



NATIONAL INSURANCE TRUST FUND
Annual Report 2016

IMPACT

ENSURING A SECURE FUTURE FOR ALL







IMPACT

Ensuring a secure future for all

Since our establishment in 2006, NITF has tirelessly worked to devise unique benefit schemes that protect all in the general insurance industry. As the sole entity in Sri Lanka that offers re-insurance, our impact is far-reaching. The additional capacity we provide other insurance bodies with essentially makes us the backbone of the local Insurance Market. Our insurance schemes are designed to offer comprehensive coverage for sickness, accidents, death of caregivers, unprecedented property disaster and physical or material damage stemming from strikes, riots, civil commotion and terrorism. What we do has the greatest impact on the most vulnerable social groups in Sri Lanka who can rely on us for peace of mind during times of hardship. With the greater good as our focal point, we take great pride in being able to positively impact the country socially and economically, uplifting lives with our portfolio of inclusive, affordable and efficient services that are tailor-made to ensure a stronger future for all.

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Our Vision

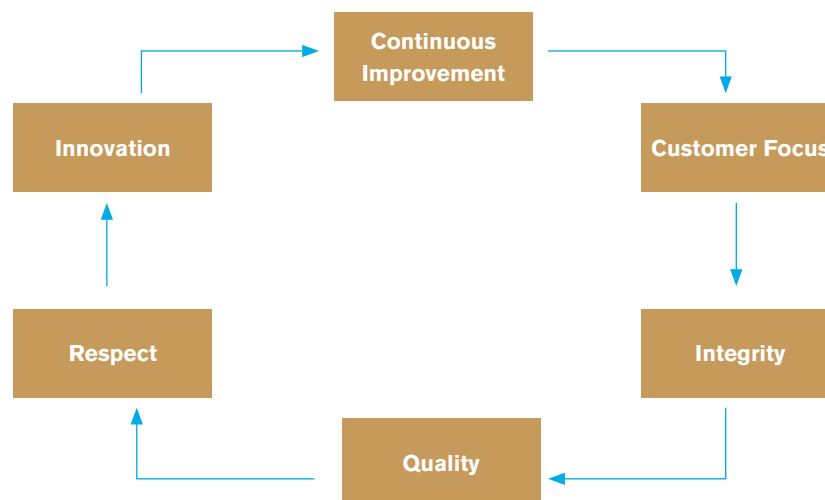
Safety-net and protection
for all needy sectors

Our Mission

To participate in the social and the economic development of Sri Lanka through:

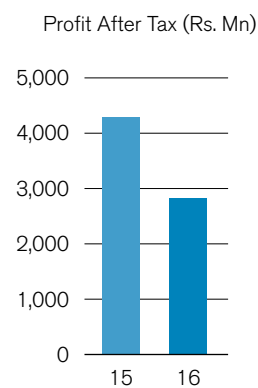
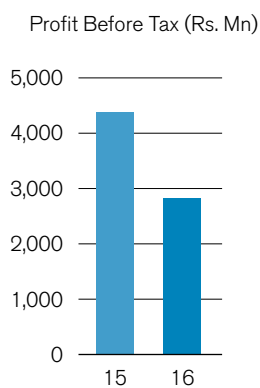
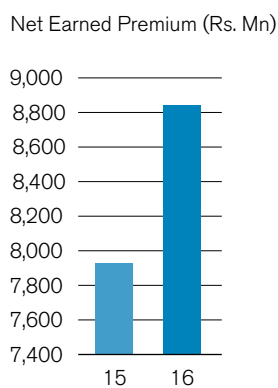
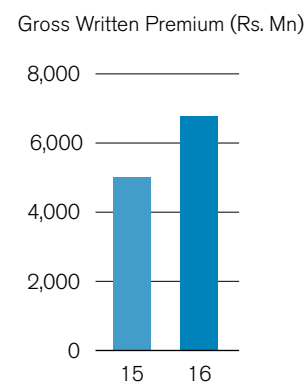
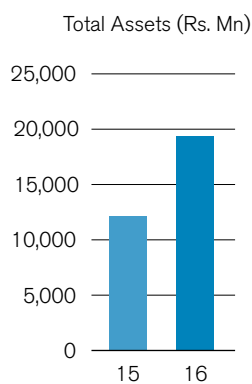
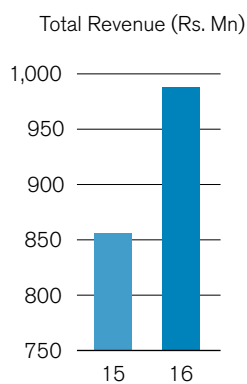
- Affordable, Efficient and Progressive Insurance Schemes for all needy Segments in the Society.
- Providing solutions to local market to cover high risks arising from changing needs through pooling and other arrangements.
- Creating a Reinsurance market in Sri Lanka to provide additional capacity to the local Insurance Market.

Corporate Values



Financial Highlights

Indicator	2016	2015	Growth
Gross Written Premium (LKR Mn)	6,814	5,063	35%
Agrahara Premium Contribution (LKR Mn)	2,004	1,637	22%
Crop Levy (LKR Mn)	1,511	1,259	20%
Net Earned Premium (LKR Mn)	8,851	7,931	12%
Investment Income (LKR Mn)	967	802	21%
Net Benefit and Claim (LKR Mn)	5,543	3,226	72%
Profit Before Tax (LKR Mn)	2,840	4,391	-35%
Investment Fund (LKR Mn)	11,188	10,389	8%
Contribution to the Consolidated Fund (LKR Mn)	3,200	3,000	7%




TOTAL ASSETS

LKR **20** Bn 

CAPITAL ADEQUACY RATIO

586 % 

RETURN ON ASSETS

14 % 

PROFIT BEFORE TAX

LKR **2.8** Bn 

FITCH RATING

AA- (LKA)

CONTRIBUTION TO THE CONSOLIDATED FUND

LKR **3.2** Bn 



Brief History

2006

The National Insurance Trust Fund (NITF) was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006 to provide benefits and safeguards against unforeseen health risks, personal accident and damage to property through contributory insurance schemes which will be operated by NITF.

2007

NITF absorbed the Strike, Riot, Civil Commotion and Terrorism (SRCC & T) Fund

2007

NITF commenced the Reinsurance business with 20% compulsory reinsurance program

2009

NITF commenced the "Videsa Rakiya" Overseas Employment Insurance Scheme

2009

NITF expanded into General Insurance business

2013

Crop Insurance scheme was established according to the budget proposal in 2012

2016

NITF broadened its portfolio by establishing National Natural Disaster Insurance Scheme (NNDIS)

2016

Agrahara scheme expanded with the introduction of Gold and Silver membership option

Corporate Goals

- ♦ To become an international reinsurance provider within five years by strengthening the legal structure of the organization to be a recognized player in the international reinsurance market.
- ♦ To become the most preferred reinsurer in Sri Lanka by 2017 and a leading reinsurer in the Asian region by 2020.
- ♦ To cater to the insurance needs of the vulnerable groups / needy people in the society and to focus on risk areas where a commercial general insurer does not provide insurance solutions
- ♦ To become the most efficient and effective health insurance provider and claim settler in both government sector and amongst other needy groups.
- ♦ To position NITF as the information hub and professional insurance knowledge center in Sri Lanka
- ♦ To become a Rs. 50 billion worth international reinsurer and a direct writer by 2020.
- ♦ To become the most preferred insurance provider for all government institutions
- ♦ To become the most preferred organization to work for by professionals in the insurance industry in Sri Lanka
- ♦ To transfer the Trust Fund Board structure into a true corporate structure sustainable in the long run with its own capital
- ♦ To become socially responsible by becoming a green company with a demonstrated commitment to environment protection

REACT

We take pride in our reaction times for claim generation, claim submission and the handling of exceptions being optimal. The impact this has on lives during times of adversity is significant as we are able to give them peace of mind and relief during what would otherwise be an incredibly distressing turn of events.



Chairman's Message



“As NITF completes its first decade of operations, we are pleased to report that our organization has effectively embraced its role in providing a safety net and meaningful protection for all needy sectors in a manner that contributes effectively towards the social and economic development of our nation.”

Chairman's Message

It is my pleasure to once again present our valued stakeholders with the Annual Report and Audited Financial Statements of the National Insurance Trust Fund (NITF) for the financial year ended 31st December 2016. During the year in review, our organization completed its tenth year of operations in the field of reinsurance and socially driven insurance. We are pleased to state that despite numerous challenges NITF continued to display strength, resilience, and a vibrant capacity for innovation that is aligned to serve the needs of a growing economy and an increasingly demanding society.

A challenging operating environment

The year in review presented difficult challenges for the domestic economy and the citizens of Sri Lanka. Severe flooding across many parts of the island resulted in the tragic loss of lives while many others lost their homes and property and suffered displacement as a result of these extreme weather events. The impact of these conditions was also witnessed across the national economy as the country entered a climate of subdued macroeconomic conditions.

GDP dipped from 4.8% in 2015 down to 4.4% during the year in review amidst weaker growth in key economic sectors and tightened fiscal and monetary policies aimed at curtailing inflationary pressure and reigning in credit growth. These measures combined with the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices, resulted in a gradual increase in core inflation up to an annual average of 4%.

In terms of the real economy, the brunt of adverse weather conditions was most directly recorded in the Agriculture sector which witnessed a decline of 4.2% in 2016, as compared to a decline of

4.8% observed in the previous year. This negative performance was partially driven by devastating floods in the South-West of Sri Lanka, and further exacerbated by persistent drought in the country's Central and Northern Provinces.

Growth in the services sector was similarly hindered by prevailing macroeconomic and weather conditions, growing at a slower pace of 4.2% in 2016, as compared with 5.7% in the previous year. Growth in the Services sector was primarily driven by a notable expansion in financial service activities and the development in transportation sector while wholesale and retail trade, ICT and professional services subsectors all witnessed notable reductions in growth during this period.

Meanwhile the country's industry sector recorded notable improvements, expanding sharply from a growth rate of 2.1% Year-on-Year (YoY) in 2015 up to 6.7% YoY in 2016, as several major infrastructure projects resumed activity following a period of re-evaluation.

