behalf of the Company, in pursuance of the provisions of the Companies (Donations) Act No.26 of 1951, donations during the year 2008 not exceeding 1% of the average Profits after Tax of the Company for the preceding three years.
- 7 To re-appoint the retiring Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board

Ms. C Munaweera
Company Secretary

Colombo
19th February 2008

- Notes:**
- 1 A Member who is unable to attend the meeting is entitled to appoint a proxy to attend and vote in his or her place.
A Proxy need not be a member of the Company.
 - 2 A Form of Proxy accompanies this Notice.

Notes

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.[illegible]

Form of Proxy

I/We of
..... being a member/members
of Eagle Insurance PLC do hereby appoint of
..... whom failing:

Mr A W Paterson	whom failing
Mr D Sooriyaarachchi	whom failing
Mr N S Welikala	whom failing
Mr D S P Wikramanayake	whom failing
Mr S Roye	whom failing
Mr L de Mel	whom failing
Ms M Sigsworth	whom failing

as my/our proxy to represent me/us and vote on my/our behalf at the TWENTY - SECOND ANNUAL GENERAL MEETING of the Company to be held on Friday 28th March, 2008 at 10.00 a.m. 'Earls Court', Trans Asia Hotel, No.115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

* Please delete the inappropriate words

* <u>In favour of</u> Against	the resolution numbered (1) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (2) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (3) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (4) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (5) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (6) set out in the Notice convening the aforesaid meeting.
* <u>In favour of</u> Against	the resolution numbered (7) set out in the Notice convening the aforesaid meeting.

Signed this day of Two Thousand and Eight

.....
Signature of Shareholder

- Note:**
- 1 If no words are struck out or there is in the view of the proxyholder doubt (by reason of the way in which the instructions contained in the proxy have been completed) as to the way in which the proxyholder should vote, the proxyholder shall vote as he thinks fit.
 - 2 A proxy need not be a member of the Company
 - 3 Instructions as to completion appear overleaf.

Form of Proxy

Instructions as to completion

- 1 Kindly perfect the Form of Proxy after filling in legibly your full name and address by signing on the space provided and please fill in the date of signature.
- 2 The persons mentioned above, are Directors of the company and they are willing to represent any shareholders as proxy, and vote as directed by the shareholder. They will not, however be willing to speak or move or second any amendments to the resolutions or make any statement in regard thereto on behalf of any shareholder.
- 3 If another proxy is preferred, delete the names printed, add the name of the proxy preferred and initial the alteration.
- 4 Kindly return the completed Form of Proxy to the Company after deleting one or other of the alternate words indicated by an asterisk in the body of the same.
- 5 In the case of a corporate member the proxy must be completed under its common seal which should be affixed and attested in the manner prescribed by its Articles of Association. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the company.
- 6 The completed Form of Proxy should be deposited at the registered office of the Company at No. 75, Kumaran Ratnam Road, Colombo 02 not less than 48 hours before the time appointed for the holding of the Meeting.

Eagle profile

Eagle Insurance took wing as a composite insurer within the Sri Lankan insurance landscape in the late 1980s. Over the years, the Company’s far-sightedness, good governance practices, ethics and innovation have helped it to soar to new heights.

The dynamism and creativity of the Eagle family have been the engine of its evolution into a highly successful Company in the insurance and financial services sector.

History

Eagle Insurance commenced operations as CTC Eagle Insurance Company Ltd., with Ceylon Tobacco Company (a member of BAT Industries, UK) as the Company's main shareholder.

In 1999, BAT Industries divested its financial services businesses to Zurich Financial Services Group based in Switzerland, as part of its global strategy. Thus, Eagle became part of a global financial services group, with the National Development Bank (NDB) - Sri Lanka's leading development bank - being the major local shareholder.

2003 was another landmark in Eagle’s history as the NDB bank, through its investor company, the Capital Development and Investment Company PLC (CDIC) acquired majority shareholding of Eagle Insurance. The Bank of Ceylon also became a key shareholder of Eagle Insurance with its stake in CDIC.

In 2006, once again Eagle became a member of a global insurance group. Aviva plc, UK's largest insurer became the major shareholder of the Company. Nourished by the unique combination in ownership of Aviva and NDB, Eagle Insurance looks forward to soaring greater heights.

Corporate Information

Name of the Company Eagle Insurance PLC Company Registration No - PQ 18		
Legal Form <ul style="list-style-type: none">Public Company with limited liability.Incorporated in Sri Lanka on 12th December 1986 under the Companies Act No. 17 of 1982.Re-registered under the Companies Act No. 07 of 2007.A composite Insurance Company licensed by the Insurance Board of Sri Lanka.The shares of the Company are listed on the Colombo Stock Exchange.		
Accounting Year 31st December		
Subsidiaries		
Name of the Company <ul style="list-style-type: none">Eagle NDB Fund Management Company LimitedRainbow Trust Management Limited	Holding 100% 100%	Principal Activity Fund Management Trust Management and Administration
Registered Office/Head Office “Eagle House” No. 75, Kumaran Ratnam Road Colombo 02 Telephone : 2310000 Fax : 2447620, 2310076 E- Mail : info@eagle.com.lk Web : www.eagle.com.lk		
Company Secretary Ms C Munaweera - LLB, Attorney-at-Law		
Consultant Actuary – Life insurance Mr. K K Wadhwa 321-B, Pocket 2 Mayur Vihar, Phase 1 Delhi - 110091		
Consultant Actuaries – General insurance Watson Wyatt Insurance Consulting (Private) Limited No. 135, Cecil Street # 09 - 01, Singapore 069536		
Lawyers Julius & Creasy Attorneys-at-Law & Solicitors No. 41, Janadhipathi Mawatha Colombo 01		
Auditors Ernst & Young Chartered Accountants No. 201, De Saram Place Colombo 10		
Company Registrars SSP Corporate Services (Private) Limited No. 101, Inner Flower Road Colombo 03 Telephone : 2573894 / 2576871		
Bankers Standard Chartered Bank Bank of Ceylon Commercial Bank of Ceylon Limited Hatton National Bank PLC The Hongkong & Shanghai Banking Corporation Limited People’s Bank Sampath Bank Limited NDB bank		
Custodian Banks The Hongkong & Shanghai Banking Corporation Limited Bank of Ceylon		

Our Vision

To be a World-Class provider of Financial Solutions
for Protection and Wealth Creation

Our Mission

We will be the most sought after Insurer and Fund
Manager in Sri Lanka for security, return
optimisation and excellence in service, achieving
leadership in identified segments of the market

Our Core Values

Accepting risk with responsibility

Being ethical

Innovation

Dedication to customers

Encourage everyone to contribute and excel