

NATIONAL INSURANCE TRUST FUND



ANNUAL REPORT
2015

PARTNERSHIPS & RELIANCE

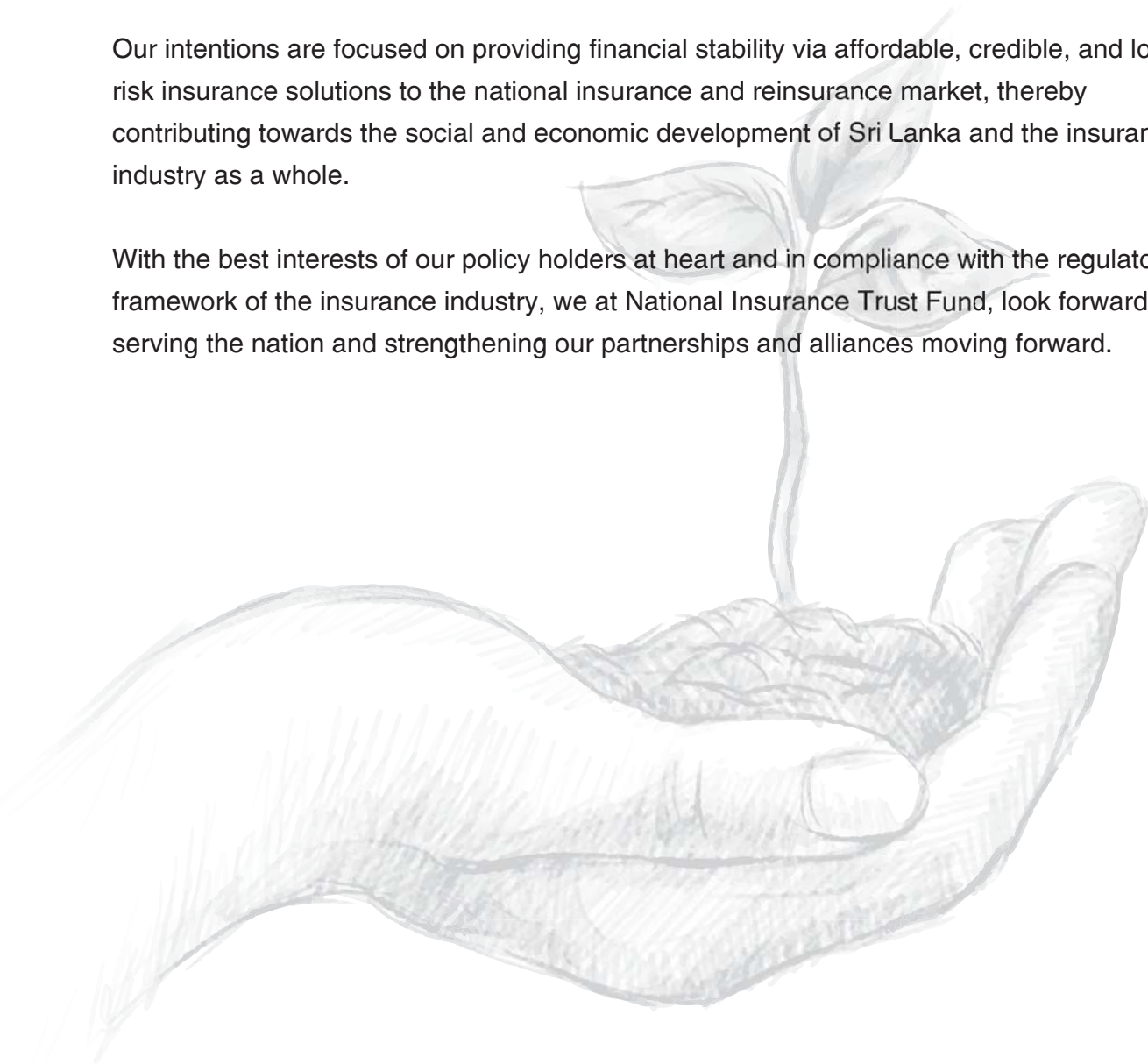
National Insurance Trust Fund has always forged long lasting partnerships and remains a customer centric organization with the nation's interest at heart. Our financial performance over the years has borne testimony to this as well as the trust and reliance that have been placed in us by our customers. Although, the financial year 2015 came with its own set of challenges in a turbulent economy, NITF had a satisfactory year and will leverage upon its strengths for an even better tomorrow.

Our Corporate values encompassing Customer Focus, Integrity, Innovation, Quality, Continuous Improvement and Respect form the foundation upon which we carry out our business operation, and we will continue to build upon these for successful continuity. We take pride in our people at every level of our establishment and recognize their combined efforts, which have steered the Company towards success.

We aim to be the preferred national insurance and reinsurance provider and serve as a safety net for our customers; primarily the underprivileged and underserved segments of the community as well as Government sector employees.

Our intentions are focused on providing financial stability via affordable, credible, and low risk insurance solutions to the national insurance and reinsurance market, thereby contributing towards the social and economic development of Sri Lanka and the insurance industry as a whole.

With the best interests of our policy holders at heart and in compliance with the regulatory framework of the insurance industry, we at National Insurance Trust Fund, look forward to serving the nation and strengthening our partnerships and alliances moving forward.



CONTENTS

Our Vision / Our Mission	2
Who we are	3
Our Corporate Values & Strategic Objectives	4
Financial Highlights	5
Significant Events	7-9
Chairman's Message	10-11
Chief Executive Officer's Review	12-13
Management Discussion and Analysis	14-15
Financial Review	16
Divisional Review	17-21
Corporate Governance	22-24
Members of the Board of NITF - 2015	25
Profile of the Board Members	26
Corporate & Senior Management	27
Risk Management	28-29
Corporate Social Responsibility	30
Report of the Directors	31-32
Audit Committee Report	33
Independent Auditors' Report	34-49
Financial Statements	
Statement Of Comprehensive Income	50
Statement of Financial Position	51
Statement of Changes in Equity	52
Cash Flow Statement	53
Notes to the Financial Statements	54-74
Decade at a Glance	75-76
Corporate Information	Back Inner

VISION & MISSION

OUR VISION

- Safety Net and Protection for all needy sectors.

OUR MISSION

To contribute to the social and economic development of Sri Lanka through:

- Affordable, efficient and progressive insurance schemes for all needy segments in society.
- Providing solutions to local market to cover high risks arising from changing needs through pooling and other arrangements.
- Creating a reinsurance market in Sri Lanka to provide additional capacity to the local insurance market.

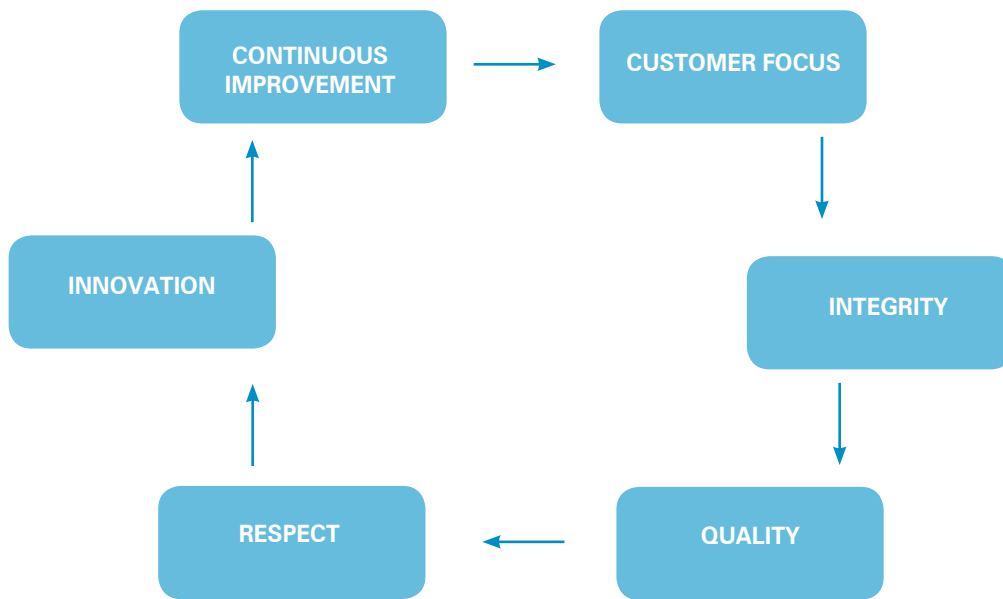
WHO WE ARE

The National Insurance Trust Fund Board was established by the National Insurance Trust Fund Act, No. 28 of 2006 (NITF Act). Its contribution towards the economy encompasses the provision of reinsurance, strike, riot, civil commotion and terrorism insurance, Agrahara medical insurance, health insurance, other forms of general insurance including natural disaster insurance and crop insurance covers. As per the NITF Act, the Strike, Riot, Civil Commotion and Terrorism Fund originally managed by the Ministry of Finance and Planning was absorbed by NITF, while all insurers who issued insurance covers against strike, riot, civil commotion and terrorism risks on behalf of NITF were required to remit premiums collected on same to the latter. As per a government Gazette notification No. 1791/4 of 31st December 2012, all primary insurers are now required to cede 30% of their total reinsurance premium arising out of every general reinsurance contract to NITF. At present, the National Insurance Trust Fund is the only Sri Lankan body which provides reinsurance cover to primary insurers. Agrahara medical insurance scheme was implemented by the Ministry of Public Administration Circular No: 12/2005 and it came under the purview of NITF from 1st of January 2006. It provides benefits to Married Employees of Members, Spouse and Children (only if they are unmarried, unemployed and below 21 years old) and Unmarried Employees – Member, Parents (only if the parents are below 70 Years old)

Offering multiple benefits at lower premiums, a key competitive advantage, our turnaround time in relation to claim acceptance and payout is one of the best in the country. The adoption of new technologies has enhanced our internal and external efficiencies while contributing substantially towards the bottom-line. Two branches in Anuradhapura and Hambanthota and 18 units located at District/ Divisional secretariats covered all districts. Fully owned by the State, our role encompasses that of being the only reinsurer within the country as well as the insurer serving underserved segments not covered by commercial insurers.

OUR CORPORATE VALUES

Our six core corporate values form a firm foundation and guideline for the way in which we approach our business



STRATEGIC OBJECTIVES

- Create long term value for our customers by way of growing the existing business lines, and developing customized insurance schemes and solutions to cater to our target group of customers and the general public.
- Strive towards achieving sound financial growth, by way of disciplined risk and financial management while taking advantage of business opportunities within the market.
- Retain existing and attracting new reputed partnerships in an effort to capture enhanced market share and build credibility.
- Attract a talented human resource pool in order to develop sustainable leadership going forward.
- Migrate towards the provision of better infrastructure facilities and automation of processes to cut down on lead time and improve efficiency of services provided.
- Improve our standards of risk management in all areas of operation as a key responsibility towards our stakeholders.
- Proactively research the market to ensure that business opportunities are harnessed to add further value to the Company and industry.

FINANCIAL HIGHLIGHTS

Profit After Tax

LKR 4.3 billion

Total Assets

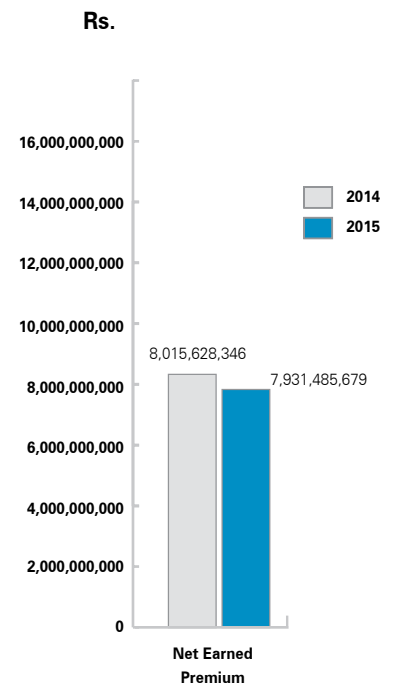
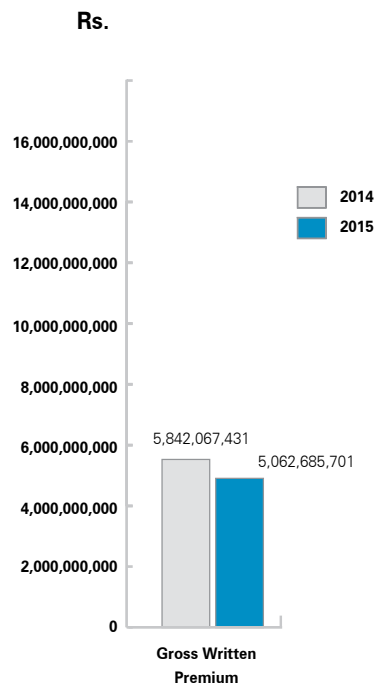
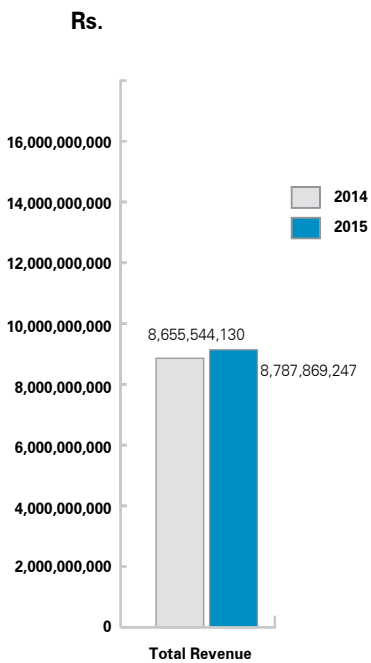
LKR 12 billion

Contribution to Consolidated Fund

LKR 3 billion

Return On Assets

36%





	2015	2014
	LKR	LKR
Total Revenue	8,787,869,247	8,655,544,130
Gross Written Premium	5,062,685,701	5,842,067,431
Net Earned Premium	7,931,485,679	8,015,628,346
Profit Before Tax (PBT)	4,390,146,531	4,582,655,586
Profit After Tax (PAT)	4,303,324,331	4,582,655,586
Total Assets	12,233,466,883	11,193,375,695
Return on Assets (%)	35.89	40.94

SIGNIFICANT EVENTS

1. NITF has signed MOUs with many hospitals to benefit Agrahara beneficiaries

July 20th 2015



MOU between NITF and Hemas Hospitals (Pvt) Ltd.

On 20th July 2015, the MOU was signed by NITF's Chief Executive Officer Sanath C De Silva and Managing Director, Hemas Hospitals chain Dr Lakith Peiris in the presence of NITF's Chairman Manjula De Silva and Chairman Hemas Hospitals and Group Director, Murtaza Esufally. Through the partnership, government sector employees who are entitled to NITF's health insurance scheme 'Agrahara', can avail themselves of high quality private healthcare services at specially discounted rates from any of the Hemas Hospitals' multi-chain.

21 August 2015



MOU between NITF and Lanka Hospitals PLC

On 21st August 2015 the MOU was signed by NITF's Chief Executive Officer Mr. Sanath C De Silva and Managing Director, Lanka Hospitals Mr. Tissa Nanayakkara in the presence of NITF's Chairman Mr. Manjula De Silva and CEO Lanka Hospitals, Mr. Deshantha Silva.

25th August 2015



MOU between NITF and Nawaloka Hospitals PLC

The MoU was signed by NITF's Chief Executive Officer Mr. Sanath C. De Silva and Director, Nawaloka Hospitals Mr. Harshith Dharmadasa in the presence of NITF's Chairman Mr. Manjula De Silva and Mr. Nalaka Niroshana, Corporate Planning Manager of Nawaloka Hospitals.

14th October 2015



SIGNIFICANT EVENTS



MOU between NITF and the Northern Central Hospital (Pvt) Ltd.

On 14th October 2015, the MOU was signed by NITF's Chief Executive Officer Sanath C De Silva and Director, Northern Central Hospitals Dr. P. Keshavarajah in the presence of NITF's Chairman Mr. Manjula De Silva and Mr. P. Ganesharajah from NCH

16th November 2015



MOU between NITF and Singhe Hospitals (Pvt) Ltd., Ratnapura

On 16 November 2015, the MOU was signed by NITF's Chief Executive Officer Sanath C De Silva and Mr. A.M.D.H.N. Weerasinghe, Managing Director Singhe Hospitals in the presence of NITF's Chairman Mr. Manjula De Silva.

19th November 2015



MOU between NITF and New Philip Hospital (Pvt) Ltd, Kaluthara

On 19 November 2015, the MOU was signed by NITF's Chief Executive Officer Sanath C De Silva and Director, New Philip Hospitals Mr. Christopher Fernando in the presence of NITF's Chairman Mr. Manjula De Silva and Ms. Achini Jayasinghe, Accountant from Philip Hospital.

11th December 2015



MOU between NITF and Osro Hospitals (Pvt) Ltd, Mawanella

On 11th December 2015, the MOU was signed by NITF's Chief Executive Officer Sanath C De Silva and Director, Osro Hospitals Dr. Nanayakkara in the presence of NITF's Chairman Mr. Manjula De Silva and Mr. Raju Bandara from Osro Hospitals.

17th December 2015



SIGNIFICANT EVENTS



MOU between NITF and Galle Co-operative Hospital Society Ltd

On 17th December 2015, the MOU was signed by NITF's Chief Executive Officer Mr. Sanath C De Silva and General Manager, Galle Co-operative Hospital Mr. K.G. Charles Gamage in the presence of NITF's Chairman Mr. Manjula De Silva and Business Promotion Officer, Galle Co-operative Hospital Society, Mr. A.D. Walathara Arachchi.

30th December 2015



MOU between NITF and Nawinna Medicare Hospitals (Pvt) Ltd.