Encouraging industry performance

Despite the challenges outlined above – which limited spending power across the domestic economy and drove up insurance claims as numerous commercial and residential properties were severely damaged – the domestic insurance industry was nevertheless able to achieve significant positive growth in both the Life and General Insurance categories, resulting in an overall increase in Gross Written Premiums (GWP) to Rs. 143 billion, reflecting a growth rate of 16.3% YoY.

Similarly substantial improvements were also witnessed in relation to total assets within the industry, as the sector posted 13% YoY growth up to Rs. 527 billion in total assets. The industry also underwent a significant restructuring

with the adoption of a Risk Based Capital (RBC) model which effectively placed limits on the amount of risk a given entity could take on, thus enabling a higher standard of prudential management across the industry. Such developments are anticipated to significantly improve the overall stability of the industry moving forward.

Profit balanced with sustainability and social value

As NITF completes its first decade of operations, we are pleased to report that our organization has effectively embraced its role in providing a safety net and meaningful protection for all needy sectors in a manner that contributes effectively towards the social and economic development of our nation.

The year in review witnessed a considerable expansion in the role of NITF. In addition to providing comprehensive reinsurance services, our organization manages the Strike, Riot, Civil Commotion and Terrorism Fund (SRCC & T) while maintaining and further expanding the depth and quality of cover available to public sector employees, their spouses, children, and parents of unmarried employees via the Agrahara medical and health insurance scheme. The scheme continues to gain widespread popularity among beneficiaries with approximately 825,000 government employees now covered while efforts are already underway to further expand the scheme to include Government employees who retire from service as well.

During the year in review, NITF was able to successfully balance its core imperatives of maintaining strong profitability while delivering these invaluable services in an affordable, efficient and progressive manner to meet the needs of the public sector and low-middle income segments

“In the 10 years since its establishment, NITF has continuously expanded its role, and today stands as a vital measure of protection for a diverse cross-section of Sri Lanka. We continue to focus on expanding the depth and quality of our products and services while constantly working to forge new partnerships in order to ensure the stability of our organization and by extension, the security of our beneficiaries moving forward.”

of Sri Lankan society, while increasing the depth of the country's reinsurance market in order to support additional domestic insurance capacity.

In that context we are pleased to report that NITF concluded 2016 having expanded its GWP from Rs. 5.1 billion up to Rs. 6.8 billion. Notably, contributions received from the Agrahara scheme expanded from Rs. 1.6 billion up to Rs. 2 billion while crop insurance levies increased from Rs. 1.3 billion up to Rs. 1.5 billion during the period in review. Reinsurance premium income expanded by 35.6% YoY up to Rs. 3.3 billion due to acceptance of a wider range of different sub classes of general reinsurance business and the significant growth depicted in the general insurance market.

Notably, NITF also maintains a relatively small but thriving pure general insurance business which more than doubled its contribution to the organization's topline performance, expanding from Rs. 279

million up to Rs. 565 million within the year. This is attributable primarily to the general insurance business acquired from government institutions.

In an extremely significant and timely development for the nation, NITF commenced operation of the National Natural Disaster Insurance Scheme (NNDIS). Where prior to 1st April 2016, compensation to victims of natural disasters was paid directly from the Consolidated Fund of the Treasury, the commencement of this new general insurance scheme enabled insurance cover to be provided on every single house and business premises of micro and small industries for a total value of Rs. 10 billion. The policy was purchased by the State with NITF therefore acting as an insurer to the nation as a whole where reinsurance of the policy was placed with an internationally reputed panel led by Allianz SE, and including Munich Re and Lloyds. Consequently, NITF accepted a 20% co-reinsurance share of the policy in addition to a deductible of Rs. 500 million.

The implementation of this scheme was a very timely action with its positive impact being felt almost immediately upon coming into effect, given the severe flooding conditions that afflicted the island shortly thereafter in May 2016. While these developments resulted in a spike in insurance claims payable by NITF during the year in review, the presence of the programme conferred a significant positive benefit to the country and its citizens as the NNDIS was utilized to issue prompt payments on numerous flood-related claims to the uninsured public of Rs. 3.5 billion. In addition to claims paid under the newly established NNDIS, the NITF had to pay out reinsurance claims to the value of a further Rs. 3.3 billion. It is pertinent to note that a reinsurance cover (retrocession) to protect the 30% mandatory reinsurance programme was introduced only at the beginning of 2016.

Given the notable challenges prevalent in the domestic market, and the commencement of the NNDIS which resulted in the substantial increase in claims previously outlined, it is therefore highly commendable that NITF was able to maintain a Profit After Tax (PAT) at Rs. 2.8 billion, as compared with a PAT of Rs. 4.4 billion in the previous year.

A bright, secure future for our nation

In the 10 years since its establishment, NITF has continuously expanded its role, and today stands as a vital measure of protection for a diverse cross-section of Sri Lanka. We continue to focus on expanding the depth and quality of our products and services while constantly working to forge new partnerships in order to ensure the stability of our organization and by extension, the security of our beneficiaries moving forward.

Chairman's Message

Working in close collaboration with the regulator, our organization has consistently strengthened its governance and risk management frameworks while regularly investing in our employees and our operations in order to attain the highest possible standards of service. NITF recognizes that its primary role is to fill gaps in the domestic market, catering to vulnerable segments of the economy that a commercially oriented insurer would be reluctant to cover, while maintaining our own commercial viability through strong profitability and stability across the organization.

In that regard, I wish to convey my gratitude to the Honorable Prime Minister, and Minister of National Policies and Economic Affairs under whose purview this institution operated in 2016. We also convey our sincere gratitude to the Minister of State, Deputy Minister, Secretary and Additional Secretaries for their invaluable guidance and support.

We further acknowledge the vital support extended to our organization from the Secretary to the Treasury and all other Treasury officials as well as the Chairperson, Director General and all officials of the Insurance Regulatory Commission of Sri Lanka through which NITF is able to continue performing in a manner that is beneficial to the nation and all of its citizens. Finally, I extend my heartfelt thanks to my fellow Board Members, Senior Management and all employees of NITF led by the Chief Executive Officer for their dedication and unwavering commitment to supporting our mandate and enabling our organization to reach greater heights in the decades to come.



Manjula de Silva

Chairman

25.01.2019

CEO's Review



“As noted at the outset, the period in review has been a landmark year for NITF with the innovation and launch of the National Natural Disaster Insurance Scheme – a major breakthrough of national significance – in addition to expanding the depth of its existing product and service portfolio through an expansion of products like the Agrahara Health Insurance scheme for semi government employees and to the pensioners as well.”

CEO's Review

Introduction

Despite high levels of competition, the National Insurance Trust Fund (NITF) and the insurance industry as a whole generally recorded another successful year of growth in 2016. Currently comprising of 29 insurance companies including 12 composite insurers, the year in review was a landmark period for the domestic insurance industry as nine of the 12 composite insurers mentioned above successfully segregated their businesses during the year leaving a total of three companies still operating as composite insurers.

As Sri Lanka continues its steady progress towards stable middle-income status, our industry will doubtless play a pivotal role in supplementing the national social safety net that many citizens will increasingly rely on when disaster strikes. Where in the past, the average citizen would be most concerned with daily expenses, and would only look to pre-emptive spending on only the most essential matters, rising affluence parallel to increasing trends in per capita income has resulted in Sri Lankans taking an increasingly long-term view to their health and property.

This transition in attitudes presents clear business opportunities for the insurance industry, but moreover, displays the vital need for the continuing development of social security through the continued development of Sri Lanka's existing hybridized model which encourages active public and private sector participation.

Additionally, the country's current population dynamics point to an aging population, which is projected to increase to the point where approximately 16.7 per cent of the total population will be over the age of 60 by the year 2021. While an aging population is on the one-hand a result of rising prosperity, improved

quality of life and an increasing average life expectancy are also driving these fundamental changes in Sri Lanka's social and economic composition.

Industry conditions

Positive growth was recorded across both the Life and General Insurance businesses as collective Gross Written Premiums (GWP) increased by 16.3% Year-on-Year (YoY) up to Rs. 143 billion, and as compared with a growth rate of 16.2% YoY in 2015.

Growth in long term insurance business declined from 20.4% YoY to 18.3% YoY in 2016. In contrast growth in general insurance business increased from 13.2% YoY to 14.7% YoY in 2016 recording the highest growth rate in the industry since 2012.

Despite the positive growth rates seen in the industry, insurance penetration levels remained low at 1.21% in 2016, and displaying marginal growth when compared with 1.12% penetration in the previous year. During the year in review, long term insurance penetration stood at 0.54% while general insurance penetration stood at 0.67%. These low figures help to further illustrate the imperative need to sustainably expand insurance coverage across the island in order to enable a greater level of social security for all Sri Lankans, which in turn will support citizens to be more financially and socially empowered, which ultimately generates positive benefits for the national economy as a whole.

The majority value within the industry continued to be held by Long Term insurers amounting to Rs. 345.8 billion however it was important to note that growth in long term insurance asset value recorded considerable reduction from a previous 26.6% in 2015 down to 10.5% in 2016. By contrast, the asset value of the general

insurance sector increased by 16% in 2016 as against 13% in 2015.

The long term insurance business has performed satisfactorily during the year generating a GWP of Rs 63,495 million. The claims paid by long term insurers amounted to Rs 22,622 million in 2016 up by 8% compared to Rs 20,934 million in 2015. Of the total long term insurance claim payments, maturity benefits accounted for the largest sum at Rs. 12.7 billion. It is significant to note that disability benefits paid during the year has grown by 37% YoY to close the year with a total value of Rs 591 million.

Meanwhile, the general insurance business benefitted from encouraging market conditions with the motor insurance business dominating the sector, accounting for 62% of GWP within the general insurance sector. While remaining largely positive in terms of performance, the sector witnessed an overall decline in growth rate from 19.1% YoY in 2015 down to 15.6% YoY during the year in review.