On 30th December 2015, the MoU was signed by NITF's Chief Executive Officer Mr. Sanath C. De Silva and Chairman, Nawinna Medicare Hospitals Mrs. A.H.N.T.W. De Silva in the presence of NITF's Chairman Mr. Manjula De Silva and Mr. Thejanu De Silva, General Manager of Nawinna Medicare Hospitals.

2. NITF presented the "Seminar on Application of Reinsurance Fundamentals and Global Trends in Catastrophe Exposure 2015"

8th December 2015



National Insurance Trust Fund and Insurance Institute of India together presented the seminar on application of Reinsurance Fundamentals and Global Trends in Catastrophe Exposure at Galadari Hotel Colombo on 8th December 2015. Chief Guest - Ms. Indrani Sugathadasa - Chairperson - Insurance Board of Sri Lanka along with Mr. Manjula de Silva - Chairman - NITF, Mr. Sanath. C. De Silva - CEO - NITF, Mr. P. Venugopal - Secretary General - Insurance Institute of India, Mr. S.K Roy - Chairman, LIC of India and President, Insurance Institute of India, Mr. Joseph Augustine - Country Manager - India, XL Catlin, Mr. Ankur Nijhawan - Managing Director - India, Hannover Re, Mr. Arun Agrawal - Country Representative - India, Lloyds, Mr. Parijat Dutta - General Manager - GIC Re India, Mr. Prakash Schaffter - Managing Director - Janashakthi Insurance PLC, Mr. Niranjan Manickam - CEO - HNB Assurance PLC, Mr. Arindam Mukherjee - Director, College of Insurance, India and Mr. Ainsley Alles - CEO - Orient Insurance - Sri Lanka. It was discussed about revisiting fundamentals of reinsurance, global trends - catastrophe exposure, and also the challenges in designing a reinsurance program - property lines.

CHAIRMAN'S MESSAGE

As we complete nine years in operation, I am pleased to present to you the Annual Report of National Insurance Trust Fund for its financial year ended 31st December 2015. With the nation's interest in the forefront, we have forged alliances and partnerships over the years that have served to create a significant value addition to our stakeholders. This has been instrumental in our growth from strength to strength.

With the exception of 2009, when a slowdown in the global and local economies served to impede the growth in premiums, the Sri Lankan insurance industry maintained a stable outlook throughout. Insurance penetration in Sri Lanka is still at a lower level than many other economies in the Asian region, which indicates that there is much opportunity for insurers to expand their businesses by offering insurance products to cater to the growing needs of customers. With a total population of 21 Million people and a per capita income of USD 3,924 in 2015, Sri Lanka's economy has grown at 4.8% in 2015 reflecting a drive towards development, reconstruction and growth. The service sector constituted 62.4% of GDP, followed by manufacturing at 28.9% and agriculture at 8.7%. With an aspiration to be a higher middle income economy, plans are in progress to urbanize the Western province, create a financial hub within Colombo and develop regional infrastructure to promote growth sectors like tourism which will undoubtedly drive the economy forward and create opportunities for the insurance industry as a whole.

NITF had a satisfactory financial year reporting a Gross Written Premium of LKR 5 Billion as against LKR 5.8 Billion in 2014, the decline being due to the transfer of the crop insurance scheme to the Agricultural and Agrarian Insurance Board. Correspondingly the post-tax bottom line dipped to LKR 4.4 Billion versus LKR 4.6 Billion in the previous financial year. The balance sheet recorded a growth of 9% to LKR 12.2 Billion of which its investments accounted for 84% of the total. Honouring our promise and commitment to our policy holders, we paid out claims totaling LKR 3.2 Billion during 2015.

“ Honouring our promise and commitment to our policy holders, we paid out claims totaling LKR 3.2 Billion during 2015. ”



CHAIRMAN'S MESSAGE

The financial year saw the implementation of a claims processing system to fast track payments, an E-Card facility for easier processing of transactions in hospitals, while the health insurance scheme 'Agrahara' saw an increase in medical related claim limits. The establishment of a 24-hour call centre as well as numerous service points within the District Secretariats allowed for processes to be more streamlined within our General Insurance division, while marketing and promotional efforts were enhanced in an effort to increase visibility and presence. NITF continued to invest in its internal systems to ensure a speedier and more efficient processing environment.

NITF continues to remain a customer focused institution whose core values form the foundation of its business. With strong adherence to our Corporate Governance standards, we aim to create and sustain long term value for all of our stakeholders, while investing in our employees whose unstinted support has helped us grow and attain higher levels of performance throughout the years. As part of our future goals, ambitions, and business plan we intend expanding our geographical reach, investing in our infrastructure, internal systems and developing our human resource all of which will be channeled to access a wider segment of society to serve their insurance needs.

I would like to convey my gratitude to the Honourable Prime Minister, and Minister of National Policies and Economic Affairs under whose purview this institution operates, Minister of State, Deputy Minister, Secretary and the Additional Secretaries for their guidance and support. I would also like to acknowledge the support received from the Secretary to the Treasury and all of the other Treasury officials with whom NITF interacts closely. My sincere appreciation extends to the Chairperson, Director General and officials of the Insurance Board of Sri Lanka (IBSL), the regulators of the insurance industry. Finally, I would like thank my fellow Members of the Board, the Chief Executive Officer as well as the employees of NITF for their unwavering commitment and dedicated support throughout the year.



Manjula de Silva
Chairman
23. 05.2017

CHIEF EXECUTIVE OFFICER'S REVIEW

The Insurance industry had a successful 2015 with a Gross Written Premium growth of 16.12% versus a 5.44% growth in 2014 year on year. In absolute terms, this amounted to a GWP generation of LKR 122.39 Billion in 2015 versus LKR 105.3 Billion in 2014, the reason being the increased premiums in the long term and general insurance businesses. Two key developments took place within the Insurance industry during 2015. In line with Section 53 of the Amendment Act, composite insurance companies were requested to segregate their operations in to two separate companies to minimize the element of risk of one business from the other – a sound move by the regulators. In addition to this the foundation was laid for insurance Companies to list their businesses while increasing their regulatory capital to LKR 500 Million from LKR 100 Million.

The National Insurance Trust Fund had a satisfactory financial year. The appointment of our new Chairman brought in substantial industry experience and expertise. In combination with the strengthening of the Corporate and Senior Management teams, it served to facilitate new developments and improvements internally. NITF reported a Gross Written Premium of LKR5 Billion versus LKR 5.8 Billion in the previous financial year due to the handover of the Crop Insurance scheme to the Agricultural and Agrarian Insurance Board. Our post tax bottom line on the other hand dipped marginally to LKR 4.4 Billion from LKR 4.6 Billion; primarily due to the same reason.

In a very innovative step, NITF collaborated with a number of private hospitals and Lanka Hospital to provide high quality healthcare at an affordable cost to Government sector employees under the health insurance scheme 'Agrahara'. The key feature is that the costs are pre-determined which makes high quality treatment much more accessible to employees of the public sector. NITF also made arrangements to obtain a retrocession cover to safeguard its share of reinsurance ceded to it by all insurance Companies within Sri Lanka. Our investment in human capital was another area of focus as a means to add value to our stakeholders in the longer term.

“ We are committed to provide high quality services to our stakeholders whilst protecting and enhancing the balance sheet and human resources of NITF. ”



CHIEF EXECUTIVE OFFICER'S REVIEW

Accordingly our staffing was relooked at, levels enhanced where necessary, and relevant industry and skill training provided to improve the quality of our employees. NITF also improved its visibility by way of increased marketing and promotional efforts.

The main focus of NITF is to provide insurance coverage and financially empower the needier segments that often do not have financial access to insurers. This is in line with our vision to be a 'safety net' to the needier segments. An agricultural loan protection scheme has been designed in collaboration with banks and finance companies to protect the farmer community group that cannot secure itself financially in the event of crop destruction. One of the key constraints within the industry is the lack of knowledge and understanding of the importance of insurance. On the other hand insurance penetration in Sri Lanka compared to its counterparts in the region is much lower reflecting a significant opportunity for growth. As such, one of our key initiatives is to educate individuals to this end.

Our fundamentals are strong and we remain committed to providing our stakeholders with optimal returns, while remaining confident in our ability to progress to greater heights. I would like to extend my appreciation to the Chairman, the Board of Directors for their unstinted support, our loyal customers who have placed their trust in us and our employees who have demonstrated commitment in taking this Institution forward.



Sanath De Silva
Chief Executive Officer
23.05.2017

MANAGEMENT DISCUSSION AND ANALYSIS

External Environment

World Economic Outlook

Global economic activity remained subdued in 2015 mainly due to a decline in growth in emerging and developing markets for the fifth consecutive year in combination with only a modest growth in advanced economies. The reason for this is threefold. China continued to experience a shift from an investment and manufacturing oriented economy to that of consumption and services which served to slowdown the growth of imports and exports. This, together with the uncertain outlook of the Chinese economy had spillover effects in to other economies in terms of trade, declining confidence, as well as volatility in financial markets. Having said that, manufacturing and trade in general witnessed a slow down which reflected not just the status of the Chinese economy, but also subdued global demand and investment. Notable was the weakening demand for imports from within developing and emerging nations which affected global trade.

Lower prices of energy and commodities were yet another factor. Declining oil prices exerted a financial strain on fuel exporters. Although it may have been beneficial to the energy bill of many oil importers within developing and emerging economies, the trend was in fact weaker oil consumption probably due to deleveraging in some of these import economies.

Third, the US economy witnessed a rebound after a contraction in the first quarter of 2015. As a result, monetary policy was tightened and the Federal Reserve increased interest rates by a quarter of a percentage point. This affected consumer spending while reducing net exports. The International Monetary Fund (IMF) revised down its projected growth for 2015 to 3.1% and has projected a growth of 3.4% for 2016. Reasons for this included a slowdown of growth in China, a decline in oil prices, and a tightening of the monetary policy in the USA in the context of a strong recovery.

Sri Lankan Economy

Post end of the conflict and change of governments, Sri Lanka's focus shifted to focusing on long term strategic and structural development challenges in its aspiration to become a higher middle income economy. Government has clearly expressed its desire to move away from a debt funded infrastructure development led growth to a more private sector led market based growth. The service sector accounted for 62.4% of Gross Domestic Product (GDP), followed by manufacturing (28.9%) and agriculture (8.7%).

Exchange Rates

The Sri Lankan LKR remained stable against the US Dollar for the most part of 2015 and weakened after September 2015 subsequent to the policy of non-intervention in the foreign exchange market by the Central Bank of Sri Lanka in an effort to manage the balance of payment deficit which continued on an upward trend due to reduced inward remittances and export earnings.

Exchange Rates – USD versus LKR (Central Bank Annual Report – 2015)

Year Ended	USD
2011	113.90
2012	127.16
2013	130.75
2014	131.05
2015	144.06

Inflation

Sri Lanka's inflation remained at below 5% due to favorable domestic supply conditions. Inflation remained negative for the first time between July and September 2015 due to the Rupee depreciation. The Colombo Consumer Price Index (CCPI) dropped to a low of 0.9% during 2015 due to a growth in bank credit and a higher wage bill for government employees as well as those in other sectors.

Rate of Inflation Central Bank Annual Report – 2015)

Year Ended	Rate of Inflation Year on Year (%)	Annual Average CCPI Growth
2011	4.9	6.7
2012	9.2	7.6
2013	4.7	6.9
2014	2.1	3.3
2015	2.8	0.9

Interest Rates

With a relaxed monetary environment, interest rates remained low throughout the year with random upward movements during the period under review. The Standing Deposit Facility Rate stood at 6%, while the Standing Lending Facility Rate stood at 7.5% respectively. The Central Bank of Sri Lanka reduced policy rates during April 2015, as a result of which

MANAGEMENT DISCUSSION AND ANALYSIS

interest rates reached an all-time low of 6%. The weekly Average Weighted Prime Rate (AWPR) stood at 7.5% and the 1 year Treasury Bill rate at 7.11% as of 31st December 2015.

Industry Overview

A vibrant and competitive industry which has grown alongside Sri Lanka's economy, the insurance sector had some 29 registered insurance companies operating as at end 2015, at which point the sector's total assets amounted to LKR 394.2 Billion as per industry regulator, the Insurance Board of Sri Lanka. This is in comparison to an asset total of LKR 406.8 Billion as at end 2014. The insurance industry continued to be under-penetrated while the penetration rate is expected to continue at a slow rate given the low levels of disposable income, as well as a probable lack of awareness and understanding of the concept of insurance and its financial benefits that would accrue during difficult periods. It was also identified that the category of individuals who are provided access to free education, healthcare together with pension schemes during retirement opt out of insurance and chose instead to turn towards the state for financial support in times of need.

New regulations that were introduced in 2011 and implemented in the early part of 2015 required insurance operators to categorize their insurance products by class and required composite insurance companies to separate their operations in to life and general insurance, known as market segregation. The latter was mainly for better focus, to promote the efficient use of capital in the longer term, while ensuring better management of the different segments from a risk-based capital perspective. Post this, split, there are presently 4 composite companies dealing in both life and general Insurance businesses, 14 companies carrying out general insurance business, and 11 companies operating as life insurance businesses only. Apart from this, there are 57 insurance brokering companies registered with the Insurance Board of Sri Lanka which concentrates mostly on general insurance business.

The Risk Based Capital (RBC) framework was also introduced during the year under review. In addition to this, the regulatory capital requirement was increased to LKR 500 Million from LKR 100 Million. This change, although a challenge to smaller players within the market is expected to bring about more consolidation in the foreseeable future. The Insurance Board of Sri Lanka (IBSL) will also require all insurers to list themselves on the Colombo Stock Exchange in 2016 for the purpose of growing the bourse as well as for increased transparency in the insurance sector with possible exemptions for the larger international companies who would have better ability to bring in foreign capital.

All of these changes are expected to streamline the market while bringing in a greater degree of stability, transparency, corporate governance, and better risk management to the industry.

FINANCIAL REVIEW

NITF reported a Net earned Premium of LKR 7.9 Billion for its financial year of 2015, a marginal decline from LKR 8 Billion in 2014. This was primarily due to the transfer of the agricultural insurance scheme which resulted in a drop in crop insurance premiums. The Ministry of Finance and Planning decided to entrust the management of the Crop Insurance scheme under NITF to the Agricultural and Agrarian Insurance Board considering the relevance and the ability of the latter to honor claims more effectively using its diverse network. NITF reported a Net Written Premium of LKR 3.8 Billion a dip of 8.6% from LKR 4.2 Billion in 2014.

Ancillary income of LKR 856 Million during the period under review vis a vis LKR 639 Million in 2014 was attributable to improved interest income that accrued as a result of increased liquidity which was channeled into investment coupled with a higher interest rates. The appreciation of the USD against the LKR proved beneficial to NITF in relation to the exchange gain earned on its USD denominated savings accounts as at financial year end.

Prior to the incorporation of NITF, a quantum of soft loans were disbursed out of the Strike Riot Civil Commotion and Terrorism Fund then under the purview of the Sri Lankan Government. These loans were provided at concessionary rates to large establishments who were affected by terror attacks during the civil war that prevailed. The interest income that accrued has now reduced in line with the repayment of these loans which were transferred to NITF in 2006.

Increased staffing and related expenditure together with marketing and expansion related costs served to lower NITF's bottom line to LKR 4.4 Billion from LKR 4.6 Billion in the previous financial year. NITF's total assets grew to LKR 12.2 Billion, a LKR 1 Billion increase from 2014 in line with its growth in financial investments comprising primarily Government securities while its accumulated fund stood at LKR 8.6 Billion versus 7.7 Billion in 2014.

SEGMENTAL BREAKDOWN OF NET WRITTEN PREMIUMS – 2015

(Figures in LKR)	2015	2014
Inward Reinsurance	1,737,839,949	2,041,207,710
Strike Riot Civil Commotion & Terrorism	3,018,417,937	2,835,199,980
General Insurance – Motor	242,090,517	142,690,974
General Insurance – Non Motor	36,599,503	22,595,787
Crop Insurance	-	787,372,981
Medical Scheme for Parliamentary Members	27,737,796	13,000,000
Total contribution received for Agrahara medical scheme	1,636,567,419	1,494,899,976
Crop Insurance levy collected	1,259,134,207	1,184,647,255

DIVISIONAL REVIEW

AGRAHARA

The 'Agrahara' medical insurance scheme was introduced as a benefit to government officials, public and provincial public servants and their families as a means to uplift their standard of living. Previously established in 1997, this 19 year old scheme commenced operations using a nominal monthly contribution per member which evolved in to a monthly deduction from the monthly salaries of all pensionable Government officers. Originally implemented and managed by the Sri Lanka Insurance Corporation, the scheme was eventually taken over by the Government of Sri Lanka in January 2006 after the former was privatized, and is now operated as a scheme of the Ministry of Public Administration via the National Insurance Trust Fund. There are presently 825,000 members under this scheme and covers nearly 2.2 Million persons including their family members.