Our performance

As noted at the outset, the period in review has been a landmark year for NITF with the innovation and launch of the National Natural Disaster Insurance Scheme – a major breakthrough of national significance – in addition to expanding the depth of its existing product and service portfolio through an expansion of products like the Agrahara Health Insurance scheme for semi government employees and to the pensioners as well.

As detailed by our Chairman, the added capabilities enabled by these initiatives has enabled NITF to expand its role as a trusted provider of meaningful protection for all needy sectors in a manner that contributes effectively towards the social and economic development of our nation.

“Over the year in review, the scope of the Agrahara scheme was substantially expanded with the addition of new categories of beneficiaries under the Agrahara Silver and Gold membership options which now includes pensioners as well. This strategy of expansion was complemented with continuing and new collaborations with leading healthcare providers across the country in order to provide the widest possible range of benefits to customers including hospital related charges, surgery and critical illness cover.”

Given the emphasis on effective social service that is built into the operations and mandate of NITF, we continued to focus on balancing profitability with affordability and efficacy.

Hence despite posting improved GWP of Rs. 6.8 billion against a 2015's GWP figure of Rs. 5.1 billion, the organization nevertheless recorded reductions in its Profit After Tax (PAT) which stood at Rs. 2.8 billion, as compared with a PAT of Rs. 4.3 billion in 2015. As noted by our Chairman, a crucial factor driving the reduction in profitability during the year was the continuing escalation in the frequency and intensity of natural disasters with major floods accompanied by landslides and high winds affecting Sri Lanka.

In that context, the initiation of the National Natural Disaster Insurance Scheme (NNDIS) launched on 1st April 2016 was therefore an extremely timely development. The scheme in essence covers all houses and business premises of small industries generating annual turnover below Rs. 10 million, while providing personal accident cover of Rs. 100,000 for all citizens and Rs. 1 million for fishermen in the unfortunate event of loss of life.

Further cover is provided up to Rs. 2.5 million on damage to property per location in addition to further payments for Emergency Relief Expenses for those displaced by natural disasters where the total sum insured at the end of 2016 stood at Rs. 10 billion in favour of the Government of Sri Lanka. Reinsurance

on the policy was also placed with an internationally renowned panel led by Allianz SE, Munich Re and Lloyds with NITF accepting a 20% co-reinsurance share.

Just one month after the commencement of the scheme, severe torrential rains led to extreme flooding events which killed over a 100 Sri Lankans and displaced many thousands more. Following these tragic events, the insurance industry was hit with claims exceeding Rs. 15 billion of which NITF bore 30% of Reinsurance Recoveries. Initial claims on NNDIS for emergency relief amounted to Rs. 131 million, while advances of Rs. 10,000 were paid out to 64,552 houses at a total cost of approximately Rs. 3.5 billion as at the end of 2016.

While the financial cost to NITF was higher as a result of these developments, we are extremely pleased to note that the commencement of the NNDIS by NITF, has enabled the Government to improve the focus of its disaster relief efforts resulting in a significantly faster response time. This in turn enabled significantly stronger protection of vulnerable groups while reducing the strain on the national budget. While further work is required to streamline this process further, we are nevertheless greatly encouraged by the positive performance of the NNDIS from its very inception with NITF and we look forward to further refining the scheme in order to better serve the people of Sri Lanka moving forward.

Meanwhile the Agrahara Medical Insurance Scheme marked its 20th anniversary since inception. Originally implemented by the Sri Lanka Insurance Corporation, the scheme

CEO's Review

was eventually placed in the stewardship of NITF from January 2006, and over the ensuing decade, we are proud to note that the scheme has rapidly expanded not just in terms of the basic coverage offered, but also through being refined in its complexity. As a result the scheme continues to stand out as a highly reliable safety net for public servants and their families.

Over the year in review, the scope of the Agraphara scheme was substantially expanded with the addition of new categories of beneficiaries under the Agraphara Silver and Gold membership options which now includes pensioners as well. This strategy of expansion was complemented with continuing and new collaborations with leading healthcare providers across the country in order to provide the widest possible range of benefits to customers including hospital related charges, surgery and critical illness cover in addition to reimbursements for optician visits and related expenses.

Our people

The continuing progress that NITF has been able to make over the recent past is in many ways a direct result of the enduring strength and commitment of our teams of employees across the country. Consequently, the organization consistently works to encourage its employees to perform at their optimal level. During the year in review NITF conducted multiple internal training programmes in addition to Outward Bound Training (OBT) which this year took place at Laya Resort, Kukuleganga.

The company also conducted multiple leadership training programmes aimed

at preparing a new generation of leaders within the organization to rise up from within the ranks into positions of responsibility from which they will be able to positively steer the course of NITF for years to come.

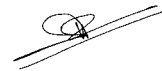
Conclusion

The year in review has been an important one for NITF and we anticipate strong positive improvements for the organization moving forward, albeit limited by the constrained macroeconomic climate currently prevalent in Sri Lanka in addition to the continuing risk of natural disasters linked to climate change over the long-term. These conditions will of course produce challenges for the industry. However, NITF and its team of employees reiterates its firm and steadfast commitment to ensuring insurance coverage and financial empowerment for needier segments of Sri Lankan society. By preserving and enhancing the social safety net, we ultimately enhance the quality of our society and our economy.

Given the continuing low level of insurance penetration in the country, we believe that awareness building is among the most crucial needs that must be addressed. By improving understanding of insurance and the benefits that can accrue to citizens through such services, we are confident that more can be done to improve overall insurance penetration across Sri Lanka.

In concluding I wish to express my heartfelt gratitude to our customers for continuing to place their trust and confidence in NITF. Further I wish to express my sincere thanks to our dedicated team of employees and for their continuing efforts

in enhancing the national social security net while maintaining a commercially viable enterprise. Finally I wish to thank our senior management and our Chairman and the Board of Directors for the continued guidance, advice and professional insight that they have provided in taking NITF from strength to strength.



Sanath C. De Silva
Chief Executive Officer

25.01.2019

Board of Directors



01

Mr. Manjula de Silva
(Chairman)



02

Mr. Trevine Fernandopulle
(Board Member)



03

Mr. Asendra Siriwardena
(Board Member)



04

Mr. Rohana de Silva
(Board Member)



05

Mr. Chandana Kumarasinghe
(Board Member)



06

Mr. D. P. Wimalasena
(Board Member)



Profile of the Board of Directors

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 also served 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. He was a Committee Member of the Ceylon Chamber of Commerce and has served as the Chairman of its Steering Committee on Insurance.

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. He currently serves as a Deputy Secretary to the Secretary

Mr. K. D. S. Ruwanchandra

(Board Member)

Mr. K. D. S. Ruwanchandra was appointed as a board member in 12.08.2016 replacing Mr. A. R. Deshapriya who has resigned and has been attending Board meetings since August 2016. During the year 2016 he was serving as the Director General of Department of National Budget. Currently he is the Secretary of Ministry of Agriculture, Rural Economic Affairs, Livestock Development and Irrigation.

Mr. Rohana de Silva

(Board Member)

Mr. Rohana de Silva was appointed as a board member in 05.05.2016 and has been attending Board meetings since May 2016. During the year he was serving as Senior Assistant Secretary of Ministry of Health and Indigenous Medicines

Mr. D.P. Wimalasena

(Board Member)

Mr. D. P. Wimalasena (class 1. SLACs officer) was appointed as a board member on 14-12-2015 and he has been attending board meetings during the year 2016. In 2016 he was serving as the Chief Accountant of the Ministry of Finance. Mr. Wimalasena holds a B.COM. (Special) degree from the University of Colombo and also holds a masters degree from the University of Kelaniya. He has over 25 years' experience in Accounting and Auditing.

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.

Mr. Chandana Kumarasinghe

(Board Member)

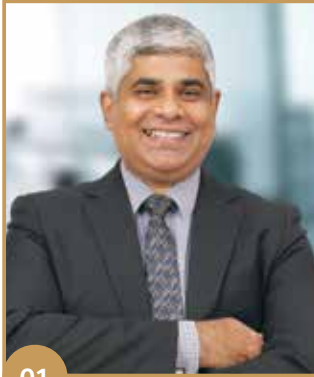
Mr. Chandana Kumarasinghe was appointed as a board member on 14.12.2015. In 2016, he was serving as a Director of the Ministry of Public Administration and Management.

Mr. Trevine Fernandopulle

(Board Member)

Mr. Trevine Fernandopulle was appointed as a board member on 08.04.2015 and has been attending the Board meetings since 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), Non Executive Director of Union Bank PLC and Non Executive Director Dutch Lanka Trailer Manufacturing Ltd (a member of the Tata Group India).

Corporate and Senior Management Team



01

Mr. Sanath C. De Silva
Chief Executive Officer



02

Mr. J.A.D. Siriwardena
Assistant General Manager – Finance



03

Ms. Nimali Pathirana
Assistant General Manager – Insurance



04

Mr. P R A Lasantha U Kumara
Head of HR and Administration Department



05

Ms. Nimali Perera
Head of Branch Supervision Department



06

Ms. Dammika Weerakoon
Head of Finance Division



07

Mr. R.S. Gunasekera
Head of Research and Analysis Department



08

Mr. Kavindra Jayasinghe
Head of IT Department



09

Ms. Upeksha Ekanayake
Head of Motor Underwriting Department



10

Mr. Anura Samarakoon
Head of Agraphara Department



11

Ms. Deshani Nanayakkara
Head of Reinsurance & SRCC Department



12

Ms. Randima D.M.Manage
Head of General Claims Department

Corporate and Senior Management Team



13

Ms. Nimesha Sahabandu
*Head of Micro Insurance
Department*



14

Mr. T.G. Lakshman
Head of Motor Claims Department



15

Mr. Sithara Asanka Jayalath
Head of Administration Division



16

Ms. Gayathri Soysa
Head of Internal Audit Department



17

Mr. Namal Kanchana
Head of Investment Division



18

Ms. S.R.G. Udari Piyabhashini
Head of Legal Department



19

Ms. Gayani Siyambalagoda
Executive Secretary



20

Mr. Shamal Sumudu Senarathna
Head of Anuradhapura Branch



21

Mr. M.N.K. Pandigamage
Head of Hambantota Branch

COUNTERACT

Whether it's damage caused to property or issues that are medical in nature, counteracting the extent of harm caused to our people in the most impactful way possible, is our focal point. For this reason, we have invested in the latest technology to optimise efficiency and uphold our place as the safety net of the nation.