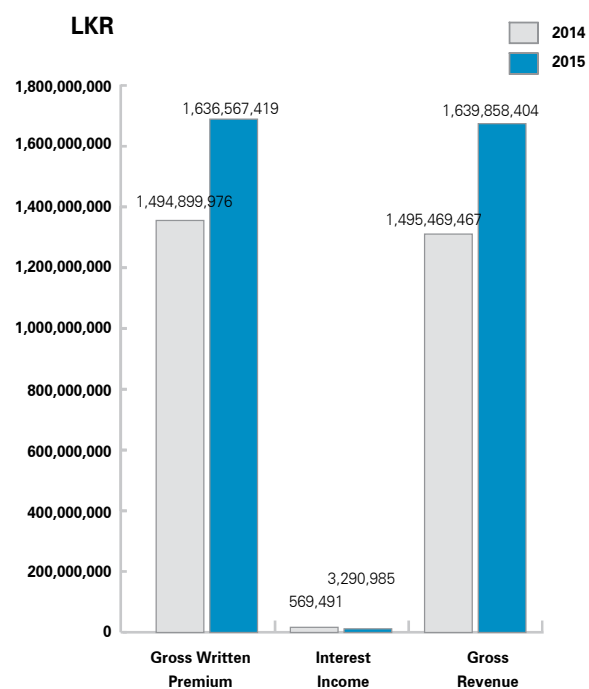
As a means to expedite claim payments, National Insurance Trust Fund Board implemented a new claims processing system which fast tracked all claims payments to within 3 days provided all necessary requirements were met. In addition, its E-Card facility available in numerous hospitals provides the special benefits and discounts for hospital admissions and out door treatments. Collaborations with several renowned hospitals including 'Lanka Hospital', 'Hemas Hospital', 'Nawaloka Hospital', 'Nothern Hospital Jaffna', 'Singhe Hospital Ratnapura', 'Osro Hospital Mawanella', and 'Co-operative Hospital and Society Ltd Galle' is evidence of NITF's growth and promise to provide access to a wider range of benefits to its customers. This medical insurance scheme offers multiple benefits inclusive of:

- Hospital Charge Reimbursements encompassing nursing home charges, surgical and related medical expenses, fees for consulting services offered by general and specialist physicians, medical test and indoor treatment expenses.
- Heart surgery related reimbursements which were increased to LKR 500,000 from LKR 400,000.
- Cancer and Kidney surgery related reimbursements which were increased to LKR 200,000 from LKR 150,000.
- Natural death cover of the latter claim benefit being increased to LKR 150,000 from LKR 100,000.
- Optical reimbursements relating to purchase of spectacles once every 3 years and amounting to LKR3500.

In addition to the regional offices in Anuradhapura and Hambantota, NITF has 18 representative units within each District Secretariat island wide to serve its members of 'Agrahara'. Each of these units are managed by coordinating officers who promote growth of the business by way of conducting promotional and awareness campaigns. The financial year under review saw the renovation and facility enhancements of some of these units to further improve its business. NITF intends expanding the number of units in line with the new policies introduced to the Public sector.

Bulk of the Agrahara division's gross revenue (99%) comprised its Gross Written Premium (GWP) of LKR 1.64 Billion, a 9.4% increase from LKR 1.49 Billion in the previous financial year primarily due to an increase in the insurance membership. Interest income also witnessed a remarkable increase of almost 477% year on year to LKR 3.29 Million from LKR 569K due to increased investments in Treasury Bills and short term REPO investments stemming from increased liquidity.

LKR	2015 (LKR)	2014 (LKR)
Gross Written Premium	1,636,567,419	1,494,899,976
Interest Income	3,290,985	569,491
Other Income	40,750	169,835
Total Income	1,639,899,154	1,495,639,302



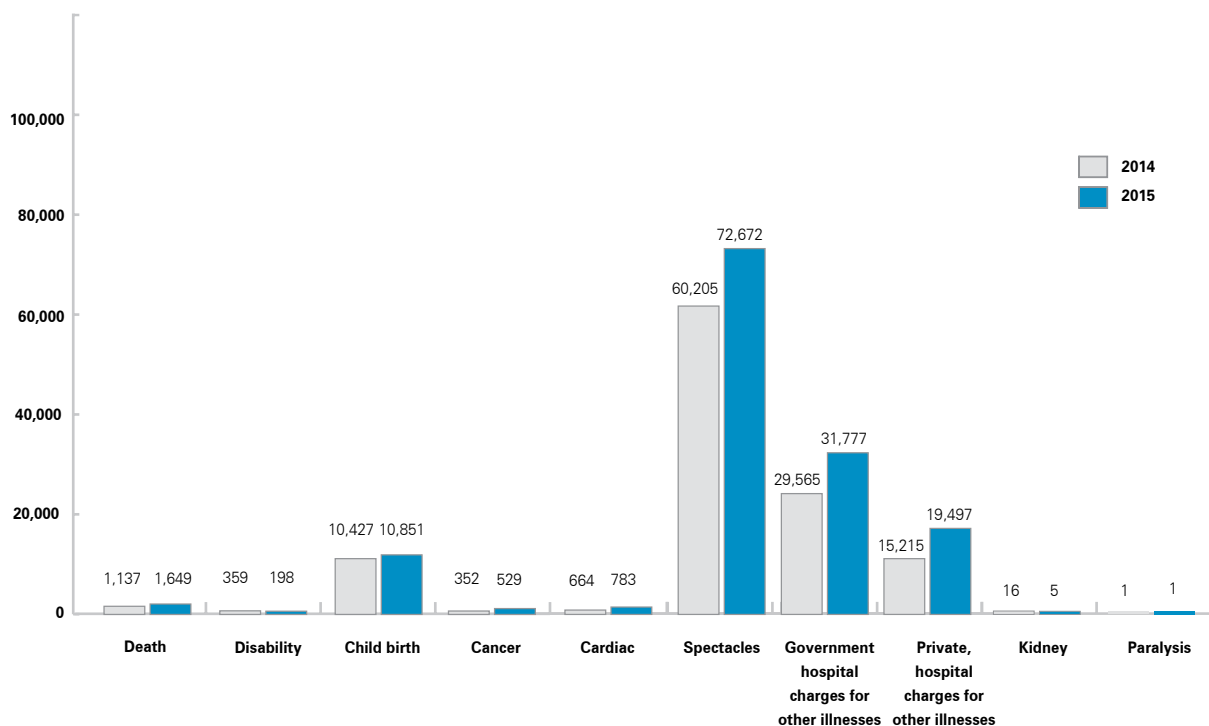
DIVISIONAL REVIEW

CLASSIFICATION OF AGRAHARA CLAIMS – YEAR 2015

CLAIM TYPE /NO OF CLAIMS	TOTAL CLAIMS RECEIVED		CLAIMS PAID		OUTSTANDING CLAIMS	
	2014	2015	2014	2015	2014	2015
Death	1,137	1,649	840	1,413	278	213
Disability	359	198	310	152	36	42
Child birth	10,427	10,851	9,167	9,829	964	662
Cancer	352	529	310	449	29	55
Cardiac	664	783	653	757	7	16
Spectacles	60,205	72,672	52,760	65,434	3,019	2,341
Government hospital charges for other illnesses	29,565	31,777	26,624	28,745	1,927	2,044
Private, hospital charges for other illnesses	15,215	19,497	12,296	15,779	1,497	1,823
Kidney	16	5	14	5	-	-
Paralysis	1	1	1	-	-	-
TOTAL	117,941	137,962	102,975	122,563	7,757	7,196

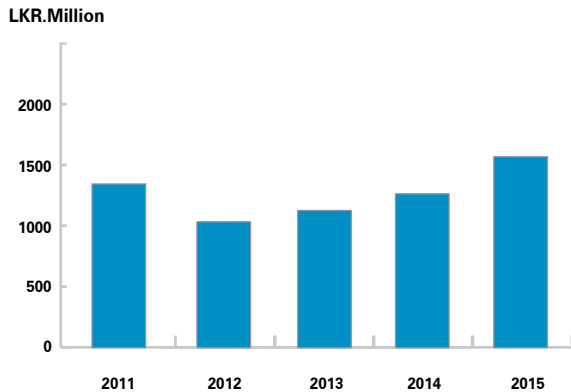
CLASSIFICATION OF AGRAHARA CLAIMS

LKR



DIVISIONAL REVIEW

Claims Payment Summary



NET CLAIMS

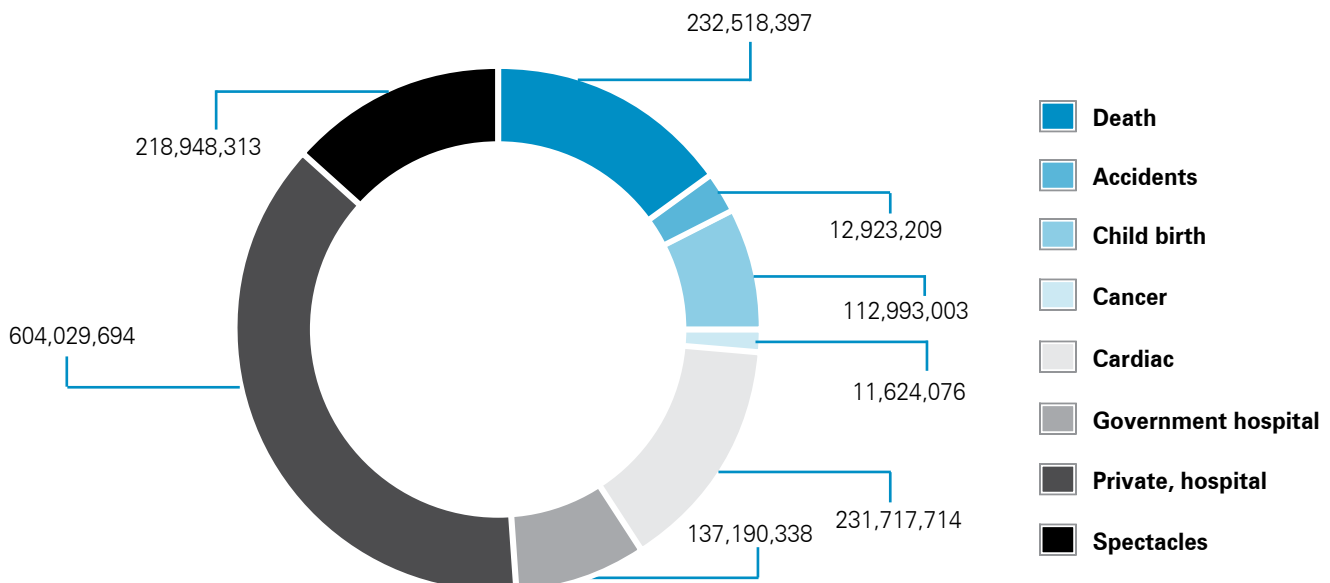
LKR	2015	2014
Contribution from Members	1,236,567,419	1,094,899,976
Contribution from the Treasury	400,000,000	400,000,000
Total Contribution	1,636,567,419	1,494,899,976
Claim Expenditure	(1,561,625,099)	(1,228,123,716)
Deficit/Excess	74,942,320	266,776,260

STRIKE, RIOT, CIVIL COMMOTION & TERRORISM FUND (SRCC&TF)

Founded and managed in 1987 by the National Insurance Corporation of Sri Lanka, the Strike, Riot, Civil Commotion and Terrorism Fund was established to provide protection for general insurance policies issued in respect of those subjected to loss or damage to their property, setbacks to individual accidents, and bodily injuries occurring as a result of public strikes, riots, civil commotion and terrorist activities within the geographical limits of Sri Lanka. There are presently 17 registered Insurance companies, operating in Sri Lanka, providing SRCC & T insurance covers on behalf of the National Insurance Trust Fund.

- Asian Alliance General Insurance Ltd
- Sanasa Insurance Co. Ltd
- Amana Takaful PLC
- Co-operative Insurance Company Ltd
- Ceylinco General Insurance Ltd
- AIA General Insurance Lanka Ltd
- HNB General Insurance Ltd
- Janashakthi General Insurance Ltd
- MBSL Insurance Company Ltd
- Allianz Insurance Lanka Ltd
- Union Assurance General Ltd
- Sri Lanka Insurance Corporation Ltd
- Continental Insurance Lanka Ltd
- People's Insurance PLC
- LOLC Insurance Company Ltd
- Orient Insurance Ltd
- National Insurance Trust Fund Board

Claim Expenditure 2015



DIVISIONAL REVIEW

LKR	2015 (LKR)	2014 (LKR)
Gross Written Premium	3,018,417,937	2,835,199,980
Investment Income	550,349,604	479,257,678
Other Income	3,198,218	11,937,931
Total Income	3,571,965,759	3,326,395,589

REINSURANCE

NITF commenced accepting the risk of reinsurance in 2008 with its primary objective being an extension of support to all primary insurance companies operating in Sri Lanka while ultimately retaining foreign currency within the country. National Insurance Trust Fund is presently the only reinsurer operating in Sri Lanka and serves as the National Reinsurer. It is mandatory for general insurance companies in Sri Lanka to obtain 30% of the total sum of reinsurance business from NITF, while NITF remains responsible for settlement of any claims submitted by primary insurance companies for a sum equivalent to the accepted liability. NITF has also obtained a retrocession cover to protect its own balance sheet in the event of an exceptionally adverse claims experience.

LKR	2015 (LKR)	2014 (LKR)
Gross Written Premium	1,737,839,949	2,014,207,710
Investment Income	186,086,647	78,837,436
Other Income	23,719,435	948,265
Total Income	1,947,646,031	2,093,993,411

MOTOR INSURANCE

Being a fully owned Government establishment, the motor division of the National Insurance Trust Fund, provides comprehensive and third party insurance covers to government institutions and semi-government institutions at an affordable premium. The comprehensive policy covers damage caused by fire, theft, third parties (death and injury) as well as flood, strike, riots, civil commotion and terrorism.

On par with its competition, NITF also provides value added services inclusive of quick assessments of accidents island-wide, the ability to undertake repairs at a garage of convenience, and claim settlements within 3 days of document submission. In addition insurance covers have been extended to motor bicycles being utilized by government field officers Island wide.

Apart from the above, NITF also provides flood cover, cover for third party property damage, duty free loading cover, hire purchase cover, air bag cover, towing charge cover, windscreen cover, learner driver cover, workman's compensation cover, legal liability cover for passengers, and goods in transit cover.

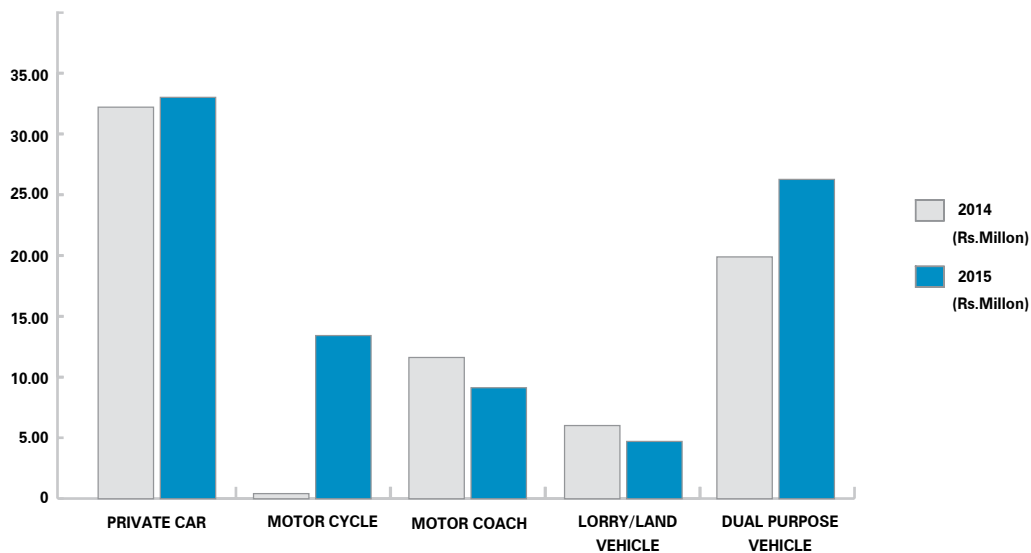
The year under review saw the establishment of a 24-hour call center as well as numerous branch offices within the District Secretariats, in an effort to streamline processes, and facilitate speedier payment of claims. A competent team of assessors island-wide serve to assist the process when inspection of claims are made.

LKR	2015 (LKR)	2014 (LKR)
Gross Written Premium	242,090,517	142,690,974
Investment Income	34,621,732	34,530,790
Other Income	21,181,827	1,193,618
Total Income	297,894,076	178,415,382

The Motor Division reported a favorable increase of 78% in net income year on year which was driven by a 70% increase in Gross Written Premium. This improved performance came about as result of increased marketing and promotional efforts under the direction of the new Management, increased staffing, and consequently better levels of customer service. The Motor division also recognized the general customer preference to possess an insurance card as against a paper certificate as proof of obtaining a motor insurance policy. It was identified that the latter posed a drawback to attracting customers. Accordingly, a new plastic insurance card was introduced during the year under review that also helped boost income levels.

DIVISIONAL REVIEW

CATEGORY	2014		2015	
	NO OF CLAIMS	AMOUNT (LKR. Million)	NO OF CLAIMS	AMOUNT (LKR. Million)
Private Car	392	32.77	258	33.02
Motor Cycle	42	0.52	966	13.89
Motor Coach	117	12.28	91	9.52
Lorry/Land Vehicle	68	6.46	51	4.34
Dual Purpose Vehicle	272	19.85	220	26.51
Total	891	71.87	1,586	87.27



GENERAL INSURANCE (NON MOTOR)

NITF's General Insurance (Non- Motor) business is sub divided into Fire, Marine, Medical, and Miscellaneous categories of which the latter includes covers such as Workmen's Compensation, Personal Accident, Travel and Burglary policies to name a few. The General Insurance division is equipped with a team of skilled loss adjusters island-wide who provide prompt action on receipt of a claim to settlement.

Under this division various policies such as Fire Insurance, Contractor's All Risk Insurance, Workers' Compensation Insurance, Burglary Insurance, Contractor's Plant and Machinery Insurance, Personal Accident Insurance, Marine Cargo (Air), Marine Hull Insurance, Money in transit Insurance, Electronic Equipment Insurance, Goods In Transit Insurance and Bankers Indemnity Insurance have been implemented.

LKR	2015 (LKR)	2014 (LKR)
Gross Written Premium	36,599,503	22,595,787
Investment Income	6,516,870	12,717,852
Other Income	38,087	183,465
Total Income	43,154,460	35,497,104

CORPORATE GOVERNANCE

The National Insurance Trust Fund recognizes that good corporate governance creates lasting long term value and therefore aims to create and apply the highest standards to its operations, processes and activities, while complying with all external regulatory framework requirements pertaining to the industry, the Corporate Governance Code of Best Practices, and the Public Enterprises Guidelines for Good Governance and Corporate Governance practices. Apart from this, all of NITF's employees are bound by a code of conduct which is strongly adhered to. NITF aims to manage its operations responsibly, and thereby gain the confidence of its clients, employees, the Government and the general public. Efficient practices of the Board of Directors and its associated committees, sound collaboration between these bodies and its employees as well as transparent communication is key to good corporate governance.

BOARD OF DIRECTORS

The Board of Directors is core of the corporate governance platform, and all members of the Board of the National Insurance Trust Fund are responsible to its stakeholders for ensuring that NITF is managed efficiently in accordance with Government policies, constitutional and legal requirements while achieving its objectives. This encompasses ensuring that an appropriate system of governance is in place throughout the Institution. In accordance with the National Insurance Trust Fund Act No 28 of 2006, the Chairman of the Board is appointed by the Minister of National Policies and Economic Affairs.

The Directorate is responsible to their stakeholders for creating and delivering long term sustainable value while ensuring that business affairs and other activities of the institution are managed ethically and within the regulatory and legal framework. The Directors' responsibilities encompass the provision of entrepreneurial leadership and strategic direction in order to develop and set short, medium and long term objectives, guidance on the overall business plan, a clearly structured and defined human resource system, statutory compliance guidelines, internal audit and risk management guidelines, as well as the review of major investments in the business.

During the period under review, NITF held seven Board Meetings, all of which had excellent attendance displaying the Board's commitment towards discharging their duties. NITF reports comprehensively to the Board on all matters inclusive of the financial status, business developments, achievement of objectives, risk exposures as well as statutory compliance.

BOARD MEETINGS AND ATTENDANCE- 2015

The Board of NITF meets regularly to discuss the ongoing business of the Institute and as and when it may be required. All absences are informed in advance and recorded while the absentees are briefed by way of an update. Board papers are also circulated amongst the members in advance so as to ensure efficient and constructive discussion. There were 7 Board Meetings held during the year.

ROLE OF BOARD SECRETARY

Ms. Gayani Siyambalagoda, Secretary to the Board, minutes all Board decisions and liaises with the Directors on all matters relevant to ensure smooth coordination of events.

FINANCIAL STATEMENTS

The financial statements of NITF have been prepared and presented adopting the Sri Lanka Accounting Standards and all other applicable laws and regulations.

PROCUREMENT

This is carried out using procurement guidelines issued by the Department of Public Finance of Ministry of Finance and Planning. The procurements are carried out with the assistance of the Cabinet Appointed Procurement Committee (CAPC), Ministry Procurement Committee (MPC), and Departmental Procurement Committee (DPC) based on the value in concern.

AUDIT COMMITTEE

The year under review saw the establishment of the Audit Committee whose duties and responsibilities were formulated in line with the 'Code of Best Practice for Audit Committees' issued by the Institute of Chartered Accountants of Sri Lanka. The scope of the audit, as well as the responsibilities attached to the Audit Committee was established during 2015 as follows.

- Annual audit plans were reviewed and established.
- Internal control systems were reviewed and evaluated.
- Performance of the separate units was reviewed at intervals for the dual purpose of cost effectiveness and to minimize wasteful expenditure.
- Consistent follow up with the external auditor and Auditor General with regard to the latter's management letters.
- Checks to ensure that statutes, regulations, and circulars are complied with.

CORPORATE GOVERNANCE

- Financial Statement checks to ensure that relevant accounting standards were complied with.
- External and internal audit reports as well as management letters were reviewed for lapses and remedial action.
- Implementation of recommendations/directives of the committee were reviewed.

The Audit Committee met on three occasions during 2015. The year under review was one of significant improvement in the internal controls. Internal audit reports were prepared monthly and follow up meetings held to identify all issues and concerns. Probable ways in which controls and operations could be improved to overcome identified weaknesses, and improve efficiencies and effectiveness of controls were also determined based on the risks identified. As an added measure, the internal audit team visited several insurance companies in an effort to monitor compliance with NITF rules and regulations within those establishments.

Members of the Audit Committee	Attendance
Mr. A.R. Deshapriya(Chairman)	3
Mr. Trevine Fernandopulle	3
Mr. Asendra Siriwardena	3

EXTERNAL AUDIT

The Auditor General was appointed as the External Auditor in terms of article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and is also required to audit the accounts of Public Corporations, businesses or other undertakings vested in the Government under any written law. The Auditor General performed the annual audit of the financial statements of the company for the year ended 31st December 2015 in terms of article 154 (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka

INVESTMENT COMMITTEE

The Investment Committee's responsibilities may be grouped in to two main areas namely, developing a sound investment policy and ensuring it is implemented efficiently to yield the maximum return in line with investment policy criteria and guidelines of NITF. The year under review saw the management of NITF's investment portfolio, asset allocation and management of the asset-liability match being scrutinized as well as seeking out new opportunities for investment. During the year under review one investment committee meeting was held.

Members of the Investment Committee	Attendance
Mr. Trevine Fernandopulle(Chairman)	1
Mr. Asendra Siriwardena	1
Mr. A.J.D. Dias	1

WORKING COMMITTEE

The Working Committee of SRCC and T fund was formed to discuss and make decisions in relation to the payment of claims which are under the Strike, Riot, Civil Commotion and Terrorism risks. The Working Committee comprised of senior insurance officers representing general insurance companies and Working Committee Meetings are held monthly in which the claims payment decisions are made and thereafter those decisions are forwarded to Technical Advisory Committee of SRCC and T fund.

TECHNICAL ADVISORY COMMITTEE

The Technical Advisory Committee of SRCC and T fund was formed to take collective strategic decisions with regard to SRCC and Terrorism fund which comprised of heads representing general insurance companies. The decisions which are made collectively at the TAC are subsequently forwarded to the NITF Board for approval

HUMAN RESOURCE GOVERNANCE

In a dynamic industry as this, we have identified and understood that the talent, performance and commitment of our staff are the cornerstones of our success. Their professional expertise and readiness to embrace innovation have helped drive our business forward and we recognize the need for strategic human resource planning to achieve high standards of excellence. As such, we aim to create attractive conditions for nurturing and enhancing personal development and performance with the intention of retaining our expertise. The Human Resource division has a comprehensive capacity development program in place for this purpose and places great emphasis on training its employees in the relevant areas using internal and outsourced resource personnel. In house, local as well as overseas training is carried out at every staff level to build technical knowledge and competencies. Management development programs also provide our junior managers with an opportunity to grow and progress within their careers. In an effort to align our business with its vision and strategic objectives, NITF pays close attention to its human resource succession planning for stronger leadership going forward. While aiming for excellence, NITF encourages

CORPORATE GOVERNANCE

its staff at all levels to discuss any grievances that they might have in a confidential manner and has in place a Board approved procedure to address same.

We believe in being an equal opportunity employer and do not discriminate against ethnicity, culture, gender and race in relation to our recruitment. All employees are provided with similar opportunities within the workplace encompassing promotions, benefits, trainings and compensation. All employees are provided with a comprehensive insurance policy that extends to their families, while a welfare committee is in place to organize informal gatherings, and outings during the year.

Our focus on the human resource element forms one of our key corporate values upon which we carry out our business. We therefore have in place an established Performance Management System to ensure that our employees strive for high performance within a framework of compliance and sustainability.

IT GOVERNANCE

This aspect of governance revolves around the technology presently in use, and which has been aligned with the setting of business objectives. NITF has a comprehensive network of systems which encompass the key modules of Insurance, Reinsurance, Finance, Management Accounting, Procurement, Human Resources, Treasury and Investment. Considering that all of NITF's processes are automated and networked island wide, the Management of NITF strives to ensure that its user interfaces and controls are securely structured in such a way so as to minimize relevant risks to the business, while improving speed, effectiveness and efficiency of service provided to its customers.

CONCLUSION

The Audit Committee remains satisfied with the effective implementation of NITF's internal controls, the adequate safeguard of its assets, the effectiveness of the internal audit department and external auditors, the appropriate application of accounting policies to ensure the reliability of the financial statements, the compliance framework in place, the IT system controls as well as the corrective and preventive actions taken with regard to non-compliances during the year under review.

MEMBERS OF THE BOARD OF NITF - 2015



1

Mr. Manjula de Silva

2

Mr. Trevine
Fernandopulle

3

Mr. Chandana
Kumarasinghe

4

Mr. Asendra
Siriwardena

5

Mr. D. P. Wimalasena

PROFILE OF THE BOARD MEMBERS

1. Mr. Manjula de Silva (Chairman) -

Manjula de Silva was appointed as the Chairman on 06.04.2015. Prior to the appointment as the Chairman of NITF he was the Managing Director of HNB Assurance PLC.

Manjula de Silva holds a BA Hons (First Class) degree in Economics from the University of Colombo and a MBA from London Business School, UK. He is also a FCMA (UK) and a CGMA.

He was also recently appointed as a Consultant to the Ministry of Public Enterprise Development. Prior to 2015, he served as the Managing Director of HNB Assurance PLC for 9 years and as its CEO for 2 more years. He has also served as General Manager, Eagle NDB Fund Management Company Ltd (currently NDB Wealth Management) General Manager - Corporate Lines and Human Resources, Eagle Insurance Co. Ltd (currently AIA Insurance) and Director General, Public Enterprises Reform Commission (PERC).

He also served as the Chairman of CIMA (Chartered Institute of Management Accountants) Sri Lanka Board in 2016 and subsequently served on its Regional Board for MESANA Region until 30th June 2017. He was a Committee Member of the Ceylon Chamber of Commerce and has served as the Chairman of its Steering Committee on Insurance.

2. Mr. A.R. Deshapriya (Board Member) -

Mr. A.R. Deshapriya was appointed as a board member on 08.04.2015. In 2015, he was serving as the Director General of Department of National Budget.

3. Mr. W.M.M.B.H. Gunaratne (Board Member) -

Mr. W.M.M.B.H. Gunaratne was appointed as a board member on 08.04.2015. In 2015, he was serving as the Chief Accountant of the Ministry of Finance.

4. Mr. Trevine Fernandopulle (Board Member) -

Mr. Trevine Fernandopulle was appointed as a board member on 08.04.2015. He was the Deputy Chief Executive Officer of HSBC when he retired from HSBC. Furthermore he is currently the Chairman of AMW Capital Leasing and Finance PLC (member of the Dubai based conglomerate Al Futtaim Group), Chairman of

Joseph Frazer Memorial Nursing Home, Non Executive Director of Union Bank PLC and Non Executive Director Dutch Lanka Trailer Manufacturing Ltd (a member of the Tata Group India)

5. Mr. Asendra Siriwardena (Board Member) -

Mr. Asendra Siriwardena was appointed as a board member on 02.04.2015. He is presently Functioning as a practicing Lawyer.

6. Mr. A. J. D. Dias (Board Member) -

Mr. A. J. D. Dias was appointed as a board member on 08.05.2015. In 2015 he was serving as Additional Secretary of Ministry of Health and Indigenous Medicine.

7. Mr. J.A.K.N. Jayatunga (Board Member) -

Mr. J.A.K.N. Jayatunga was appointed as a board member on 08.05.2015. In 2015, he was serving as Additional Secretary of the Ministry of Public Administration and Management.

8. Mr. D.P. Wimalasena (Board Member) -

Mr. D. P Wimalasena was appointed as a board member on 14.12.2015. In 2015, he was serving as the Chief Accountant of the Ministry of Finance.

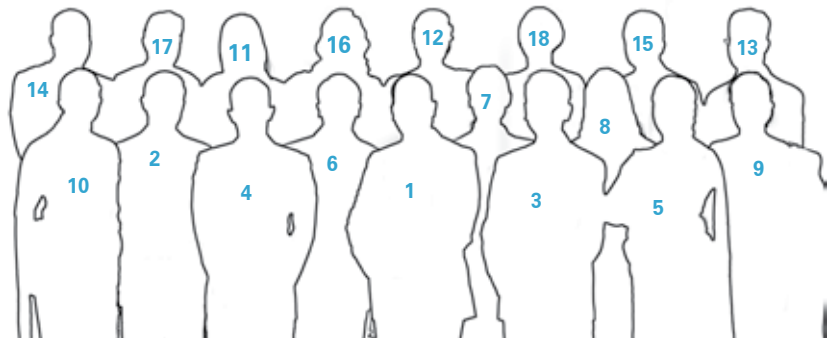
9. Mr. Chandana Kumarasinghe (Board Member) -

Mr. Chandana Kumarasinghe was appointed as a board member on 14.12.2015. In 2015, he was serving as a Director of the Ministry of Public Administration and Management.

CORPORATE AND SENIOR MANAGEMENT TEAM



- 1) Mr. Sanath C. De Silva – Chief Executive Officer
- 2) Mr. Anura Samarakoon – Head of Agrahara Department
- 3) Mr. R.S. Gunasekera – Head of Research and Analysis Department
- 4) Mr. T.G. Lakshman – Head of Motor Claims Department
- 5) Ms. Dammika Weerakoon- Head of Finance Department
- 6) Mr. M.N.K. Pandigamage – Acting Head of Hambantota Branch
- 7) Ms. Nimesha Sahabandu – Head of Micro Insurance Department
- 8) Ms.S.R.G. Udari Priyabhashini – Head of Legal Department
- 9) Ms. Nimali Perera – Head of Branch Supervision Department
- 10) Ms.Upeksha Ekanayake – Head of Motor Underwriting Department
- 11) Ms. Gayathri Soysa – Head of Internal Audit Department
- 12) Ms. Gayani Siyambalagoda – Executive Secretary



- 13) Mr.Namal Kanchana – Head of Investment Division
- 14) Mr. Kavindra Jayasinghe – Head of IT Department
- 15) Mr. Sithara Asanka Jayalath – Head of HR and Administration Department
- 16) Ms. Deshani Nanayankara – Head of Reinsurance Department
- 17) Mr. Shamal Sumudu Senarathna – Head of Anuradhapura Branch
- 18) Ms. Randima D.M.Manage – Head of General Claims Department

RISK MANAGEMENT

Central to the business strategy of National Insurance Trust Fund, is how its risk is managed. While the element of uncertainty leads to risk, it could also contribute towards the creation of opportunity that would add value to the business. NITF has therefore identified risk to its business operation as constituting every possible future development or event that could result in a negative deviation from its targets inclusive of the assets, financial situation and profitability, or those factors that could create value addition for the business. Our risk management process trickles down to all the individual business units and aims to identify and mitigate the associated risks attached to its activities, while proactively identifying possible opportunities for future development.

The risk management process is embedded at every level of the organization, with the ultimate responsibility lying with the Board of Directors. At this level, strategic risk mitigation would translate in to business plans, how they are monitored and reviewed. The process of overseeing the risk management process has been delegated to the Audit Committee of the institution. The latter seeks, identifies and approves key risk policies, risk authorities and risk tolerances. The Audit committee's involvement also extends to finding methods to evaluate infrastructure, personnel competencies, technologies and communication to ensure that risk information received is relevant. Independent audits will ensure that all risk processes are in place for efficient operations within a framework of acceptable risk.

National Insurance Trust Fund has adopted the Enterprise Risk Management model in order to take on a holistic view in relation to the risks faced by the organization and to leverage on the benefits of obtaining sound risk intelligence. Better risk intelligence would mean a better informed Audit and Board Committee which would serve to enhance stakeholder value.

In order to ensure the accomplishment of strategic risk objectives, the management of National Insurance Trust Fund has been vigilantly monitoring the political, technological, socio-cultural, and economic developments, as well as competitor and customer dynamics relating to the insurance sector.

Risk categorization is threefold. The preventable risk category is the most manageable and arises from within the organization. This can be managed via compliance rules, and regulations, while strategy and external risks on the other hand require a different approach to reduce the likelihood of risks and mitigate them cost efficiently.

PREVENTABLE RISKS

R01 –Reputational Risk

NITF recognizes the need to manage the market reputation surrounding its name for which it considers and takes seriously customer, stakeholder, and public opinion. With strong control and compliance mechanisms in place to ensure that policies and procedures are duly followed, all efforts are directed towards creating and reinforcing a positive work culture with sound corporate values.

R02 – Fraud Risk

NITF has established effective internal control system and accounting system. NITF has an effective internal audit section in place which continuously reviews all of the internal controls within the organization to ensure that the risk of fraudulent activity is minimized. Well-structured operational processes and procedure, together with clear communication channels ensure that early warning signals are clearly expressed.

STRATEGIC AND OPERATIONAL RISKS

R03–UNDERWRITING RISK

NITF ensures that its exposure carries a balanced and acceptable level of risk. It does this by way of its application approval processes, exposure limits, and coverage limits. In addition to this, there is continuous monitoring and evaluation that takes place so as to understand loss and retention experiences. NITF has a systematic manner in which its underwriting process takes place while internal audits ensure that all guidelines are being adhered to. Training is also provided internally to ensure that staff are equipped with adequate competencies to assign accurate risk levels while underwriting.

R04–REINSURANCE RISK

During the financial year under review, NITF commenced its plans to obtain a retrocession cover at a reasonable cost to cover its reinsurance portfolio for 2016 with reinsurers who have high financial ratings and high global ranking.

R05–RESERVE ADEQUACY RISK

NITF continuously reviews and ensures that its fund reserve position is adequate to meet liabilities as and when they fall due.