Management Discussion and Analysis

Global economic environment

It was another year of generally sluggish economic activity in the global economy. However a notable uptick in momentum over the second half of 2016, resulted in advanced economies registering improved growth despite the unprecedented socio-political volatility that was persistently prevalent across these markets over the entirety of 2016.

Global GDP growth in 2016 averaged out at 2.5%, well below International Monetary Fund (IMF) projections of 3.1% at the start of the year, driven down by unprecedented volatility in advanced economies such as the European Union and Japan, and intense geopolitical uncertainties in the Middle East, but sustained in part by resilient growth in the sizeable economies of China, and India and the continuing normalization of monetary policy in the United States.

Among the most significant developments for the year were the notable reversals of economic and trade policy across advanced economics. Such developments generated substantial uncertainty, particularly for emerging and frontier markets. Unlike in the previous year when international commodity prices – including the price of crude oil – reached historic lows, sparking deflationary trends across the globe, the year in review witnessed a slight increase in prices of key commodities.

The price of crude oil in 2016 hit US\$ 26 per barrel – its lowest range in 13 years, subsequently closing the year at a range between US\$ 50-55 per barrel. These trends created increased inflationary pressure across the globe, and was felt more strongly in import-dependent economies.

Sri Lankan economic environment

Following a period of limited volatility, the Sri Lankan economy showed early signs of stabilization in 2016 with growth being hampered by continuing uncertainty in international markets, and increase in international commodity prices, coupled with a recovery in the price of the dollar.

Unfavorable weather conditions created major disruptions across the country. These disruptions also placed significant constraints on growth in the country's agriculture sector leading to an economic growth rate of 4.4% in 2016, as compared with 4.6% in the previous year.

A steady acceleration in quarterly growth was observed from the second quarter of the year amidst tightened fiscal and monetary policies. Increased investment expenditure, especially in the construction sector, drove economic growth during the year, while consumption expenditure slowed in response to the policy environment in place. Inflation, which remained low in the first four months of the year, increased thereafter to record an annual average of 4.0 per cent in 2016.

Growth was led by the industry sector which expanded at a rate of 6.7% YoY, which in turn was driven mainly by the construction, and mining and quarrying sectors, which grew by 14.9% YoY and 14.4 %YoY, and jointly contributed 10.0% of GDP.

Services related growth – which accounts for 56.5% of national GDP – grew at a rate of 4.2% YoY, led primarily by a significant expansion in banking and financial services, which posted a 12.4% YoY growth during the year in review. Meanwhile, as a result of the above mentioned unfavorable weather conditions the Agriculture sector contracted by 4.2% YoY in 2016. The resulting disruptions to

rubber and tea plantations also generated further weakness in Sri Lanka's export performance for the year.

The average price of tea in the international market remained broadly stagnant in the wake of lowered demand from key export destinations while rubber production dropped to the lowest volume reported in the past 50 years with a drop in both the extent under tapping and the number of tapping days in response to low international prices for natural rubber owing to overall subdued petroleum prices

Intervention from the Central Bank resulted in a limited reduction of downward pressure on the rupee leading the national currency to close the year having depreciated 3.8% against the US dollar. The country's balance of payments recorded a deficit of US\$ 500 million in 2016, while foreign reserves declined to US\$ 6 billion as compared with reserves of US\$ 7.3 billion in the previous year.

Industry review

The Sri Lankan insurance industry continued to record encouraging growth over the course of 2016 as collective Gross Written Premiums (GWP) across the Life and General Insurance business segments generated growth of 16.3% Year-on-Year (YoY) up to Rs. 143 billion, and as compared with a growth rate of 16.2% YoY in 2015. This improved performance was primarily credited to continuing efforts from across the sector to improve operational processes to assure quality service to customers, while revamping existing products, particularly in relation to products enabled by new technological capabilities.

Growth in long term insurance business declined from 20.4% YoY to 18.3% YoY in 2016. In contrast growth in general insurance business increased from 13.2%

YoY to 14.7% YoY in 2016 reflecting the highest growth rate in the industry since 2012.

Despite the positive growth rates seen in the industry, insurance penetration levels remained low at 1.21% in 2016, displaying marginal growth when compared with 1.12% penetration in the previous year. During the year in review, long term insurance penetration stood at 0.54% while general insurance penetration stood at 0.67%. These low figures help to further illustrate the imperative need to sustainably expand insurance coverage across the island in order to enable a greater level of social security for all Sri Lankans, which in turn will support citizens to be more financially and socially empowered, which ultimately generates positive benefits for the national economy as a whole.

A notable development in that regard was the expansion in value of assets within the insurance industry which grew at a rate of approximately 13% YoY up to a consolidated value of Rs. 527.2 billion as at 31st December 2016, against a previous Rs. 466.7 billion in 2015.

The majority value within the industry continued to be held by Long Term insurers amounting to Rs. 345.8 billion. However it was important to note that growth in long term insurance asset value recorded a considerable reduction from a previous 26.6% in 2015 down to 10.5% in 2016. By contrast, the asset value of the general insurance sector increased from a low growth of 13% into an improved growth of 16% in 2016.

The long term insurance business performed satisfactorily during the year generating a GWP of Rs 63.5 billion. The claims paid by Long Term insurers amounted to Rs 22.6 billion in 2016 up by 8% compared to Rs 20.9 billion in 2015.

Of the total long term insurance claim payments, maturity benefits accounted for the largest sum at Rs. 12.7 billion. Notably, disability benefits paid during the year has grown by 37% YoY to close the year with a total value of Rs 591 million.

The Motor insurance sector continued to account for a majority 62% of GWP within the general insurance sector. While remaining largely positive in terms of performance, the sector witnessed an overall decline in growth rate from 19.1% YoY in 2015 down to 15.6% YoY during the year in review.

As per the latest figures published by the Insurance Board of Sri Lanka (IBSL), the life insurance industry has recorded a CAGR of 11% over the past five years up to 2015. This growth momentum is expected to continue as life insurance penetration in Sri Lanka is significantly lower compared to regional markets. For example, as per statistics published by the IBSL 33% of the working population have some form of insurance as compared with 30% in 2014.

Financial highlights

Given that National Insurance Trust Fund (NITF) is an organization which aims to strike a sustainable balance between the development and consolidation of Sri Lanka's social security net on the one hand and sustainable profitability on the other, the organization's financial performance must always be considered relative to the positive social and economic impact that NITF creates through its direct and indirect lines of business.

In that context, the Management notes with satisfaction the strong financial and operational performance of NITF despite a challenging operating environment and the assumption of new responsibilities through the commencement of landmark

programmes like the National Natural Disaster Insurance Scheme (NNDIS) which was initiated during the course of the year in review.

During this period, NITF recorded a notable increase in Gross Written Premiums (GWP) up from Rs. 5.06 billion in 2015 to Rs. 6.81 billion while contributions from the Agrahara Medical Insurance Scheme have expanded from Rs. 1.64 billion up to Rs. 2 billion by the end of the year. Similar improvements were also recorded in relation to levies collected through the Crop Insurance scheme, which contributed Rs. 1.5 billion to top line performance, as compared with Rs. 1.26 billion in the previous year.

Net Written Premiums during the period in review expanded from Rs. 7.96 billion up to Rs. 9.57 billion while Net Earned Premium recorded similarly commendable improvements, increasing to Rs. 8.85 billion from Rs. 7.93 billion. Meanwhile, Fee and Commission income posted a notable reduction dropping from Rs. 6.6 million down to Rs. 4.7 million by the end of 2016. Notably, Investment income and other income recorded commendable improvements, closing the year at Rs. 984 million, as compared with Rs. 850 million in 2015.

Given that the year in review witnessed a sharp rise in extreme weather events which had a direct and material impact on the financial performance of NITF following the commencement of the NNDIS, the organization consequently recorded a sharp increase in gross benefits and claims paid which amounted to a cost of Rs. 5.76 billion, as compared with Rs. 3.23 billion in the previous year, prior to the commencement of the scheme. The management notes that while such costs represented an additional financial burden for the organization, the positive impact

Management Discussion and Analysis

which the scheme has already had on Sri Lankan communities, individuals and enterprises balances out the immediate cost to NITF, in keeping with the organization's mandate to provide a more comprehensive social security net for the nation, while relieving the State Treasury of the burden of paying out compensation to victims of natural disasters.

In that context, another notable development in the financial performance of NITF during the past year has been the expansion of the organization's total asset base, which posted substantial growth to close the year at Rs. 19.52 billion, as compared with Rs. 12.2 billion in 2015.

As a result of the above mentioned dynamics, NITF recorded a Profit Before Tax (PBT) of Rs. 2.84 billion by the end of the year, reflecting an overall reduction from the previous year when PBT stood at Rs. 4.39 billion. Similarly, Profit After Tax (PAT) during the year reduced to Rs. 2.84 billion as compared with PAT of Rs. 4.3 billion in the previous year.

CAR (Capital Adequacy Ratio) stand at 586% as at 31/12/2016 which is above the minimum regulatory solvency position of 120% and the – enforcement limit of 160%. Therefore NITF maintained an adequate capital position and the balance sheet of NITF remained fully protected.

Divisional Review

Agrahara

The 'Agrahara' Medical Insurance scheme remains one of the flagship offerings of NITF. First introduced in 1997 as a scheme aimed at delivering benefits to government officials, public servants and provincial level government officials and their families, the scheme, commenced operations based on the nominal monthly contributions of each member to the scheme. Initiated under the auspices of the Sri Lanka Insurance Corporation, the scheme gradually evolved towards a model that operated based on a monthly nominal deduction from salaries from all pensionable Government officers. Responsibility for the scheme was subsequently transferred to the Government of Sri Lanka and thereafter placed under the auspices of the NITF in collaboration with the Ministry of Public Administration. At present the scheme caters to over 825,000 members, and covers nearly 2.2 million Sri Lankans, including their family members.