R06 – CREDIT RISK

NITF continuously monitors the creditworthiness and financial stability of institutions and individuals. The credit approval process is structured based upon the size and type

RISK MANAGEMENT

of business, while a credit policy is in place for the guidance of all staff. NITF maintains a stringent policy on payment of premiums on all policies and takes firm action when dues remain unpaid.

R07 – LIQUIDITY RISK

Liquidity Risk or the inability to meet the contractual obligations such as claims payments, reinsurance payments and fund transfers to the Treasury has been mitigated through diversification of investments with different maturities such as Repos, Treasury Bills with different maturities and Treasury Bonds with different maturities and debentures.

NITF invests all of its funds in Government securities and an adequate portion of them are held in short term maturing investments and repurchase agreements. A maturity analysis of securities ensures that there is no serious mismatch between assets and liabilities and the fund stays adequately liquid.

R08 – INFORMATION SECURITY SYSTEM RISK

In order to ensure that NITF does not incur losses as a result of system failures, or any cyber-attacks, it continues to invest in its IT infrastructure and IT policies for better security. Internal staff is continually trained in the correct system related processes and control mechanisms remain in place to ensure confidentiality and integrity of information.

R09 – BUSINESS CONTINUITY RISK

In a means to ensure the short and long term continuity of the business, NITF has its contingency plans in place which include Corporate Disaster Recovery as well as Business Recovery plans in relation to the Institution's staff, and resources. This is to ensure that there is no risk of a prolonged cessation in operations.

EXTERNAL RISKS

This component of risk is largely out of organizational control although NITF proactively makes its assessments on the possible impacts to its business as well as the ways in which the risk element could be mitigated.

R10 -CONCENTRATION RISK

Risk of exposure to increased losses associated with inadequately diversified portfolio of assets. In the case of NITF, there is a concentration of investment in government securities. However it does not cause any concern as they are risk - free gilt -edged investments.

R11 -CLAIMS SETTLEMENT RISK

Risk of potential disputes arising due to fraudulent, legal and technical factors is controlled through taking initiatives to impose stringent regulations in approving claims and segregation of duties in processing of claims.

R12 – MARKET RISK

NITF has laid down clear investment guidelines which have been approved by the Board of Directors. These guidelines specify how its investments need to be managed effectively. Management reports are also made available to the Investment Committee to ensure that market risk is substantially mitigated.

R13-REGULATORY AND COMPLIANCE RISK

NITF closely monitors all regulatory changes and developments on an ongoing basis in addition to participating in relevant industry forums to ensure that the business itself is in compliance operationally, while policies and procedures are periodically reviewed and communicated to its internal stakeholders.

R14 -BUSINESS RISK

Business risk has been mitigated by way of diversifying into many strategic business units such as Strike, Riot, Civil Commotion and Terrorism insurance, Motor insurance, Agrahara insurance, Natural Disaster Insurance and Reinsurance etc.

R15 -FOREIGN EXCHANGE RISK

In order to eliminate the Foreign Exchange Transaction Risk the Reinsurance Agreements have been contracted in the home currency values for the payment of the reinsurance premium.

R17 -INVESTMENT CREDIT RISK

In order to mitigate the Investment Credit Risk to a minimal level, risk free investments in Treasury Bills, REPOs and Treasury Bonds are made only through state banks.

R19 -OPERATIONAL RISK

Operational Risk is mitigated by the computerization of operations. The Strike, Riot, Civil Commotion and Terrorism Fund divisions of NITF are audited by the Internal Audit Department in order to minimize errors and discrepancies relating to premium collection and claims payments. Furthermore, all office operations have also been computerized for error free processing of transactions.

CORPORATE SOCIAL RESPONSIBILITY

NITF recognizes the importance of being a socially responsible Institution as a means to create long term value for all its stakeholders. To this end, it has a Code of Conduct in place which incorporates its key corporate values and upon which business is conducted at all levels. This has been the key driver of its success. NITF's inherent purpose in line with its vision and mission is to contribute towards the social and economic development of the country while serving the needier segments of society. In this sense, NITF aims to continually give back towards developing communities in which it works and lives and elevate the latter's standard of living. With this in mind, NITF collaborates and forms alliances with establishments to further enhance its product value offerings.

During the year under review, NITF signed Memorandums of Understanding with several well renowned hospitals to offer all government sector employees' quality healthcare at discounted rates under its 'Agrahara' scheme. In addition, the Welfare Society of NITF undertook the reconstruction of a building and donated school supplies for the children of Dickellakanda Vidyalaya in Maliboda as a means to assist with their education. We constantly seek means to assist and give back while placing significant emphasis on the triple bottom line – people, profit and our planet.

REPORT OF THE DIRECTORS

The NITF is managed by a Board consisting of the following seven members appointed by the Minister in charge of the subject of Finance.

- (a) An officer of the Ministry of the Minister to whom the subject of Finance is assigned:
- (b) The Chief Accountant of the Ministry of the Minister to whom the subject of Finance is assigned:
- (c) An officer of the Ministry of the Minister to whom the subject of Health is assigned:
- (d) An officer from the Ministry of the Minister to whom the subject of Public Administration is assigned: and

- (e) Three persons to be nominated by the Minister from among persons possessing qualifications or expertise in the fields of finance banking, insurance management or law.

The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. During the year 2015, 7 Board Meetings have been held and Members of the Board have maintained excellent records of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows;

Members of the Board	Attendance							Appointment Date as a Director	Date of Resignation
	Apr	May	Jun	Jul	Oct	Nov	Dec		
Mr. Manjula De Silva	✓	✓	✓	✓	✓	✓	✓	06/04/2015	
Mr. A. R. Deshapriya	✓	✓	✓	✓	x	✓	✓	08/04/2015	
Mr. W. M. M. B. H. Guneratne	✓	✓	✓	✓	✓	N/A	N/A	08/04/2015	01/10/2015
Mr. Trevine Fernandopulle	✓	✓	x	x	✓	✓	✓	08/04/2015	
Mr. Asendra Siriwardena	✓	✓	✓	✓	✓	✓	✓	02/04/2015	
Mr. A. J. D. Dias	N/A	N/A	✓	✓	✓	✓	✓	08/05/2015	
Mr. J. A. K. N. Jayatunga	N/A	N/A	N/A	✓	✓	N/A	N/A	08/05/2015	01/10/2015
Mr. D. P. Wimalasena	N/A	N/A	N/A	N/A	N/A	N/A	✓	14/12/2015	
Mr. Chandana Kumarasinghe	N/A	N/A	N/A	N/A	N/A	N/A	✓	14/12/2015	

The Board is accountable to the stakeholders of the institution to ensure that the business is conducted in an appropriate manner based on approved business plan and financial and physical targets of the institution achieved.

Principal Activities and Business Reviews

Principal activities of NITF in 2015 are implementation of Medical Insurance Scheme for Public Officers (Agrahara), Compulsory Reinsurance Scheme, Parliamentary Members Insurance scheme, Motor Vehicle Insurance Scheme (for the motor vehicles owned by the Government), General Insurance Schemes, Agricultural Loan Protection Insurance Scheme and Management of Strike, Riot, Civil Commotion & Terrorism Fund (SRCC&TF).

Financial Results

In 2015, NITF recorded a Gross Written Premium of LKR. 5,062 Million. The GWP registered a minor decrease relative to 2014 GWP of LKR. 5,842 Million due to cessation of crop insurance premium from farmers in 2015. During 2015, NITF earned a Profit after Tax of LKR. 4,303 Million.

Employees

Total number of employees as at end of the year 2015 was 186.

Auditors

The financial statement of 2015 of the Board was audited by the Auditor General in terms of Financial Act No. 38 of 1971.

REPORT OF THE DIRECTORS

Audit Committee

During 2015, the Audit committee (AC) comprised three Non – Executive Directors; namely, Mr. A. R. Deshapriya (Chairman) – (Director General – Department of National Budget -2015), Mr. T. R. Fernandopulle and Mr. Asendra Siriwardena.

The Audit Superintendent appointed for NITF from Auditor General's Department too attended meetings as an observer on the invitation of the committee.

During the financial year ended 31st December 2015, three meetings of the committee were held. The proceedings of the committee meetings are recorded with adequate details and are reported regularly to the Board of Directors.

The internal audit plan was presented and approved by the Audit Committee. During the year 2015, internal audit functions including the internal audit of departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund have been carried out by the Internal Audit Department.

Corporate Governance

Corporate Governance practices have been carried out giving due consideration to the relevant areas of the Corporate Governance Code of Best Practices issued by Institute of Chartered Accountants of Sri Lanka and the Public Enterprises Guidelines for Good Governance and Corporate Governance practices.



Manjula de Silva
Chairman



Udari Ranhotigamage
Secretary to the Board

23rd May 2017
Colombo

AUDIT COMMITTEE REPORT

Three non – executive directors; namely, Mr.A.R. Deshapriya (Director General –National Budget Department), Mr. Trevine Fernandopulle and Mr. Asendra Siriwardena were in the audit committee during the year 2015. The Audit Superintendent appointed for NITF from Auditor General’s Department too attend meetings on the invitation of the committee.

Scope of the Audit

During the year 2015, the Audit Committee established following scope of the Audit.

1. Determination of the responsibilities of the internal audit unit and review of the annual audit plans.
2. Review and evaluate internal control system for all activities of the entity
3. Review performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc.
4. Liaise with external auditor and follow up with an Auditor General’s/ External auditor’s management letters.
5. Ascertain whether statutes, regulations, rules and circulars are complied with.
6. Review financial statements to ensure compliance with Accounting Standards
7. Review internal audit / external audit reports, management letter for remedial action.
8. Review implementation of recommendation / directives of the committee on public enterprises

Meetings of the committee

The proceedings of the committee meetings are recorded with adequate details and are reported regularly to the Board of Directors and three audit committee meetings held in 2015.

Internal Audit

NITF has its own internal audit department. The internal audit plan was presented and approved by the AC and committee regularly reviews and monitors the internal audit and the inspection function.

External Audit

Reviewing of external audit management letters as well as follow up audits thereon and direct management to take appropriate actions.



A.R. Deshapriya
Chairman
Audit Committee

INDEPENDENT AUDITORS' REPORT



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AUDITOR GENERAL'S DEPARTMENT



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திகதி }
Date }

18 April 2017

The Chairman,
National Insurance Trust Fund.

Report of the Auditor General on the Financial Statements of the National Insurance Trust Fund for the year ended 31 December 2015 in terms of the Section 14(2)(c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2015 comprising the statement of final position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with the Section 13(1) of the Finance Act, No.38 of 1971 and Section 17 of the National Insurance Trust Fund Act, No.28 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Fund on 28 October 2016.

1.2 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 and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.



INDEPENDENT AUDITORS' REPORT



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Auditor General's Department

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require the I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 14 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.3 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

INDEPENDENT AUDITORS' REPORT



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2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2015 and its financial performance and cash flows, for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Accounts

2.2.1 Sri Lanka Accounting Standards

According to the Sri Lanka Accounting Standard 01 an entity should not set off assets and liabilities or income and expenditure against each other unless otherwise allowed, required or permitted by a Standard. Nevertheless the unidentifiable Value Added Tax Receivable (VAT)- Motor, existing over a number of years and the Value Added Tax payable balances had been set-off against each other and the further balance amounting to Rs.8,452,926 had been credited to the Value Added Tax Payable-Motor Account.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The balances of 04 unidentifiable accounts existing from the period from the year 2010 to the year 2012 totaling Rs.1,860,990 pointed out by the Audit in the year 2014 and the balances of 09 other accounts totaling Rs.3,385,401 had been transferred to the Suspense Account in presenting the draft financial of statements and those balances had been transferred again to the former accounts in the final financial statements without settling those balances.

INDEPENDENT AUDITORS' REPORT



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- (b) The net balance of 04 accounts receivable and payable among the Divisions of the Fund amounting to Rs.4,668,866 had been adjusted to the Retained Earnings in the final financial statements with being identified and settled.
- (c) The sum of Rs.2,489,103 representing employees' loan balances, shown as receivable to the Fund in the year 2014 from the Terrorist Funds Division on Strikes, Riots and Civil Commotions implemented under the Fund had been erroneously shown as the installment income in the amended financial statements of the year under review.
- (d) Out of the interest income on debentures under the Note No.03 to the financial statements Withholding Tax totaling Rs.46,121,820 relating to the years 2010 to 2014 had been shown as a deduction from the income tax of the amended financial statements of the year 2015 without formal approval.
- (e) Action had not been taken up to date for the identification of a sum of Rs.29,328,516 out of the sum of installment advances totalling Rs.71,632,037 received for the insurance of motor cycles provided to the Public Officer included in the other financial liabilities under Note No.15 of the financial statements for the year under review.

2.2.3 Lack of Evidence for Audit

The evidence indicated against each of the following items had not been furnished to audit.

INDEPENDENT AUDITORS' REPORT



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Item	Value	Evidence not made available
-----	-----	-----
(a) Premium Income Receivable	1,043,806,532	Confirmation of Balances
(b) Other Financial Assets	32,337,438	} Letter of Confirmation of Balances
(c) Other Financial estimates	193,756,079	
(d) Cancellation of Invoices Receivables and credit cards payable	92,421,039	Approval

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) According to the Finance and Planning Circular No.DFD/Circular/2014/03 dated 10 December 2014, the operation of Crop Insurance, from the Maha Seasons 2014 had been vested in the Agricultural and Agrarian Insurance Board. But the premiums recovered from the farmers in the Maha Season had been credited to the Account of the Fund by the Agrarian Service Centres. Out of the premiums so credited, a sum of Rs.42,520,846 had been estimated and brought to account as settled to the Agricultural and Agrarian Insurance Board. Out of that a sum of Rs.4,425,709 only had been settled even up to 30 June 2016, the date of audit. Even though that Insurance scheme is no more under the Fund at present, the receipt of the premiums to the Fund and the payment of the claims therefrom without being vesting that work in the respective institution is a contentious matter in audit.
- (b) It was observed in that the refund of premiums paid by the Insurance Companies for the Strikes, Riots, Civil Commotion and Terrorist Fund, are made by the Insurance Companies due to various reasons and that the Fund submits these claims to a Working Committee for consideration

INDEPENDENT AUDITORS' REPORT



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and a sum of Rs.14,482,746 so approved by the Committee for refund had not been settle by the Fund even up to the date of audit.

- (c) According to the Section (VII) of Stage of the Procedure of the Payment of claims of the Strikes, Riots, Civil Commotion and Terrorist Fund, the considering motor vehicle claims the additional claim reimbursement for each claim in accordance with the Motor XL provision amounts to Rs.10 million per year, even though the approval of the Technical Consultation Committee had been received in excess of Rs.10 million unsettled claims amounting to Rs.36,376,284 had been included in the financial statements as the institutions had not produced the documents. Out of that amount, a sum of Rs.24,996,409 comprised balances older than 3 years.
- (d) The Fund had not taken action for the settlement of debit balances amounting to Rs.75,752,260 and the credit balances amounting to Rs.48,092,753 older than 03 years receivable from 08 Insurance Companies and 05 Insurance Companies respectively included in the premium Income receivable of the Reinsurance Division.

2.4 Unexplained Differences

Differences of Rs.1,442,422 existed as at 31 December 2015 between the Staff Distress Loan Account and the Schedules .

2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

INDEPENDENT AUDITORS' REPORT



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Reference to Laws, Rules, Regulations, etc.	Non-compliance
-----	-----
(a) Insurance Industry Regulatory Act No.43 of 2000 Section 49	Even though every Insurer should furnish quarterly periodical Reports including the certified copy of the report prepared in relation to the business of the Insurer and other information made for that purpose to the Sri Lanka Insurance Board, the Fund had not furnished such reports or the compliances certification for the year 2015 to the Board.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 135	This limits for making payments by a State Institutions should be fixed and such levels of authority should be authorized by the Board of Directors and that should be reviewed annually. Nevertheless, it was observed that the Fund is using at present the Authority limits approved by the Board Paper No.77.04 dated 14 March 2012.
(c) Public Enterprises Circular No.PED/12 of 02 June 2003 - Section 9.14	Even though the Board of Directors had been informed in the year 2015, to resubmit the Handbook on Administration of the Fund submitted for the approval of the Secretary to the Treasury it had not been responded by the Board even up to June 2016.
(d) Public Enterprises Circular No.PED2/2015 of 25 May 2015	Even though it was stated that in the event of obtaining residential telephone, mobile phones or Internet Facilities the cost incurred on equipment and accessories should be borne by the officer concerned, a sum of Rs.562,609 from the money of the Fund had been spent in the year 2015 for the purchase of 18

INDEPENDENT AUDITORS' REPORT



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mobile phones. Instead of determining the specifications are inviting quotations it was observed that purchases of mobile phones had been made as required by each officer and without determining the limits of prices of telephones to be provided to each post.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2015 amounted to a surplus of Rs.4,303,324,331 as compared with the corresponding surplus of Rs.4,582,655,586 for an preceding year thus indicating a deterioration of Rs.279,331,255 in the surplus for the year under review as compared with the preceding year. The increase of expenditure on payment of net benefits and claims and the write offs and acquisitions amounting to Rs.853,870,354 and Rs.251,862,336 respectively and the decrease gross premium income by Rs.84,142,667 had mainly affected the decrease in the year under review.

4. Operating Review

4.1 Performance

According to Section 12(a) of the National Insurance Trust Fund Act No.28 of 2006, the objectives of the Fund and the provision of benefits and Security through a Contributory Insurance Scheme operated by the Fund in cases of unexpected health risks, personal accidents and damage to property appropriate in the circumstance to -

- (i) The Public Officers, the officers of the Provincial Public Service the Officers of the Local Government Service and the persons at present

INDEPENDENT AUDITORS' REPORT



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receiving a pension from the Government, the Provincial or the Local Government Service after retirement from the Public Service, the Provincial Public Service and the Local Government Service as the case may be,

- (ii) The Samurdhi Beneficiaries in terms of the Sri Lanka Samurdhi Authority Act, No.30 of 1995 and their families.
- (iii) The farmers, the fishermen and the person engaged in self-employment, and
- (iv) The persons or groups of persons with needs that may be identified by the Minister from time to time on the recommendation of the Fund.