Multiple initiatives were commenced with a view to further expanding the scope and scale of benefits available to Agrahara members in 2016, most notably through the creation of new categories of beneficiaries within the scheme through the formation of the Silver and Gold Schemes and the introduction of Agrahara Rekawarana which expanded the scope of beneficiaries to include public servants retired with effect from 01.01.2016.

As part of the new scheme, beneficiaries who consent to an increased contribution of Rs. 300 and Rs. 600 would be eligible for benefits under the Silver and Gold schemes respectively. Consequently, Agrahara Silver and Gold Members will be entitled to following benefits relative to Agrahara Normal scheme.

Benefits entitled to the members and dependent family members (for the family unit)	Agrahara Scheme - Normal Maximum claim	Agrahara Scheme - Silver Maximum claim	Agrahara Scheme - Gold Maximum claim
Annual Limit	Rs. 150,000.00	Rs. 250,000.00	Rs. 350,000.00
(01) Hospitalization in a private hospital	(Rs. 120,000.00 maximum for a single event)	(Rs. 160,000.00 maximum for a single event)	(Rs. 200,000.00 maximum for a single event)
For Room Chargers	Rs.3,000.00 (per day)	Rs.5,000.00 (per day)	Rs.8,000.00 (per day)
For Medicine, Operation Theater Charges	Rs. 50,000.00	Rs. 60,000.00	Rs. 80,000.00
For Doctor's Fees	Rs. 20,000.00	Rs. 35,000.00	Rs. 50,000.00
For Medical Tests	Rs. 20,000.00	Rs. 30,000.00	Rs. 40,000.00
	Rs. 150,000.00 (per annum)	Rs. 250,000.00 (per annum)	Rs. 350,000.00 (per annum)
(02) For obtaining in- house treatment in a private Ayurvedic hospital subjective to above categories (private Ayurvedic hospital should be a registered entity under local subject Ministry.)		Rs. 160,000.00 (per annum)	Rs. 200,000.00 (per annum)
(03) Hospitalization in a Government hospital			
For Residing Allowance	Rs. 500.00 (per day)	Rs. 1,000.00 (per day)	Rs. 3,000.00 (per day)
For Medicine	Rs. 50,000.00 (only for the period hospitalized under specialist consultant's recommendation)	Rs. 60,000.00 (only for the period hospitalized under specialist consultant's recommendation)	Rs. 80,000.00 (only for the period hospitalized under specialist consultant's recommendation)
For Medical Tests	Rs. 20,000.00 (only for the period hospitalized under specialist consultant's recommendation)	Rs. 30,000.00 (only for the period hospitalized under specialist consultant's recommendation)	Rs. 40,000.00 (only for the period hospitalized under specialist consultant's recommendation)
	Rs. 5,000.00 (For maximum 10 days)	Rs. 10,000.00 (For maximum 10 days)	Rs. 30,000.00 (For maximum 10 days)
(04) Hospitalization in a Government Ayurvedic hospital			
For Residing Allowance	Rs. 500.00 (per day)	Rs. 1,000.00 (per day)	Rs. 3,000.00 (per day)
	Rs. 5,000.00 (For maximum 10 days)	Rs. 10,000.00 (For maximum 10 days)	Rs. 30,000.00 (For maximum 10 days)

Management Discussion and Analysis

Benefits entitled to the members and dependent family members (for the family unit)	Agrahara Scheme - Normal Maximum claim	Agrahara Scheme - Silver Maximum claim	Agrahara Scheme - Gold Maximum claim
05) Child Births Hospitalization in a private hospital			
Child birth with a cesarean surgery	Rs. 40,000.00	Rs. 60,000.00	Rs. 100,000.00
Natural Child birth	Rs. 10,000.00	Rs. 25,000.00	Rs. 50,000.00
Hospitalization in a Government hospital			
Child birth with a cesarean surgery	Rs. 500.00 (per day) (maximum 5 days)	Rs. 1,500.00 (per day) (5 maximum days for a single hospitalization event)	Rs. 3,000.00 (per day) (5 maximum days for a single hospitalization event)
Natural Child birth			
Still – Child birth			
Miscarriage			
(06) Heart related surgeries of family members	Rs. 100,00.00	Rs. 150,00.00	Rs. 200,00.00

Benefits entitled to the members	Agrahara Scheme – Normal Maximum claim Value	Agrahara Scheme – Silver Maximum claim Value	Agrahara Scheme – Gold Maximum claim Value
01. For heart surgeries	Rs. 500,000.00	Rs. 800,000.00	Rs. 1,000,000.00
For RF Ablation	Rs. 225,000.00	Rs. 350,000.00	Rs. 500,000.00
02 .For kidney transplantation		Rs. 800,000.00	Rs.,1,200,000.00
03. For brain surgeries		Rs. 800,000.00	Rs.,1,200,000.00
04. For cancer diseases	Rs.200,000.00	Rs.400,000.00	Rs.600,000.00
05. For implantation of knees		Rs.150,000.00	Rs.250,000.00
06. For implantation of hip bones		Rs.150,000.00	Rs.250,000.00
07. For hearing aids	Rs.50,000.00	Rs.75,000.00	Rs.100,000.00
08. For spectacles	Rs.3,500.00	Rs.3,500.00	Rs.5,000.00
09. Personal accidents and natural death claims cover			
For deaths caused by accidents	Rs.600,000.00	Rs.1,000,000.00	Rs.2,000,000.00
For natural deaths	Rs.150,000.00	Rs.400,000.00	Rs.700,000.00
10. Personal accident cover	Rs.600,000.00	Rs.1,000,000.00	Rs.1,500,000.00

Additionally, NITF signed Memorandums of Understanding (MoUs) between NITF and a total of 11 of Sri Lanka's leading private healthcare providers in order to provide the widest possible range of benefits to members. The list of healthcare providers which NITF entered into new MoUs with over the course of the year in review is as follows:

1. Hemas Hospitals (Pvt) Ltd
2. Lanka Hospitals Corporation PLC
3. Nawaloka Hospitals PLC
4. Northern Central Hospitals (Pvt) Ltd
5. Singhe Hospitals Ltd
6. New Philips (Pvt) Ltd
7. Osro Hospitals (Pvt) Ltd
8. Galle Co-operative Hospitals Society Ltd
9. Nawinna Medicare Hospitals (Pvt) Ltd
10. Browns Healthcare (Pvt) Ltd
11. Asiri Hospital Holdings PLC

Agrahara information

LKR	2016 LKR	2015 (LKR)
Contribution from members	1,454,436,602	1,236,567,419
Contribution from the Treasury	550,000,000	400,000,000
Total contribution	2,004,436,602	1,636,567,419
Claim Expenditure	(2,047,583,576)	(1,580,712,410)
Excess (Deficit)	(43,146,974)	55,855,009

Claims	Total Claims		Claims Paid		Outstanding claims	
	2016	2015	2016	2015	2016	2015
Death	1,954	1,649	1,834	1,413	77	213
Disability	209	198	182	152	20	42
Childbirth	10,668	10,851	9,934	9,829	492	662
Cancer	670	529	617	449	38	55
Cardiac	932	783	920	757	6	16
Spectacles	68,512	72,672	62,303	65,434	1,409	2,341
Government hospital charges for other illnesses	32,525	31,777	30,269	28,745	1,331	2,044
Private hospital charges for other illnesses	21,688	19,497	18,361	15,779	1,305	1,823
Kidney	10	5	10	5	0	-
Paralysis	2	1	2	-	0	-
Total	137,170	137,962	124,432	122,563	4,678	7,196

Management Discussion and Analysis

Strike, Riot, Civil Commotion and Terrorism Fund (SRCC & TF)

The SRCC&T Fund was established in 1987 in terms of a decision made by the Cabinet of Ministers. With incorporation of NITF all funds lying to the credit of the SRCC&T Fund was taken into to the NITF. Eventually, the money was transferred to a special account maintained by NITF and this scheme is currently under the management of NITF.

SRCC&T F was established to insure losses occurring to assets, deaths and injuries occurring to individuals due to Strike, Riot, Civil Commotion and Terrorism (SRCC & T) risks.

The Strike, Riot, Civil Commotion and Terrorism risks are underwritten by general insurance companies and those premium related to Strike, Riot, Civil Commotion and Terrorism are remitted to NITF. Claims intimated to general insurance companies with regard to Strike, Riot, Civil Commotion and Terrorism risks are discussed at the Working Committee meeting monthly and decisions are taken in relation to payment of claims.

Also NITF obtained Reinsurance cover for Strike, Riot, Civil Commotion and Terrorism risks.

	2016 LKR	2015 (LKR)
GWP	3,533,324,423	3,018,417,937
Interest Income	599,542,870	550,349,604
Other Income	-	3,198,218
Total Income	4,132,867,293	3,571,965,759

Reinsurance

NITF is the reinsurer to the nation. NITF commenced accepting reinsurance risk from General Insurance companies in Sri Lanka in 2008. Pursuant to the gazette notification of "The Regulation of Insurance Industry Act No. 27 of 2000" dated 31.12.2012, it is mandatory for General Insurance Companies in Sri Lanka to obtain 30% of the total sum of reinsurance business.

In 2016 the management of NITF took initiatives to have retrocession in order to have reinsurance covers to face the risk of a possible escalation of claims from reinsurance business.

NITF procured the retrocession cover to protect 30% compulsory liability arising out of general insurance.

	2016 LKR	2015 (LKR)
GWP	2,397,372,589	1,737,839,949
Investment Income	240,949,250	186,086,647
Other Income	6,144,709	23,719,435
Total Income	2,644,466,548	1,947,646,031

General insurance - Motor

Given NITF's role as a fully owned Government organization, the Motor division of NITF provides comprehensive and third party insurance covers to government and semi government institutions at an affordable premium. The comprehensive policy covers damage caused by fire, theft, death and injury of third parties as well as floods, strikes, riots, civil commotion and terrorism.

Keeping abreast of the competition, NITF also provides value added services including rapid assessments of accidents island-wide, the ability to undertake repairs at a garage nominated by the customer, and claim settlements within 3 days of document submission. Additionally the insurance scheme was also extended to motor bikes being utilized by Government Field officers island-wide.

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

Notably, NITF also operates a 24 hour call center while maintaining the ability to respond to client needs anywhere in the island through its numerous branch offices within the District Secretariats as part of a continuing effort to streamline processes and facilitate speedier payment of claims. A competent team of assessors island-wide serve to further streamline the process and provide comprehensive assistance to customers when inspection of claims are made.

During the year in review, NITF's Motor Insurance business posted another highly successful performance, bolstered by the launch of new products such as the Agrahara Motor Insurance product for Government officers which features special covers for private motor vehicles owned by Government servants. This product received enthusiastic support from customers during the year while further renewals on policies were carried out on Government-owned or financed motorbikes across the island, which also resulted in a positive impact on top and bottom line performance within the sector.

Similarly, the motor underwriting department also performed admirably during the year, supported by an extremely strong and vibrant customer base from both Government and private sector clients. This resulted in further improvements to premium income generated by Government insurance policies in particular.

Category	2016		2015	
	No of claims	Amount (LKR million)	No of Claims	Amount (LKR Million)
Private car	327	40.24	258	33.02
Motor cycle	1912	29.09	966	13.89
Motor coach	170	15.46	91	9.52
Lorry/land vehicle	69	3.30	51	4.34
Dual purpose vehicle	391	42.06	220	26.51
Total	2869	130.14	1,586	87.27

	2016 LKR	2015 (LKR)
GWP	382,196,410	242,090,517
Investment Income	55,729,178	34,621,732
Other Income	7,111,199	21,181,827
Total Income	445,036,786	297,894,076

During the year in review, the Motor Division reported an increase of 49.4% Year-on-Year (YoY) in net income which in turn was driven by a 57.9% YoY increase in GWP. This improved performance came about as the result of increased marketing and promotional efforts designed to raise awareness of the affordable nature of NITF's Motor Insurance policies. Through expanded recruitment, the division was also able to ensure improved levels of service delivery.

Further the division continued to provide insurance cards instead of paper certifications as proof of the securing of motor insurance policy which further assisted in the enhancement of revenue and service delivery during the year in review.

Management Discussion and Analysis

Premium Comparison

Month	2016	2015	% Change
January	50,275,170	37,902,016	32.65%
February	23,703,504	36,849,114	-35.67%
March	17,389,957	18,570,307	-6.36%
April	14,278,860	13,945,909	2.39%
May	17,620,992	17,603,522	0.10%
June	35,327,247	8,027,946	340.05%
July	30,236,152	9,437,312	220.39%
August	14,351,075	5,303,052	170.62%
September	34,384,107	18,532,648	85.53%
October	20,799,214	21,314,569	-2.42%
November	31,226,371	22,506,409	38.74%
December	58,341,682	28,070,106	107.84%

General insurance (Non-motor)

NITF's General Insurance (Non-Motor) business is subdivided into Fire, Marine, Medical and Miscellaneous categories of which includes cover for a variety of situations including Workmen's Compensation, Personal Accident, Travel, Burglary, Contractor's Plant and Machinery Insurance, Marine Hull Insurance, Money in Transit Insurance, Electronic Equipment Insurance, Goods in Transit Insurance and Bankers Indemnity Insurance.

The strength of the organization's General Insurance division stems from its highly skilled team of employees, including skilled loss adjusters who are able to operate across an island-wide network in order to ensure a prompt and accurate response to the receipt of any claim for settlement. During the year in review, these factors provided vital support towards the expansion of NITF's Non- Motor Insurance business, as evidenced by notable improvements in GWP, Investment and Total income.

LKR	2016 LKR	2015 (LKR)
GWP	182,864,533	36,599,503
Investment Income	8,196,862	6,516,870
Other Income	-	38,087
Total Income	191,061,395	43,154,460

Agricultural Loan Protection Insurance Scheme and Crop Insurance Scheme

Most farmers obtain credit from banks & finance institutions that are engaged in the provision of Agricultural credit. In the event of the crops being damaged due to drought, floods or elephant attacks the lending institutions are unable to recover significant installments of their loans outstanding. Hence this insurance scheme has been developed to give protection for them.

Under the crop insurance scheme, NITF provides insurance covers to paddy crops affected by drought, floods and elephant attacks through Agriculture and Agrarian Insurance Board (AAIB).

Crop insurance scheme is financed by 1% of Profit after tax of financial institutions of Sri Lanka including banks, financial companies and insurance companies.

National Natural Disaster Insurance Scheme

The National Natural Disaster Insurance Scheme (NNDIS) was originated as a budget proposal for 2016 through National Insurance Trust Fund Board (NITF).

NITF had received LKR 300 million budgetary allocation in 2016 as the premium payment of the above insurance scheme. This insurance scheme provide blanket coverage for lives and uninsured properties, specifically all households and small business establishments (any business of which annual turnover does not exceed Rs. 10 Mn) against cyclone, storm, tempest, flood, landslide, hurricane, earthquake, tsunami, falling trees due to heavy winds, collapse of retaining walls and any other similar natural perils excluding drought and upto the aggregate limit of Rs. 10 billion per annum. Property damage for larger businesses and those having insured with an insurance company are excluded.

All fishermen registered under Department of Fisheries will be covered to the value of Rs. 1 Million each in respect of accidental death whilst engaged in fishing. An accidental death cover for all other victims of natural disasters will be paid Rs. 100,000 each under the Personal Accident Insurance cover.

NITF obtained Reinsurance cover for the NNDIS handled by Micro Insurance Department. Under this reinsurance arrangement, cover for uninsured properties has been obtained with a panel of reinsurers led by Allianz SE.

Human Resources

During the year in review, NITF continued to implement a number of progressive measures aimed at retaining and refining the organization's talent pool through training and recruitment policies designed to ensure strong positive outcomes in terms of improving technical and operational capacity with the organization. In this manner, NITF has enjoyed tremendous success in maintaining and further enhancing its ability to deliver a superior level of customer service island-wide. During the year in review, the company continued to recruit new talent in order to further bolster operational capacity, parallel to rising demand for its products and services. Throughout this process, the company maintains a stringent zero-discrimination policy, welcoming competent and dedicated professionals into its service regardless of gender, race, ethnicity, caste or creed. In this manner, NITF is able to attract the best professionals to work within an organizational culture that fosters fairness, transparency and diversity. It is this culture that is at the heart of NITF's continuing ability to deliver the insurance products and services capable of positively contributing to the enhancement of Sri Lanka's social security net, and ultimately facilitating the emergence of a more prosperous and secure society and economy.

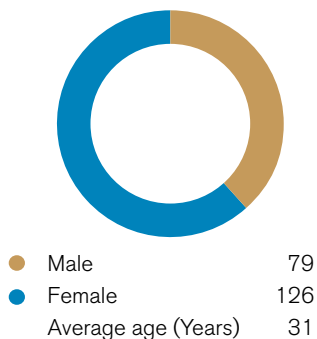
Recruitment

In 2016 substantial amount of recruitments have been carried out relative to 2015 and the recruitment statistics can be summarized as follows.

	2016	2015
Non-Executive	25	12
Executive	3	3

Recruitment of Assistant General Manager- Finance and Corporate Affairs, Assistant General Manager –Insurance and Manager HR and Administration were done in 2016.

Gender balance



Significant Events

28th February 2016

Customer Service Excellence programme

National Insurance Trust Fund organized a Customer Service Excellence program for its team of employees. The event was hosted at the National Chamber of Commerce premises on 28th of February 2016 with the objective of further refining and standardizing the organization's customer service in a manner that raises customer satisfaction and improves operational efficiency.

The main focus of the programme centered on techniques for effectively attending to and resolving customer queries. Employees were trained how best to approach such queries efficiently and competently while ensuring that customer expectations are always met or exceeded. The programme was considered a strong success and is expected to contribute significantly to the continuous improvement of NITF's customer service by ensuring top-notch service to every single customer, every single day.

The programme was conducted by Director and Consultant of SIPCOM-1(Pvt) Ltd, Mr. Dammika Kalapuge.



18th April 2016

NITF Sinhala and Tamil New Year Celebration 2016

Celebrations for the Sinhala and Tamil New year were held on 18th April 2016 at the NITF premises. NITF Chairman, Mr. Manjula De Siva and Chief Executive Officer, Mr. Sanath C. De Silva joined together with staff and senior management to mark this important date.



24. 05. 2016

NITF pays Rs.145mn for disaster relief

The National Insurance Trust Fund (NITF) paid over Rs. 145 million to the Ministry of Disaster Management to cover the costs of providing emergency relief measures to over 400,000 people displaced by the floods and landslides events occurred in May 2016.

All payments were made in accordance with the newly launched National Natural Disaster and Emergency Relief Insurance scheme which commenced operations in April 2016. The scheme was established with the objective of providing security and caring for uninsured Sri Lankans adversely impacted by natural disasters and has already proved to be a highly effective means of establishing social protection for such demographics while also supporting the Government and the national economy by establishing a fund solely authorized for the express purpose of insurance against disaster relief. NITF is also geared to meet the costs of rebuilding and repairing houses and small business premises affected by the floods and landslides.

The insurance scheme provides an aggregate cover of Rs. 10 billion for a year with the backing of some of the world's largest reinsurance companies. NITF also anticipates large claims on its portion of compulsory reinsurance provided to other insurance companies. Due to the organization's financial strength and the backing of international reinsurers, NITF's will be able to comfortably resolve such claims without adversely impacting its financial position.

15th June 2016

Reinsurance Training Programme

National Insurance Trust Fund organized a training programme on the theme: "How to manage sustainability through Reinsurance". The event took place on 15th June 2016 at Cinnamon Lakeside Dukes Court, Colombo and was conducted by NITF's Chief Executive Officer Mr. Sanath C. De Silva.