The following observations are made in connection with the achievement of the above objectives.

- (a) According to the National Insurance Trust Fund Act, No.28 of 2006, the implementation of Benefit Schemes and Insurance Scheme by the Government for Samurdhi Subsidy Recipients who face greater risks in the society is included in the primary objectives of the establishment of the Fund. Even though the audit was informed in the preceding year that an insurance scheme for the Samurdhi Subsidy Recipients was being prepared, it is still not in the implementation stage.
- (b) Even though the Fund expected to develop and implement Guidelines on the allocation of compulsory 30 per cent for re-insurance by the Insurance Companies, that Manual had not been brought to the operating stage even by September 2016.

INDEPENDENT AUDITORS' REPORT



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Auditor General's Department

- (c) As envisaged in the Action Plan for the year 2015 the Fund had made available the opportunity to the Insurance Companies to examine from the Web Sites of the Fund the payment of re-insurance Claims through the Consumer Friendly Compensation Payment Process. According to the information furnished to Audit, if the Insurance Companies furnish the quarterly financial statements as specified in the Draft New Guidelines relating thereto, a methodology had been introduced for furnishing documents only for the claims for Rs.50 million or exceeding that amount. Nevertheless, it had not been implemented even by 08 October 2016, the date of audit as the Guideline had not been approved in the year 2015.
- (d) Even though the formulation of an efficient and effective income collection mechanism in the year 2015 had been expected, it had not been implemented as the Draft Guidelines had not been approved.
- (e) Even though the automation of the reinsurance, premium income and the payment of claims had been expected for completion during the year under review, it had not been finalised. As such it had not been possible to obtain the monthly reports of the Reinsurance Division even by 19 September 2016, in date of audit.

(f) Agrahara Insurance Scheme

The following observations are made.

- (i) Even though a period of more than 10 years had elapsed after the introduction of the Agrahara Insurance Scheme in order to provide more benefits to the officers of the Public Service and the Provincial Public Service, National Insurance Trust Fund had not maintained a database containing the information(including the recovery of the monthly premium) of each member.

INDEPENDENT AUDITORS' REPORT



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Auditor General's Department

- (ii) It was observed that the payment of benefits to the members is done only on the monthly total amount of the benefits sent by the Government Institutions. During the course of the test check carried out, it was observed from the computer information of the Fund, that out of 38 officers of 06 Departments of the Treasury, 21 officers had not registered and obtained the membership even as an Electronic Card Member.
- (iii) The Fund is not aware of any transfers of Public Officers from Department to another Department or Institute and the Fund had failed up to 31 December 2016, the date of audit, to build up a methodology for obtaining the reports on the transfer notices for the confirmation of such positions.
- (iv) According to a systems audit carried out by a Private Audit Firm from May to June 2016, the existence the risk of payment of benefits to the members who had not obtained the contributory status to Agrahara due to the absence of methodology for establishing the receipt of contributions of the members, the low level of reliability of registered and recorded data, the possibility of submitting rejected claims again for payment without approval and the non-updating of the data of members had been reported.

4.2 Transactions of Contentious Nature

According to an agreement entered into with the Sri Lanka Bureau of Foreign Employment, the Insurance Scheme for persons in Foreign Employment implemented with effect from 01 June 2008 had ceased with effect from 28 April 2012. Even though the premium income for this Insurance Scheme had not been received after 28 April 2012, the Fund had to pay the claims after that date as the agreement entered into before the above date was relevant to a period of 02 or 03 years. The unearned income out of the premiums received

INDEPENDENT AUDITORS' REPORT



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for the purpose had not been separated annually and all the money received had been brought to account as income during the year of receipt. Nevertheless, payment of claims for the Rs.4,526,669 had been made in the year 2015 and the files or the vouchers relating to claims paid amounting to Rs.1,640,118 included therein had not been produced for audit.

- (a) In making the payment of a claim by the Fund, it is submitted to a Committee and the payments had been made on the recommendation/ approval of the Committee. Nevertheless, the Committee approval for the payment of claims amounting to Rs.599,998 under the numbers We/2/2/1/VR/01310/2012 and No.VR/040046/2013 had not been received and the payment had been made only on the approval of the Executive Officer of the Fund.
- (b) According to the account, sum of Rs.200,000 at Rs.100,000 per person had been paid to 2 persons for the claim No.VR/04968/2013. But according to the file, the voucher relating thereto without the amount inserted, had been signed by the Officers certifying and approving.

4.3 Procurement Management

Even though in Fund had prepared a Procurement Plan for the year 2015, procurement had not been done according to that plan.

4.4 Idle and Underutilised Assets

A debit balance of Rs.1,268,482. of a Savings Account in a private Bank remained idle over a number of years.

INDEPENDENT AUDITORS' REPORT



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4.5 Staff Administration

The following observations are made.

- (a) The approved staff of the Fund for the year 2015 stood at 197 and the actual staff stood at 186, thus resulting in 11 vacancies.
- (b) Eleven Management Assistants and 04 Karyala Karya Sahayakas had been recruited on contract basis and the approval for that had not been received even by 19 September 2016. Three officers who did not possess the qualifications for the post of Management Assistant as specified in the approved Scheme of Recruitment had been recruited.
- (c) An officer had been recruited with effect from 01 January 2015 for the post of the Chief Executive Officer of the Fund and on 05 November 2014 the Board of Directors had decided to place him on the highest step on the salary scale of that post, according to the Scheme of Recruitment approved by the Department of Management Services. Subsequently the salary increments from that step had been granted. The approval of the Department of Management Services obtained in this connection had not been furnished to Audit.
- (d) A Committee of 05 Members had been established in the year 2015 to consider the internal transfers and it had been stated that the Committee meets once in every three months and take decisions. Even though decisions for three requests had been given in May 2016, replies had not been given for 20 requests even by 26 September 2016, the date of audit. Even though it was stated that the objectives of the internal transfers are the creation of productivity of the institution and job satisfactions, following an approved methodology for that purpose was not observed in audit.

INDEPENDENT AUDITORS' REPORT



විගණකාධිපති දෙපාර්තමේන්තුව
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Auditor General's Department

- (e) The Fund had approved the criteria for the Training and Development Programmes in the year 2015 and the objectives thereof had been creation of a staff thorough in the professional and technical skills and the conduct of training programmes for the new staff recruited. But, the 20 external training and development programmes conducted during the year under review had given priority for the officers in the Senior Level and the Tertiary Level, whilst only 35 out of 144 officers in the Secondary Level had an opportunity for participation in the training programmes in 06 instances. The Fund had not made available any training programmes for the officers in the Primary Level and the newly recruited staff.

5. Accountability and Good Governances

5.1 Presentation of Financial Statements

According to Section 6.5.1 of an Public Enterprises Circular PED/12 of 02 June 2003, the Draft Annual Report and the financial statements should be presented for audit within 60 days after in close of the financial year. Nevertheless, the financial statements for the year under review had been presented for audit only on 07 April 2016.

5.2 Budgetary Control

Variances ranging from 10 per cent to 4435 per cent were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective in instrument of financial control.

5.3 Effectiveness of the Management Information System

A Private Audit Firm had carried out a systems audit of the Fund during the period May to June 2016 under a professional agreement for Rs.1,150,000. Therein the matters revealed such as the low level of reliability of entering data to

INDEPENDENT AUDITORS' REPORT



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கணக்காய்வகம் தலைமை அலுவலர் திணைக்களம்
Auditor General's Department

the database of the Agrahara Division, updating of the data entered and the security of the database had been reported. In addition observations on other deficiencies in the database of the Finance Division such as approval not granted for new entries, the possibility of entering journal entries as a single entry without being balanced, the possibility of printing and reprinting of cheques without approval, etc. had also been reported.

5 Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following control.

Areas of Systems and Controls	Observations
(a) Accounting	<p>(i) Insurance premium income is entered into this database by the Information Technology Division and given to in Finance Division.</p> <p>(ii) The database does not give approval for opening of new Ledger Accounts.</p> <p>(iii) Availability of opportunity for printing / reprinting of cheques without approval.</p> <p>(iv) Making payment exceeding the limits in the payment of claims.</p>
(b) Agrahara Scheme	<p>(i) Registration of two persons under the same number of the Registration of Persons Identity Card.</p>

INDEPENDENT AUDITORS' REPORT



විගණකාධිපති දෙපාර්තමේන්තුව
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Auditor General's Department

(ii) Non-updating of particulars of Members and the non-grant of approval for the data entered to the database when payments are made on claims.

(c) Human Resources
Management

Recruitments made without complying with the approved Scheme of Recruitment and marks awarded at the interviews not being formal.

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

H.M. Gamini Wijesinghe
Auditor General

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December

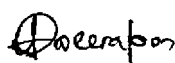
	Notes	2015 Rs.	2014 Rs.
Gross written premiums	1	5,062,685,701	5,842,067,431
Contribution Received for Agradhara	1	1,636,567,419	1,494,899,976
Crop Insurance Levy Collected		1,259,134,207	1,184,647,255
Net written premiums		7,958,387,326	8,521,614,663
Net change in Reserve for unearned premium		(26,901,647)	(505,986,318)
Net earned premium		7,931,485,679	8,015,628,346
Revenue from other operations			
Fees and commission income	2	6,596,760	1,405,900
Investment & Other Income	3	849,786,808	638,509,884
Other revenue		856,383,568	639,915,784
Gross benefits and claims paid	4	(3,227,140,119)	(2,373,269,385)
Claims ceded to reinsurers	4	-	-
Gross change in contract liabilities	4	1,562,913	(831,930,326)
Change in contract liabilities ceded to reinsurers	4	-	-
Net benefits and claims		(3,225,577,206)	(3,205,199,711)
Underwriting and acquisition cost (including reinsurance)	5	(946,632,594)	(694,770,258)
Other operating and administrative expenses	6	(225,512,915)	(172,918,575)
Total benefits, claims and other expenses		(4,397,722,716)	(4,072,888,544)
Profit/(Loss) before tax		4,390,146,531	4,582,655,586
Income tax expense		(86,822,200)	-
Profit/(Loss) for the year		4,303,324,331	4,582,655,586
Other Comprehensive Income			
Net change in available for sale financial assets		(261,686,342)	155,191,084
Other comprehensive income for the year, net of tax		(261,686,342)	155,191,084
Total Comprehensive Income		4,041,637,990	4,737,846,670

STATEMENT OF FINANCIAL POSITION

Year ended 31 December

	Notes	2015 Rs.	2014 Rs.
Assets			
Intangible assets	7	-	0
Property, plant and equipment	8	34,125,797	26,251,881
Financial Assets	9	10,388,972,726	9,105,573,879
Premium receivables	10	1,060,898,025	1,144,259,034
Soft Loans	11	129,244,611	188,220,907
Other non financial assets	12	32,307,438	84,351,380
Deferred Commission	13	421,132,953	366,621,700
Cash at bank and in hand	14	166,785,332	278,096,913
Total assets		12,233,466,883	11,193,375,695
Equity and Liabilities			
Retained earnings		8,743,809,636	7,550,219,714
Other component of equity		(88,871,109)	172,815,232
Total equity		8,654,938,527	7,723,034,946
Liabilities			
Insurance contract liabilities		3,257,914,116	3,240,259,344
Retirement benefit obligation		17,031,242	11,364,304
Other liabilities	15	303,582,998	197,413,174
Bank overdraft	14	-	21,303,927
Total liabilities		3,578,528,356	3,470,340,750
Total equity and liabilities		12,233,466,883	11,193,375,695

I certify that the Financial Statement of the Fund comply with the requirements of the Sri Lanka Accounting Standards

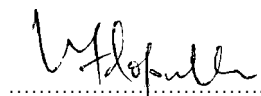


Finance Officer

The Accounting policies and Notes on pages 5 to 33 form an integral parts of these Financial Statements. The Board of Directors are responsible for the Preparation and Presentation of Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.



Director



Director

19 December 2016
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December

	Retained earnings Rs.	Available- for-sale financial assets Rs.	Total equity Rs.
Balance as at 31 December 2013	6,949,244,214	17,624,148	6,966,868,362
Profit for the year	4,582,655,586	-	4,582,655,586
Other comprehensive income			
Net change in available for sale financial assets	-	155,191,084	155,191,084
Motor Vehicles Accumulated Depreciation Adjustment	14,558,589	-	14,558,589
Write back Profit Commission & Recoverable from RI Dept:	12,287,375		12,287,375
Reinsurance Premium correction & taken to SRCC payable	(10,268,621)		(10,268,621)
Depreciation applicable for 2013	(511,780)		(511,780)
SLIPS return correction	2,055,047		2,055,047
ETF and Stamp duty correction	199,305		199,305
Cash Transferred to the Consolidated Fund	(4,000,000,000)	-	(4,000,000,000)
Balance as at 31 December 2014	7,550,219,714	172,815,232	7,723,034,946
Profit for the year	4,303,324,331	-	4,303,324,331
Net change in available for sale financial assets		(261,686,342)	(261,686,342)
Amortised discounts on Bonds	50,321,582		50,321,582
Cancellation of reinsurance invoices & credit notes	(92,421,039)		(92,421,039)
Annual fee and Cess	(24,370,817)		(24,370,817)
Correction of Reinsurance outstanding	(60,170,679)		(60,170,679)
Write off non motor premium	(1,995,673)		(1,995,673)
Depreciation correction	(583,958)		(583,958)
Motor Premium correction	4,668,666		4,668,666
Adjustments to Premium Refunds	2,574,100		2,574,100
PPE Accumulated Depreciation Adjustment	11,643,799		11,643,799
Reimbursement of expenses & other	599,610		599,610
Cash Transferred to the Consolidated Fund	(3,000,000,000)		(3,000,000,000)
	8,743,809,636	(88,871,109)	8,654,938,527

CASH FLOW STATEMENT

Year ended 31 December

		2015 Rs.	2014 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		4,390,146,531	4,582,655,586
Adjustments for :			
Interest Income		(801,608,493)	(624,075,269)
Depreciation		6,579,710	8,552,653
Net Fair Value Changes		(261,686,342)	155,191,084
Prior Year Adjustments		(109,734,409)	4,273,105
Loss on Disposal of Fixed Assets		1,096,675	-
		3,224,793,673	4,126,597,159
Change in Operating Assets	A	80,893,698	(493,262,120)
Change in Operating Liabilities	B	123,824,595	1,518,581,307
Cash Flow from Operating Activities		3,429,511,967	5,151,916,346
Gratuity Paid		5,666,938	3,564,830
Net Cash Generated from Operating Activities		3,435,178,905	5,155,481,176
Cash Flows from Investing Activities			
Net Acquisition of Financial Investments		(1,283,398,847)	(2,261,335,760)
Interest Received		703,726,452	624,075,269
Recovery of Soft Loans		58,976,296	434,539,307
Disposal of Property Plant and Equipment		15,500	-
Acquisition of Property, Plant and Equipment		(4,505,960)	(1,462,818)
Net Cash Used from Investing Activities		(525,186,559)	(1,204,184,002)
Cash Flows from Financing Activities			
Cash Transferred to the Consolidated Fund		(3,000,000,000)	(4,000,000,000)
Net Cash Used in Financing Activities		(3,000,000,000)	(4,000,000,000)
Net Increase / (Decrease) in Cash and Cash Equivalents C			
Net Cash and Cash Equivalents at the beginning of the Year		(90,007,654)	(48,702,826)
Net Cash and Cash Equivalents at the beginning of the Year		256,792,986	305,495,812
Cash and Cash Equivalents at the end of the Year		166,785,332	256,792,986
Notes to the Cash Flow Statement			
A. Change in Operating Assets			
(Increase)/ Decrease in Deferred Commission		(54,511,252)	(167,448,531)
(Increase)/ Decrease in Premium Receivable		83,361,009	(319,531,410)
(Increase)/ Decrease in Other Non Financial Assets		52,043,941	(6,282,179)
		80,893,698	(493,262,120)
B. Change in Operating Liabilities			
Increase / (Decrease) in Insurance Contract Liabilities		17,654,772	1,344,542,715
Increase / (Decrease) in Other liabilities		106,169,823	174,038,592
		123,824,595	1,518,581,307
C. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year		166,785,332	256,792,986
Less: Net Cash and Cash Equivalents at the beginning of the Year		256,792,986	305,495,812
Net Increase / (Decrease) in Cash and Cash Equivalents		(90,007,654)	(48,702,826)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

1.0 CORPORATE INFORMATION

1.1 Reporting Entity

National Insurance Trust Fund Board ("The Board") is incorporated by the "National Insurance Trust Fund Act, No. 28 of 2006" and domiciled in Sri Lanka. The registered office of the Board is situated at No. 97, Maradana Road, Colombo 10 and the principal place of business is located at this address.

1.2 Date of authorization of issue

The financial statements were authorized for issue by the Board of Directors on 21.12.2016

1.3 Parent Entity and Ultimate Parent Entity

The Board's parent and ultimate parent entity is the Government of Sri Lanka.

1.4 Principal Activities and Nature of Operations

The principal activities of the Board are carrying out General Insurance and Re-insurance businesses. There were no significant changes in the nature of the principal activities of the Board during the year under review.

1.5 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements

1.6 Statement of Compliance

The Financial Statements have been prepared, unless otherwise stated, in accordance with the Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA-Sri Lanka).

The Financial Statements include the following components:

- A Statement of Financial Position providing the information on the financial position of the Board as at the yearend,
- A Statement of profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Board for the year under review.
- A Statement of Changes in Equity depicting all changes in shareholders' equity.
- A Statement of Cash Flows providing the information to the users, on the ability of the Board to generate cash and cash equivalents and utilization of such cash flows and

- Notes to the Financial Statements comprising Accounting Policies and other explanatory information both financial and non-financial.

1.7 Number of Employees

The staff strength of the Board as at 31st December 2015 was 186 (2014 - 177).

2.0 SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Board unless otherwise indicated.

2.1 Basis of Preparation

2.11 Basis of Measurement

The Financial Statements have been prepared on an accrual basis and under the historical cost convention except for 'Available-for-Sale' financial assets which are measured at fair value.

As permitted by SLFRS 4- Insurance Contracts, the Board continues to apply the existing accounting policies that were applied prior to the adoption of SLFRs.

The board presents its statement of financial position broadly in order of liquidity. No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are off set and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.12 Functional and presentation currency

The financial statements are presented in Sri Lankan Rupees (LKR). All financial information presented in Sri Lankan Rupees has been rounded to the nearest Rupee, except when otherwise indicated

2.13 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

2.2 Reporting Period

The reporting period is from January to December 2015.

Where appropriate, the accounting policies have been explained in the succeeding notes.

2.3 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

2.3.1 Valuation of Insurance contract liabilities

For General Insurance and Re-insurance contracts, estimates have to be made for the expected ultimate cost of claims reported at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

2.3.2 Impairment of Deferred Acquisition Cost (DAC)

An impairment review of DAC is performed at each reporting date. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the Statement of Comprehensive Income. No such indication of impairment was experienced during the year under review. DAC is derecognised when the related contracts are either settled or cancelled.

2.3.3 Assessment of Impairment

The Board assesses whether there are any indicators of impairment for an asset or a cash generating unit at each reporting date. This requires the estimation of the 'value in use' of such individual asset or cash-generating unit. Estimating value in use requires the Management to make an estimate of the estimated future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Board to make estimation about expected future cash flows and discount rates, hence they are subject to uncertainty.

2.3.4 Provision for Liabilities and Contingencies

The Board receives legal claims against it in the normal course of business. Management has made judgements as to the likelihood of any claim succeeding in making provisions. The time of concluding the legal claim is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

2.3.5 Deferred Tax Assets and Liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Management estimates that it is unlikely to make a taxable profit in the foreseeable future due to the significant contributions made to the Consolidated Fund which are considered qualifying payments for tax purposes, hence no provision is made for deferred tax.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

2.3.6 Valuation of Retirement Benefit Obligation- Gratuity

The cost of Retirement Benefit Obligation is not determined using actuarial valuation as required by the Sri Lanka Accounting Standards (LKS) 19 - Employee Benefits. However, the Provision for Gratuity is calculated based on a minimum of half month's salary for each completed year of service. Consequently, the effects of discount rates, expected rate of return on assets, future salary increases and mortality rates have not been considered in arriving at the Gratuity Liability.

2.3.7 Notional Tax Credit (Withholding Tax)

The Board has done an assessment of the taxable profit in future against which the Board is eligible to set off the Notional Tax paid. Based on this assessment, Notional Tax paid is charged to Profit and Loss Account as it is highly unlikely that the Board can utilise the Notional Tax paid in the near future. However, if adequate taxable profit is available in the future, the Board will write back and claim such Notional Tax written off.

2.3.8 Going Concern

The Board's Management has made an assessment of the Board's ability to continue as a Going Concern and is satisfied that the Board has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Board's ability to continue as a Going Concern. Therefore, the Financial Statements continue to be prepared on the Going Concern basis.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

Critical Accounting Judgement, Estimates and Assumptions
Unearned premium and deferred acquisition cost
Reserve for gross outstanding claims
Measurement of Retirement Benefit Obligation

2.4 Summary of Significant Accounting Policies

2.4.1 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the

income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Software acquired by the Board is stated at cost less accumulated amortization and accumulated impairment losses.

Computer Software -amortization Over 4 Years

2.4.2 Property, Plant & Equipment

Property, Plant & Equipments are tangible assets which are expected to be used for more than one year.

Property, Plant and Equipment are recorded at cost of purchase together with any expenses incurred in bringing the assets to its working condition for its intended use.

2.4.3 Depreciation

The Board provides depreciation from the month the assets are available for use up to the penultimate month of disposal. The provision for depreciation is calculated by using straight line basis on the cost of all property, plant & equipments in order to write off such amount over their estimated useful lives as follows:

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

Plant & Machinery	Over 10 years
Furniture & Fitting	Over 08 years
Office Equipments	Over 06 Years
Motor Vehicles	Over 10 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

During the year under review, the Board decided to revise the useful life of office equipment from year 6 years to 13.33 years and furniture and fittings from 08 years to 13.33 years.

The revision was accounted for in 2015 as a change in accounting estimates and restated the accumulated depreciation at amounts which would have been reflected in the balance sheet on the date of restatement had the board measured depreciation from the date of acquisition of office equipment and furniture and fittings on the revised useful life including the estimated remaining useful life and adjusted the difference under Equity.

Office Equipment

Change in accumulated depreciation adjusted through Equity Rs. 9,896,506

Additional depreciation charge for 2015 Rs. 1,133,539

Furniture and fittings

Change in accumulated depreciation adjusted through Equity Rs. 1,747,293

Additional depreciation charge for 2015 Rs. 180,611

Fully depreciated Property, Plant & Equipments in Use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is shown in Note 08 on page 24

2.4.4 Financial Instruments

The Board recognizes Financial Assets or Financial Liabilities in its Statement of Financial Position when the Board becomes a party to the contractual provisions of the Instrument. Financial Assets and Financial Liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of a Financial Asset or a Liability (other than Financial Assets and Financial Liabilities at fair value through profit or loss) are added or deducted from the fair value of the Financial Asset or Liability, as appropriate, on initial recognition.

Transaction costs that are directly attributable to the acquisition of Financial Assets and Financial liabilities at fair value through profit or loss are recognized immediately in the Income Statement. Financial Assets and Liabilities are offset and the net amount is presented when, and only when the Board has a legal right to offset the amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial Assets

(a) Initial recognition and measurement

The Board initially recognizes loans and receivables on the date at which they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Board becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

At inception a financial asset is classified into one of the following categories:

- Fair-Value-Through-Profit-or-Loss (FVTPL);
- Available-For-Sale (AFS) financial assets;
- Loans and Receivables (L&R); and
- Held-To-Maturity investments (HTM), as appropriate.

The Board determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Board's ability. Financial assets are classified as at Fair-Value-Through-Profit-or-Loss where the Group's investment strategy is to manage financial investments on a fair value basis. The Available-For-Sale and Held-To-Maturity categories are used when the relevant is passively managed and/or carried at amortized cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date that the Board receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognize/derecognize the asset

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

Investment are shown at Cost.

The Board's existing types of financial assets and their classifications are shown in the table below:

Category	Financial Asset
Fair Value through Profit or Loss	None
Available for Sale	Treasury Bonds Treasury Bills
Loans and Receivables	REPO, Overnight REPO
Held to Maturity	Foreign Currency Development Bonds Treasury Bonds

(b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, Or
- The assets and liabilities are part of a Board's financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Board's investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in the Statement of Comprehensive Income.

Interest is accrued and presented in 'Investment income' or 'Finance cost', respectively, using the Effective Interest Rate (EIR). Dividend income is recorded in the 'Investment Income' when the right to the payment has been established.

The Board evaluates its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Board is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Board may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

Available-for-sale financial assets

Available-for-sale financial investments include Treasury bill and Treasury bond (Government Securities). Government Securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealized gains or losses recognized in Other Comprehensive Income (OCI) in the available-for-sale reserve.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the EIR. Amortized premiums and/or discounts whilst holding available-for-sale investments are recognized in the income statement as 'Investment Income' when the right of the payment has been established. When the asset is derecognized, the cumulative gain or loss is recognized in the Investment Income. If the asset is determined to be impaired, the cumulative loss is recognized in the income statement in the 'Investment Income' and removed from the available-for sale reserve.

The Board evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Board is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Board may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

meets the definition of loans and receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset that is reclassified out of the available for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Board also decided to classify Debentures under this category since there is no active market for these instruments even if such instruments are listed.

These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the EIR, less allowance for impairment.

Amortized cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in 'Investment Income' in the income statement. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

The fair value of distress loans to staff are not estimated by discounting future cash flows using interest rates currently being offered in respect of similar loans as the value of the outstanding loans is not considered to be material.

Held to maturity financial assets (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has

the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortized cost, using the EIR, less impairment. Foreign Currency Development Bonds are classified under this category.

The EIR amortization is included in 'Investment Income' in the income statement.

Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

(c) De-recognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- Transfer the contractual right to receive cash flows

Or

- The Board retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;

And either:

- a) The Board has transferred substantially all the risks and rewards of the asset or
- b) The Board has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Board has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Board's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Board could be required to repay. In that case, the Board also recognizes an associated liability. The

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Board has retained.

(d) Impairment of financial assets

The Board assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(e) Fair value measurement

The Board measures financial instruments such as available for sale and fair value through profit and loss, at fair value at each reporting date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market price in active markets for identical assets or liabilities
- Level 2 - Valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable

Financial liabilities

(a) Initial recognition and measurement

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, minus directly attributable transaction costs.

The Board's financial liabilities include trade and other payables, insurance payables and bank overdrafts.

(b) Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the income statement.

(c) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

(d) Insurance payables

Insurance payables are recognized when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

Insurance payables are derecognized when the obligation under the liability is settled, cancelled or expired.

2.6.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Development Bonds	Valued using effective rate	Level 2
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Board.

2.6.5 Impairment of non-financial assets

The Board 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 Board estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use. The recoverable amount 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 or CGU 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

2.6.6 General insurance contract liabilities

General insurance contract liabilities include the outstanding claim provision, the provision for unearned premium and the provision for premium deficiency. The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, together with related claims handling costs and reduction for the expected value of salvage and other recoveries.

Delays can be experienced in the notification and the settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date the liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the obligation to pay a claim expires, is discharged or cancelled.

The provision comprises of reserve for the net unearned premium, reserve for the deferred acquisition cost (net) and reserve for gross outstanding claims. Unearned premium, deferred acquisition cost and the reserve for gross outstanding claims are stated according to the industry and best practices.

At each reporting date the Board reviews its unexpired risk and a liability adequacy test is performed as laid out under SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the income statement by setting up a provision for premium deficiency.

2.6.7 Reinsurance

The Board cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Board may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Board will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Board from its obligation to policy holders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished to expire or when the contract is transferred to another party

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

The Board did not cede insurance and inward reinsurance risks for all of its businesses during the year under review as practiced since 2012.

2.6.8 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

According to the Premium Payment warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all General Insurance policies are issued subject to PPW and cancellable upon the expiry of 60 days if not settled.

2.6.9 Cash and cash equivalents

For the purpose of the cash flow, cash and cash equivalents consist of cash at bank and in hand, net of outstanding bank overdrafts.

(a) 2.6.11 Sales taxes and premium taxes

Revenues, expenses and assets are recognized net of the amount of sales taxes and premium taxes except:

- Where the sales or premium tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales or premium tax included in the respective transaction.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority is Included as part of receivables or payables in the statement of financial position.

2.6.11 Foreign currency translation - Transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at 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 reporting date.

2.6.12 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a defined benefit plan. The Board is liable to pay gratuity in terms of the payment of gratuity Act No. 12 of 1983, according to which a liability to pay gratuity arises only on completion of 5 years of continued service. In order to meet this liability, a provision of half a month's salary for each completed year of service is carried forward in the financial statements. Gratuity liability is not computed as per Sri Lanka Accounting Standard LKAS 19 Employee Benefits, using actuarial method of valuation.

(b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contribution and Employees' Trust Fund Contribution in line with the respective statutes and regulations. The Board contributes a defined percentage of gross emoluments of employees to Employees' Provident Fund and to the Employees' Trust Fund respectively.

2.6.13 Provisions and Contingent Liabilities

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Board expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

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

2.7 REVENUE RECOGNITION

2.7.1 Gross premiums

Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognized on the date on which the policy is approved. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 365th basis for General Insurance including motor & Non-Motor and Agrahara Health Scheme, 1/24th basis for SRCC and 35% on the gross premiums basis for Reinsurance in line with generally accepted insurance and reinsurance industry practices. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

2.7.2 Fees and other income

Insurance contract policyholders are charged for policy administration services, policy fees and other contract fees. These fees are recognized as revenue (other income) on written basis.

2.7.3 Interest income

Interest income is recognized in the income statement as it accrues and is calculated by using the effective interest rate method.

2.8 BENEFITS, CLAIMS AND EXPENSES RECOGNITION

2.8.1 Gross benefits and claims

Insurance claims include all claims reported during the year, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

2.8.2 Expenditure Recognition

All expenditure incurred in the running of the Board and in maintaining the Property, Plant & Equipments in a state of efficiency has been charged to revenue in arriving at Net Surplus.

2.9 Comparative Figures

Comparative financial information provided in these Financial Statements have been restated, where applicable, to be in line with the current year accounting policies and presentations.

2.10 Capital Commitments

There were no Capital commitments as at Balance Sheet date.

2.11 Cash Flow Statement

Cash Flow Statement is prepared using "indirect method"

2.12 Related Party Transactions

There were no related party transactions except for inter department transactions which have been disclosed in the notes to the financial statements.

2.13 Post Balance Sheet Events

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in respective notes to the financial statements

2.14 Contingencies

In the opinion of the Board, litigations which are currently against the National Insurance Trust Fund Board in the normal course of business will not have significant impact on the reported financial results or future operations of the Board.

2.15 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards not yet effective for the year ended 31 December 2015 and have not been applied in preparing these financial statements of the Board. These standards could have a financial impact in the financial statements from their effective dates.

SLFRS 9-Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

This standard is effective for annual periods beginning on or after 1st January 2018.

The adoption of SLFRS 9 will have an effect on the classification and measurement of the Board's financial assets but no impact on the classification and measurement of the board's financial liabilities.

SLFRS 15 -Revenue from contracts with customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized.

This standard is effective for annual periods beginning on or after 1st January 2018.

Since SLFRS 4 - Insurance Contracts is scoped out from this standard, insurance transactions may not have any significant impact from this standard.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

1. NET PREMIUMS

1.1 Gross Written Premium

The premium income for the year by major classes of business is as follows.

	2015 Rs.	2014 Rs.
Inward Reinsurance	1,737,839,949	2,041,207,710
SRCC & Tr Premium	3,018,417,937	2,835,199,980
General Insurance - Motor	242,090,517	142,690,974
General Insurance - Non Motor	36,599,503	22,595,787
Crop Insurance -Premium from farmers	-	787,372,981
Medical scheme for Parliamentary members	27,737,796	13,000,000
	5,062,685,701	5,842,067,431

1.2 Contribution collected for Agrahara medical Insurance Scheme

	2015 Rs.	2014 Rs.
Contribution from Members	1,236,567,419	1,094,899,976
Contribution from the Treasury	400,000,000	400,000,000
	1,636,567,419	1,494,899,976

2. FEES AND COMMISSION INCOME

	2015 Rs.	2014 Rs.
Policyholder administration fees	6,596,760	1,405,900
Total fees and commission income	6,596,760	1,405,900

3. INVESTMENT & OTHER INCOME

	2015 Rs.	2014 Rs.
3.1 Loans and receivables interest income		
Interest income from Repurchase Agreements	230,199,663	137,565,147
Interest income from Debentures	88,394,975	113,941,967
	318,594,638	251,507,113
3.2 Available for sales interest income		
Interest income from Treasury Bills	215,631,288	136,852,638
Interest income from Treasury Bonds	264,371,922	235,715,518
	480,003,210	372,568,155
3.3 Held to maturity interest income		
Interest income from SLBD	3,010,646	-
	-	-
	3,010,646	-
Total investment income	801,608,493	624,075,269
3.4 Other Income		
Interest on Soft Loans	3,110,618	11,937,931
Interest on Staff Distress Loans	730,037	713,358
Other	44,337,661	1,783,326
	48,178,316	14,434,616
Total Income	849,786,808	638,509,884

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

4. NET BENEFITS AND CLAIMS	2015 Rs.	2014 Rs.
(a) Gross benefits and claims paid		
Reinsurance	(715,790,744)	(612,666,566)
SRCC & Tr	(2,967,351)	(80,993,389)
General Insurance - Motor	(111,147,284)	(83,453,649)
General Insurance - Medical & Other	(30,195,877)	(75,560,574)
Crop Insurance	(685,994,044)	(369,304,694)
Medical scheme for Parliamentary members	(19,087,311)	(15,161,878)
Agrahara medical Insurance Scheme	(1,661,957,508)	(1,136,128,636)
	<u>(3,227,140,119)</u>	<u>(2,373,269,385)</u>
(b) Gross change in contract liabilities		
Reinsurance	(527,238,148)	(161,154,770)
SRCC & Terrorism	2,187,114	24,096,208
General Insurance - Motor	(59,771,021)	(55,715,081)
General Insurance - Medical & Other	(3,084,534)	2,236,590
Crop Insurance	489,137,093	(549,398,194)
Medical scheme for Parliamentary members		
Agrahara medical Insurance Scheme	100,332,409	(91,995,080)
	<u>1,562,913</u>	<u>(831,930,326)</u>
Net benefits and claims	(3,225,577,206)	(3,205,199,711)
5. UNDERWRITING AND ACQUISITION COST	2015 Rs.	2014 Rs.
Acquisition Cost	(1,001,143,846)	(862,218,789)
Change unearned commission reserve - SRCC	10,769,720	25,211,540
Change unearned commission reserve - Reinsurance	43,741,532	142,236,991
	<u>(946,632,594)</u>	<u>(694,770,258)</u>
6. OTHER OPERATING AND ADMINISTRATIVE EXPENSES	2015 Rs.	2014 Rs.
Auditors Remuneration	180,000	430,000
Employee Benefit Expenses	132,494,516	84,790,542
Administration and establishment Expenses	83,592,545	77,133,156
Selling Expenses	1,609,680	791,355
Depreciation of Property Plant and Equipment	6,579,710	8,552,653
Legal Fees	346,864	361,826
Donations	709,600	859,044
Total other operating and administrative expenses	225,512,915	172,918,575