The programme drew strong participation from local organizations including Co-operative Insurance Ltd., MBSL Insurance Ltd., Orient Insurance Ltd., Ceylinco General Insurance Ltd., Amana Takaful Insurance, LOLC Insurance Co.Ltd., Janashakthi Insurance, Asian Alliance Insurance, Continental Insurance Lanka Ltd., Sri Lanka Insurance Corporation Ltd., Sanasa General Insurance Co.Ltd., People's Insurance Ltd., Allianz Insurance Lanka Ltd., HNB General Insurance as well as staff of NITF.



5th August 2016

MOU Signed between NITF and Browns Healthcare (Pvt) Ltd.

On 5th August 2016, Memorandum of Understanding was signed between NITF and Browns Healthcare (Pvt) Ltd. The MOU was signed by NITF's Chief Executive Officer Mr. Sanath C. De Silva and Chief Executive Officer, Browns Healthcare (Pvt) Ltd's Dr.K.T.Iraivan in the presence of NITF's Chairman Mr. Manjula De Silva and Head of Operations & Marketing of Browns Healthcare (Pvt) Ltd. , Mr. Charitha Jayasinghe.



25th October 2016

Training Program on Reinsurance

National Insurance Trust Fund organized a training programme along the theme: "Designing of Treaty Program", on 25th October 2016 at Cinnamon Lakeside Hotel, Colombo.

The event was organized in partnership with Aditya Birla Insurance Brokers, India. Head of Reinsurance Business of Aditya Birla Insurance Brokers Mr. Nitin Vaidya hosted the training session, which was attended by NITF Chief Executive Officer Mr. Sanath C. De Silva as well as staff of NITF and invited organizations.



Significant Events

2nd December 2016

Memorandum of Understanding between NITF and Asiri Hospitals

The signing ceremony of the Memorandum of Understanding (MOU) between the National Insurance Trust Fund Board and Asiri Hospitals was held on 2nd December 2016 at NITF premises. The MOU was signed by NITF Chief Executive Officer, Mr. Sanath C. De Silva and Group Chief Executive Officer, Asiri Hospitals Dr. Manjula Karunaratna in the presence of NITF Chairman, Mr. Manjula De Silva and the Director Operation of Asiri Hospitals, Dr. Samantha De Silva.



Sustainability Reporting

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 the success of NITF. NITF's desire in the recent past 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. We constantly seek means to assist and give back while placing significant emphasis on the triple bottom line - people, profit and our planet.

During the year 2016, NITF carried out many CSR activities in line with it's vision and mission and few of them are given below.

Medical Equipment Donation to the Cancer Hospital Maharagama.

The Welfare Society of National Insurance Trust Fund (NITF) organized a donation campaign along the theme: "Happiness doesn't result from what we get but from what we give." Through the campaign, NITF and its staff were able to donate medical equipment to the Cancer hospital Maharagama. A special ceremony was held on 21st September at the hospital premises which was attended by Hospital Director Dr.M.Y.K. Wilfred and members of the Welfare Society.



NITF Blood Donation

The Welfare Society of National Insurance Trust Fund organized a blood donation campaign which coincided with Poson Poya day on 17th June 2016 with the patronage of NITF Chief Executive Officer, Mr. Sanath C. De Silva at NITF premises to help the patients in critical conditions desperately in need of blood to revive.



Enterprise Governance

The National Insurance Trust Fund fully recognizes that good corporate governance results in lasting long term value and therefore aims to continuously refine its well-established corporate governance framework. The organization continuously evaluates and formulates the highest applicable governance standards in relation to all of its operations, processes and business activities while maintaining stringent compliance with all pertinent external regulatory requirements pertaining to the industry and the organization including but not limited to the Corporate Governance Code of Best Practices, the Public Enterprises Guidelines for Good Governance and all other relevant guidelines and recommended best practices with regard to Corporate Governance.

Additionally, NITF's employees are all bound and strictly adhere to a stringent code of conduct that places strong emphasis on the maintenance of the highest standards of professional and personal ethics. In this manner, NITF remains diligently committed to managing the entire scope of its operations within a framework that ensures that the trust and confidence of all of its stakeholders – clients, employees, the Government and the Sri Lankan public – is protected at all times.

Every effort is also expended to ensure that the Board of Directors and all of its associated committees maintain effective, efficient and comprehensive collaboration and communication between themselves and employees in order to maintain vibrant, transparent and effective communications between internal stakeholder groups, which remains a vital prerequisite to good governance.

As good governance measures as well as risk management measures NITF during 2016 adopted Risk Based Capital approach, Capital Adequacy Ratio computation and obtaining Credit Rating .

From 2016 onwards NITF started to comply with RBC (Risk Based Capital) requirement and report to Insurance Regulatory Commission of Sri Lanka (formally IBSL).

NITF has obtained credit rating of AA-(lka) from Fitch Rating Ltd which demonstrates the sound financial position of NITF. CAR (Capital Adequacy Ratio) stand at 586% as at 31/12/2016 which is above the minimum regulatory solvency position of 120% and the enforcement limit of 160%. Therefore NITF maintained adequate capital position and balance sheet of NITF is fully protected.

Board of Directors

The Board of Directors is at the core of the corporate governance platform, and all members of the Board of the National Insurance Trust Fund are fully responsible to all of its stakeholders in ensuring that NITF is managed efficiently in accordance with all applicable Government policies, constitutional and legal requirements in a manner that ensures the accomplishment of the organization's overarching goals.

This includes 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 was 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 11 Board Meetings, all of which had excellent attendance displaying the Board's commitment towards discharging its 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-2016

The Board of NITF meets regularly to discuss the ongoing business of the Institution 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 11 Board Meetings held during the year.

Attendance Schedule

Board Meeting	No of Board Members including Chairman	No of Board Members attended in the Board Meetings including Chairman	Quorum
January	07	05	05
March	07	05	05
April	07	06	05
May	07	07	05
June	07	05	05
July	07	06	05
August	07	06	05
September	07	05	05
October	07	07	05
November	07	07	05
December	07	07	05

Role of Board Secretary

Ms. Gayani Siyambalagoda, Secretary to the Board, minuted all Board decisions and liaised with the Directors on all matters relevant to ensure smooth coordination of Board meetings.

Financial Statements

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Regulation of Insurance Industry Act No. 43 of 2000.

Procurement

All procurement functions of the organization are carried out complying with Government rules and regulations and procurement guidelines issued by Ministry of Finance. All procurements are carried out with the assistance of the Cabinet Appointed Procurement Committee (CAPC), Ministry Procurement Committee (MPC), and Department Procurement Committee (DPC) based on the value in concern.

Audit Committee

The Audit Committee is responsible for the formulation and enforcement of a range of functions relating to the accuracy and reliability of all related audit functions of the organization. These functions are defined in accordance with the 'Code of Best Practices for Audit Committees' issued by the Institute of Chartered Accountants of Sri Lanka. The scope of the Audit Committee as well as the responsibilities attached to the Audit Committee was established during 2016 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 Auditor General with regard to the auditor's management letters.
- ♦ Checking to ensure that statutes, regulations, and circulars are complied with.

- ♦ Reviewing of financial statements and performance.
- ♦ 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.
- ♦ Performance / compliance to the rules & regulations

The Audit Committee met on 4 occasions during 2016. 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.

Enterprise Governance

Members of the Audit Committee	Attendance
Mr. A.R. Deshapriya (Chairman) (01/01/2016 - 13/07/2016)	2
Mr. K.D.S. Ruwanchandra (Chairman) (12/08/2016 - 30/12/2016)	2
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 entity for the year ended 31st December 2016 in terms of article 154 (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka in accordance with Sri Lankan Auditing Standards.

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 SRCCT 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 SRCCT fund. During the year 2016 a total of 4 working Committee meetings were held.

Technical Advisory Committee

The Technical Advisory Committee of SRCCT fund was formed to take collective strategic decisions with regard to SRCCT 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. During the year 2016 a total of 7 TAC meetings were held.

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. In that regard, NITF aims to create attractive conditions for nurturing and enhancing personal development and performance with the intention of retaining expertise and skills within the organization.

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 provided 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 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 the 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. During the year 2016 NITF conducted and facilitated various in-house and out of office training programs. These were comprised of 39 local trainings and 2 foreign trainings including National Health Insurance for Universal Health Coverage Meeting and 3rd Asis Agricultural Insurance Conference. In 2016 NITF conducted its Outward Bound Training Program at Hotel Laya Leisure-Kekula Ganga.

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.

Enterprise Risk Management

The ability of NITF to successfully monitor, analyze and respond to risk is central to the success of the organization. By seeking out effective measures to mitigate risk, NITF is not only able to avoid the negative consequences of uncertainty, but in many cases, create fresh opportunity for value addition across the business. Given the importance of an effective risk analysis and management strategy, the organization continues to place a strong emphasis on the continuous refinement and implementation of progressive risk management strategies that take into account every foreseeable development capable of generating direct and indirect impacts to the business – in terms of financial and operational targets as well as impact to all stakeholders. Particularly given the balance that NITF continuously strives for in terms of profitability and entrepreneurial spirit on the one hand and socially conscious enterprise on the other, a proactive, effective risk management strategy remains crucial to the organization's continuing success.

Our risk management process trickles down to all the individual business units and aims to identify and mitigate the associated risks attached to the activities of each individual sector, in addition to taking a collective view of the organization and its activities, while proactively identifying possible opportunities for the development of future business opportunities, particularly as it relates to the empowerment of the organization's direct and indirect client base and all other related stakeholder groups.

The risk management process is embedded at every level of the organization, with the ultimate responsibility of evaluation and action resting in the capable hands of NITF's Board of Directors. Upon completion of regular evaluations, the Board of Directors is

thereafter tasked with formulating business plans that factor in all relevant risk. Subsequently, NITF's Audit Committee is tasked with overseeing the comprehensive implementation of business strategies by identifying and approving key risk policies, authorities and tolerances and following up with regular evaluation to ensure strict compliance.