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

7. INTANGIBLE ASSETS	2015	2014
	Rs.	Rs.
Cost		
At 1 January 2015	6,542,073	6,542,073
Additions	-	-
At 31 December 2015	6,542,073	6,542,073
Accumulated amortisation and impairment		
At 1 January 2015	6,542,073	6,524,886
Amortisation	-	17,188
At 31 December 2015	6,542,073	6,542,073
Carrying amount		
At 31 December 2014	-	-
At 31 December 2015	-	-

The initial cost of fully amortized Intangible Assets which are still in use as at reporting date, is as follows

As at December 31st	2015	2014
Software	6,542,073	6,542,073

8. PROPERTY, PLANT & EQUIPMENT					
Company	Motor Vehicles	Office	Furniture &	Misc. Assets	Total
	Rs.	Equipment	Fittings	Rs.	Rs.
		Rs.	Rs.		
Cost					
At 1 January 2015	34,470,255	35,434,098	7,604,146	23,338	77,531,837
Additions	157,990	3,492,342	855,627	-	4,505,960
Transfers	-	-	-	-	-
Disposals	-	(2,490,403)	(208,473)	-	(2,698,876)
At 31 December 2015	34,628,245	36,436,037	8,251,301	23,338	79,338,921
Accumulated Depreciation					
At 1 January 2015	21,948,956	24,529,436	4,778,226	23,338	51,279,956
Depreciation	3,453,608	2,507,348	618,753	-	6,579,710
Disposals	-	(1,468,410)	(118,291)	-	(1,586,701)
Previous Year adjustment	45,966	(9,385,270)	(1,720,537)	-	(11,059,841)
At 31 December 2015	25,448,530	16,183,106	3,558,150	23,338	45,213,124
Carrying amount					
At 31 December 2014	12,521,299	10,904,662	2,825,920	-	26,251,880
At 31 December 2015	9,179,714	20,252,932	4,693,151	-	34,125,797

Fully depreciated Property, Plant & Equipments in Use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows

	2015	2014
	Rs.	Rs.
Miscellaneous Assets	23,338	23,338

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

9. FINANCIAL ASSETS	Notes	2015 Rs.	2014 Rs.
Loans And Receivables	9.1	4,268,076,752	3,588,917,799
Available For Sale Financial Assets	9.2	5,890,404,632	5,516,656,080
Held to Maturity Financial Assets	9.3	230,491,342	
		<u>10,388,972,726</u>	<u>9,105,573,879</u>
9.1 Loans And Receivables		2015 Rs.	2014 Rs.
Loans and receivables		4,268,076,752	3,588,917,799
Total financial instruments		<u>4,268,076,752</u>	<u>3,588,917,799</u>
Loans and receivables			
Government Securities - Repo Investment		4,268,076,752	2,516,496,974
Debentures - Unquoted			1,072,420,825
Total loans and receivables at amortised cost		<u>4,268,076,752</u>	<u>3,588,917,799</u>
9.2 Available For Sale Financial Assets		2015 Rs.	2014 Rs.
Government Securities - Treasury Bonds		2,898,681,590	3,073,152,738
Government Securities - Treasury Bills		2,991,723,042	2,443,503,342
		<u>5,890,404,632</u>	<u>5,516,656,080</u>
9.3 Held to Maturity Financial Assets			
Sri Lanka Development Bonds		230,491,342	-
		<u>230,491,342</u>	<u>-</u>
10. PREMIUM RECEIVABLES		2015 Rs.	2014 Rs.
Premium Receivable from :			
Direct customers		507,851,102	725,145,901
Others		-	3,462,112
Intermediaries		553,046,924	415,651,021
		<u>1,060,898,025</u>	<u>1,144,259,034</u>
10.1 Premium Receivable from Direct customers			
General Insurance Motor		39,682,591	6,773,856
General Insurance Non motor		5,033,772	2,278,260
Inward Reinsurance		446,043,246	716,093,785
Parliamentary Members insurance		17,091,493	-
		<u>507,851,102</u>	<u>725,145,901</u>
11. SOFT LOANS		2015 Rs.	2014 Rs.
		<u>129,244,611</u>	<u>188,220,907</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

12. OTHER NON-FINANCIAL ASSETS	2015	2014
	Rs.	Rs.
Advances & Prepayments	4,725,187	944,129
WHT receivable	-	46,121,820
Refundable Deposits	6,780,250	8,995,104
Staff Distress Loans	17,418,397	15,417,086
Prepaid Expenses	-	-
Economic Service Charge	2,554,923	12,092,199
Cheque Return Receivable	828,681	757,982
Inventories	-	23,060
	32,307,438	84,351,380

13. DEFERRED COMMISSION	2015	2014
	Rs.	Rs.
As at 1 January	366,621,700	199,173,169
Provision made /(released) during the year	54,511,252	167,448,531
As at 31 December	421,132,952	366,621,700

14. CASH AND CASH EQUIVALENTS	2015	2014
	Rs.	Rs.
Petty Cash	159,002	130,270
Cash at bank	166,626,330	277,966,643
Cash in hand and at bank	166,785,332	278,096,913
Bank overdraft	-	(21,303,927)
Total cash and cash equivalents	166,785,332	256,792,986

15. OTHER LIABILITIES	2015	2014
Notes	Rs.	Rs.
Other financial liabilities	193,756,079	118,675,128
Other non financial liabilities	109,826,918	78,738,047
	303,582,998	197,413,174

15.1 Other financial liabilities

Claim cheques/SLIPS returned payable	5,369,830	3,261,680
Motor premium Advance Collected	29,328,516	45,260,626
Commission payable - Reinsurance	56,796,368	-
Annual fee and Cess payable	28,431,933	-
Premium Refund Payable	53,670,950	61,928,872
Accrued expenses	7,838,761	5,284,964
Other payables	12,319,721	2,938,985
	193,756,079	118,675,128

15.2 Other non financial liabilities	2015	2014
	Rs.	Rs.
Government Levies	109,826,918	78,738,047
	109,826,918	78,738,047

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

17 INSURANCE CONTRACT LIABILITIES

(a) Insurance Provision	Notes	2015					Total
		Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Provision for reported claims by policyholders		-	-	-	-	-	-
Provision for claims IBNR		-	-	-	-	-	-
Outstanding claims provision	17.1	128,991,910	3,084,534	774,923,902	39,324,019	65,000,000	1,102,369,856
Provision for unearned premiums	17.2	72,053,269	20,919,792	608,243,982	1,442,962,833	11,364,384	2,155,544,260
Total insurance contract liabilities		201,045,179	24,004,326	1,383,167,884	1,482,286,852	76,364,384	3,257,914,116

(b) Technical Provision	Notes	2015					Total
		Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Provision for reported claims by policyholders		-	-	-	-	-	-
Provision for claims IBNR		-	-	-	-	-	-
Outstanding claims provision	17.1	128,991,910	3,084,534	774,923,902	39,324,019	65,000,000	1,102,369,856
Provision for unearned premiums	17.2	72,053,269	20,919,792	608,243,982	1,442,962,833	11,364,384	2,155,544,260
Total insurance contract liabilities		201,045,179	24,004,326	1,383,167,884	1,482,286,852	76,364,384	3,257,914,116

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December

17.1 Outstanding claims provision	2015					Total Rs.
	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Crop Contract Liabilities Rs.	
As at 1 January	69,220,888	-	247,685,753	49,195,097	554,137,093	1,111,616,732
Increase / Decrease in Provision	59,771,021	3,084,534	527,238,148	(9,871,078)	(489,137,093)	(9,246,876)
As at 31 December	128,991,910	3,084,534	774,923,902	39,324,019	65,000,000	1,102,369,856

17.2 Provision for unearned premiums	2015					Total Rs.
	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Parliamentary Members Contract Liabilities Rs.	
As at 1 January	69,613,282.06	5,432,223	714,422,699	1,339,174,408	-	2,128,642,612
Premiums unearned during the year	2,439,987	15,487,569	(106,178,717)	103,788,426	11,364,384	26,901,648
As at 31 December	72,053,269	20,919,792	608,243,982	1,442,962,833	11,364,384	2,155,544,260

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

18. RISK MANAGEMENT

18.1 Introduction

Risk management demonstrate the initiatives that are undertaken to reduce or mitigate the Board's exposure to Losses. The Board is exposed to the following risks

Insurance Risk	Non life Insurance and Inward Reinsurance Contracts Reinsurance
Finance Risk	Market Risk Liquidity Risk Credit Risk Operational Risk

INSURANCE AND FINANCIAL RISK

(a) Insurance risk

The principal risk the Board faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid. Therefore, the objective of the Board is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines.

The Board principally issues the following types of general insurance contracts: Motor, Marine, Fire, Engineering, miscellaneous. Healthcare contracts provide medical expense coverage to policyholders. Risks under insurance policies usually cover twelve months duration.

For general insurance contracts including inward reinsurance, the most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk. For healthcare contracts, the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

These risks do not vary significantly in relation to the location of the risk insured by the Board, type of risk insured and by industry.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Board. The Board further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

The purpose of these underwriting strategies is to limit exposure to catastrophes based on the Board's risk appetite as decided by management.

Frequency and Severity of Claims

The frequency and severity of claims can be affected by several factors. The Board underwrites mainly property, engineering, motor, miscellaneous accident, marine, medical and personal accident classes. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate insurance risk.

Property

For property insurance contracts, the main perils are fire damage and other allied perils and business interruption resulting therefrom.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of insurance are the main factors that influence the level of claims.

Engineering

For engineering insurance contracts, the main elements of risks are loss or damage to insured project works and resultant third party liabilities, loss or damage to insured plant, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

Motor

For motor insurance contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles. The potential court awards for deaths and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

Miscellaneous Accident

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten.

The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

Marine

In marine insurance the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Medical and Personal Accident

In medical insurance, the main risk elements are illness and accidents and related healthcare costs. For personal accident the main risks elements are claims arising from death and/or permanent or partial disability.

Geographical concentration of risks

The insurance risk arising from insurance contracts is primarily concentrated in Sri Lanka.

(b) Financial Risk

i. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The following processes/activities reduces the credit risk of financial instruments.

- Credit risk policy is based on circulars and guidelines issued by the Ministry of Finance . The exposures is limited to Government Securities only.
- The regular review by the Board also minimises the credit risks.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

19. INSURANCE AND FINANCIAL RISK (Contd...)

Premium receivables

All trade debts are monitored on a regular basis with operating divisions.

The maximum exposure to credit risk at the reporting date was:

	Notes	2015 Rs.	2014 Rs.
Loans and receivables	9.1	4,268,076,752	3,588,917,799
Available for sale financial assets	9.2	5,890,404,632	5,516,656,080
Premium Receivables	10	1,060,898,025	1,144,259,034
Soft Loans	11	129,244,611	188,220,907
Cash in hand and at bank	14	166,785,332	256,792,986
		11,515,409,353	10,694,846,806

ii. Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial liabilities that are settled by delivering cash or another financial assets and obligations associated with financial instruments.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The following policies and procedures are in place to mitigate the Board's exposure to liquidity risk:

- * Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.
- * Contingency fund plans are in place, to meet the emergency call of funds.

iii. Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Board's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

a) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose to cash flow interest risk, whereas fixed interest rate instruments expose to fair value interest risk. Board have invested in Government securities with fixed interest rates. Hence no significant interest rate risk from the change in market interest rate.

b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board is exposed to currency risk on transactions in Foreign Currency with the other Insurers for Inward Reinsurance business.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Board does not hedge its foreign currency exposure.

DECADE AT A GLANCE

Financial Performance For the year ended 31st December

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenue										
Net Earned Premium Income	7,931,485,679	8,015,628,345	5,452,318,662	3,886,183,341	3,606,365,031	3,926,469,856	4,019,486,220	3,427,950,662	2,654,902,681	3,18,902,642
Benefits, Losses and Expenses										
Insurance claims and benefits	(4,172,209,800)	(3,899,969,969)	(1,763,476,689)	(2,281,470,751)	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)	(1,736,355,732)	(1,423,044,038)	(242,465,993)
	3,759,275,879	4,115,658,376	3,688,841,974	1,604,712,590	1,726,878,335	1,634,396,873	1,943,549,415	1,691,594,930	1,231,858,643	76,436,649
Other Revenue										
Investment Income	801,608,493	624,075,269	691,492,020	615,813,544	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
Interest on Soft Loans	3,110,618	11,937,931	5,915,955	7,278,316	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
Other Income	51,664,458	3,902,584	4,165,001	18,886,182	743,614	1,006,353	471,787	917,841		
	856,383,568	639,915,785	701,572,977	641,978,043	734,319,701	816,105,721	1,380,055,889	1,225,806,111	1,798,837,006	76,436,649
Expenditure										
Staff Related Costs	132,494,516	84,790,542	76,487,490	72,006,709	52,769,174	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
Administration Expenses	93,018,399	86,907,163	64,621,143	74,402,484	72,147,229	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
Finance & Other Expenses	-	1,220,870	8,459,075	17,258,273	21,581,925	32,425,697	38,401,103	5,360,035	3,385,205	138,170
Total Expenditure	225,512,915	172,918,575	149,567,708	163,667,466	146,498,329	119,887,735	120,772,099	55,114,528	29,029,109	2,980,916
Taxation					108,349,446					
Income Over Expenditure	4,390,146,532	4,582,655,585	4,240,847,242	2,083,023,166	2,206,350,261	2,330,614,859	3,202,833,203	2,862,286,514	1,769,807,897	73,455,733

DECADE AT A GLANCE

Financial Position As at 31st December

Assets	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Property Plant and Equipment	34,125,797	26,251,881	19,317,968	24,739,202	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465	1,461,388
Financial Investments	10,388,972,726	9,105,573,879	6,667,518,021	5,375,914,672	4,444,546,282	5,574,107,464	8,550,206,721	7,749,178,616	5,449,343,240	
	10,423,098,523	9,131,825,761	6,686,865,988	5,400,653,874	4,474,153,140	5,610,203,475	8,593,810,225	7,793,838,397	5,474,583,705	1,461,388
Current Assets										
Receivable	1,222,450,075	1,416,831,322	1,686,049,990	1,664,647,836	1,927,814,565	1,945,815,895	2,079,570,419	1,988,501,988	2,221,955,826	511,844,970
Cash and Cash Equivalents	166,785,332	278,096,913	305,495,813	103,641,397	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122	13,357,202
	1,389,235,407	1,694,928,235	1,991,545,803	1,768,289,233	5,470,784,510	5,539,920,448	2,189,743,421	2,228,297,246	2,782,214,948	525,202,172
Total Assets	11,812,333,930	10,826,753,995	8,678,381,792	7,168,943,107	9,944,937,649	11,150,123,923	10,783,553,646	10,022,135,643	8,256,798,953	526,663,560
Equity & Liability Equity										
Accumulated Fund	8,654,938,527	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
	8,654,938,527	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
Technical Reserve										
Unearned Premium	2,155,544,260	2,128,642,612	1,622,656,295	1,059,398,308	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727	
Deferred Commission	(421,132,953)	(366,621,700)	(199,173,169)	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)	
	1,734,411,307	1,762,020,912	1,423,483,136	882,865,620	801,967,122	681,819,505	846,685,740	856,318,432	716,378,499	
Liability										
Non-Current Liabilities										
Government Grant	-	-	66,960	66,960	142,150	284,330	719,190	719,190	719,190	719,190
Profit Commission Payable	-	-	12,287,375	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
			12,354,336	12,354,336	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257	719,190
Current Liabilities										
Claim Payable	1,102,369,856	1,111,616,732	273,060,335	286,078,050	392,410,772	518,000,207	329,449,921	333,321,632	602,777,397	
Other Payable	320,614,240	230,081,405	18,819,722	74,726,585	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	1,422,984,096	1,341,698,137	291,880,056	360,804,635	633,101,294	760,265,557	507,483,784	639,442,967	872,469,968	431,842,361
Total Equity and Liabilities	11,812,333,930	10,826,753,995	8,678,381,792	7,168,943,108	9,944,937,649	11,150,123,923	10,783,553,647	10,022,135,643	8,256,798,953	526,663,560

CORPORATE INFORMATION

Name of Institute

National Insurance Trust Fund

Legal Form

Statutory Body established under the National Insurance Trust Fund Act No. 28 of 2006

Registered Office

No 97 Maradana Road
Colombo 10
Sri Lanka

Contact Details

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Fax Number: +94 11 2338778

Email: mail@nitf.lk

Corporate Website: [http:// www.nitf.lk](http://www.nitf.lk)

Members of the Board

Mr. Manjula De Silva (Chairman)

Mr. K. D. S. Ruwanchandra

Mr. N. M. D. Nawarathne

Mr. Trevine Fernandopulle

Mr. Asendra Siriwardena

Mr. P. P. S. Rohana De Silva

Mr. Chandana Kumarasinghe

Secretary to the Board

Ms. Udari Ranhotigamage

External Auditors

The Auditor General

No.306/72, Polduwa Road

Battaramulla

Bankers

Peoples Bank

Bank of Ceylon

National Savings Bank

NATIONAL INSURANCE TRUST FUND

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