The Audit committee's mandate also extends to the formulation and execution of methods to evaluate infrastructure, personnel competencies, technologies and communication to ensure the relevance of all risk information received. Independent audits are carried out at regular intervals to ensure that all risk protocols are in place and functioning in order in a manner that promotes efficient and secure operations within a framework of acceptable risk.

NITF adopts an Enterprise Risk Management model in order to take on a holistic view of all risk faced by the organization. In this manner, NITF is able to leverage on the benefits of obtaining sound risk intelligence. By ensuring the continuous improvement of risk intelligence NITF is able to deliver sound information and data from which the Audit Committee and Board is able to analyze and act in order to best serve and enhance stakeholder value.

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

The organization's Risk categorization framework is split into three distinct categories. 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 market reputation in a manner that ensures that its brand name, values and integrity are protected and enhanced at all times. Effective brand management in accordance with this principle is crucial to ensuring that customers, stakeholders and the general public continue to maintain trust and confidence in NITF. By ensuring effective control and compliance with principles of good governance and fiscal responsibility that is instilled at every level of the organization and across all business processes. NITF continues to maintain and reinforce a corporate culture that at all times protects the reputation of the organization.

R02 - Fraud Risk

NITF has established effective internal control system and accounting system in order to ensure strict protection against any type of fraud – whether internal or external to the organization. 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 at all times, in keeping with its overarching principles of prudent, proactive and

effective risk management and mitigation. This strategy is accomplished by way of stringent application approval processes, and the maintenance of prudent exposure and coverage limits. Additionally, the organization implements continuous monitoring and evaluation so as to understand loss and retention experiences. By adopting a systematic approach to risk management, NITF is able to ensure that underwriting process takes place while internal audits ensure that all guidelines are being strictly 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 plans to obtain a retrocession cover at a reasonable cost to cover its reinsurance portfolio for 2017 with reinsurers who have high financial ratings and high global ranking.

In 2016 retrocession agreement was formed with the lead reinsurer Scor Reinsurance Asia Pacific Pte Ltd. under the intervention of reinsurance broker Lockton. In 2006, NITF also formed a reinsurance agreement for NNDIS with the lead reinsurer Allianz SE under the intervention of reinsurance broker Crescent Global UK Ltd. During the year 2016 processes for the formulation of reinsurance agreements for NNDIS, SRCC and T Fund and crop insurance as well as the retrocession program for the year 2017 were initiated.

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 with whom the organization is in business with. NITF's credit approval process is therefore structured based upon the size and type 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. The sound position of NITF's liquidity is demonstrated to a substantial extent by the Fitch Rating of AA-(lka).

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.

Ro8 - 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 plans 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. The investment in Government securities have been done according to Government rules and regulations. 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.

Enterprise Risk Management

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.

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 2016, 11 Board Meetings have been held and Members of the Board have maintained excellent records of attendance at meetings. The details of attendance of the members of the Board Meetings is as follows;

Members of the Board	2016 Board Members Attendance Details											Appointment Date As	Date of Resignation
	Jan	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Mr. Manjula De Silva	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	06/04/2015	-
Mr. A. R. Deshapriya	✓	✓	✓	✓	Ab	-	-	-	-	-	-	08/04/2015	13/07/2016
Mr. Trevine Fernandopulle	✓	✓	✓	✓	Ab	✓	✓	Ab	✓	✓	✓	08/04/2015	-
Mr. Asendra Siriwardena	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	02/04/2015	-
Mr. D. P. Wimalasena	✓	✓	✓	✓	✓	✓	✓	Ab	✓	✓	✓	14/12/2015	-
Mr. H.A.C. Kumarasinghe	Ab	✓	✓	✓	✓	✓	Ab	✓	✓	✓	✓	14/12/2015	-
Mr. Rohana De Silva	-	-	-	✓	✓	✓	✓	✓	✓	✓	✓	05/05/2016	-
Mr. K.D.S. Ruwanchandra	-	-	-	-	-	-	✓	✓	✓	✓	✓	12/08/2016	30/12/2016

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 2016 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, National Natural Disaster Insurance Scheme and Management of Strike, Riot, Civil Commotion & Terrorism Fund (SRCC & TF).

Financial Results

In 2016, NITF recorded a Gross Written Premium (GWP) of LKR LKR. 6,814 Million as against to GWP in 2015 of 5,062 Million. The GWP registered a moderate increase relative to 2015 GWP due to substantial increase in Reinsurance and SRCC and T Fund. During 2016, NITF earned a Profit after Tax of LKR 2,840 Million as against LKR. 4,303 Million in 2015.

Report of the Directors

Employees

Total number of employees as at end of the year 2016 was 206 as against to 186 in 2015.

Auditors

The financial statement of 2016 of the Board was audited by the Auditor General in terms of Financial Act No. 38 of 1971.

Audit Committee

During 2016, the Audit committee comprised three Non – Executive Directors; namely, Mr. K. D. S. Ruwanchandra (Chairman) – (Director General – Department of National Budget), 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 2016, four 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.

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



Gayani Siyambalagoda

Secretary to the Board

Colombo

Audit Committee Report

The Audit Committee was comprised of three members of the Board namely Mr. K. D. S. Ruwanchandra (Director General – Department of National Budget), Mr. Trevine Fernandopulle and Mr. Asendra Siriwardane during the year 2016. The Superintendent of Audit (SA) representing the Auditor General's Department attended meetings as observer on the invitation of the committee. Internal Auditor assisted the committee while higher ranking officials of the NITF were called for clarifications from time to time.

Scope of the Audit

During the year 2016, the Audit Committee continued to carry out the scope of the Audit Committee including followings.

1. Determine the responsibilities of the internal audit unit and review of the annual audit plans.
2. Review and evaluate the adequacy of the internal control system for all activities and processes of the NITF.
3. Review financial performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc.
4. Liaise with external auditor and follow up with the Auditor General'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 recommendations/ directives of the committee on public enterprises.

Meetings of the Audit Committee (AC)

Four meetings of the Audit Committee were held for the year 2016 and the proceedings of the committee meetings were recorded with adequate details and were reported regularly to the Board. The last meeting for the 4th quarter was held in January 2017.

Internal Audit

The internal audit plan was formulated by the Internal Audit Department of the NITF and reviewed by the AC. After accommodating the concerns of the AC, the plan was approved by the AC and submitted to the Board. The AC regularly reviewed and monitored the actions taken by the Internal Audit and the inspections carried out.

External Audit

The AC paid attention on the comments and suggestions made by the SA and reviewed external audit management letters as well. Based on them, decisions were taken and followed up audits thereon and directed management to take appropriate actions.



K.D.S. Ruwanchandra
Chairman
Audit Committee

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IBNR and LAT Certification

2 June 2017



To the shareholders of National Insurance Trust Fund

National Insurance Trust Fund 31 December 2016 Net IBNR and LAT Certification

I hereby certify that the undiscounted Central Estimate IBNR Provision of LKR 294,347,415 including CHE is adequate in relation to the Net Claim Liability reserves of National Insurance Trust Fund as at the 31 December 2016, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2016, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR 2,158,114,195 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of National Insurance Trust Fund as at 31 December 2016, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data.

A handwritten signature in black ink, appearing to read 'M. Maguire'.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting
Dated 2 June 2017

Independent Auditors' Report



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AUDITOR GENERAL'S DEPARTMENT



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எனது இல. } TRE/C/NITF/FS/2016
My No. }

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி } 11 May 2018
Date }

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 2016 in terms of 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 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, cash flow statement and statement of changes in equity for the year then ended and a 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 issued to the Chairman of the Fund on 16 October 2017.

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.



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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 that 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 judgement, 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 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.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this 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 2016 and its financial performance and cash flows, for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) Sri Lanka Accounting Standard 12

Even though the tax expenses related to profit from ordinary activities of an entity shall be presented separately in the Profit and Loss Account in terms of paragraph 77 of the Standard, the tax expense of Rs.195,609,935 identified for the year under review, had not been shown in the statement of comprehensive income by the Fund.

(b) Sri Lanka Accounting Standard 21

Even though foreign currency monetary items shall be translated using the closing rate at the ends of every reporting period, the balance in 02 accounts of the Fund had not been so translated, thus indicating a difference of Rs.22,663,676 between the balance of the account and the translated balance. Accordingly, exchange profit of Rs.22,663,676 from these items had not been brought to account and those assets as well had been understated in the financial statements by the similar amount.



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2.2.2 Accounting Deficiencies

The following observations are made.

- (a) In the computation of tax liabilities, the decrease in the expenditure on gratuity in the year of assessment is not permitted by the Income Tax Act. Therefore, the difference between the expenditure on gratuity and the actuarial gain amounting to Rs.1,137,249, had been added to the Taxable Income instead of adding a sum of Rs.3,603,644 included in the expenditure on staff as expenditure on gratuity, to the Taxable Income. As such, the Taxable Income had been under computed by Rs.2,466,395 while corresponding tax liabilities as well had been under computed by Rs.690,591.
- (b) Despite having settled the receivable sum of Rs.29,579,065 in the Premium Income Receivable Control Account, debit cards of US\$8,756 and credit cards of Rs. 10,000,593 of the Reinsurance Division in the year 2015, those had not been eliminated from the balance that remained as at 31 December of the year under review.
- (c) Credit balances of Rs.39,502,102 were included in the balance of Rs.424,430,802 receivable as at 31 December 2016 of the Reinsurance Division and as such, the premium income receivable, had been understated in the financial statements by the similar amount.
- (d) Insurance premiums of motor cycles provided to public officers, included in other financial liabilities had been retained in an Advance Account received and after receipt of remaining premiums for each said insurance agreement, accounting of total amount of premiums including the said remaining premiums as an income, was the policy of the Fund. The balance of that Advance Account received as at 31 December 2016 amounted to Rs.21,750,002 and that amount had not been identified as an income of the year and brought to account due to non-receipt of remaining monies relating to that balance.
- (e) According to the Procedural Code of the Fund, debtors balances should be settled within 60 days from the date of invoice. However, balances totalling Rs.1,049,204,598 older than 90 days included in the balance receivable as at

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31 December 2016 of two insurance business classes and according to the Prudence Concept, provisions for bad and doubtful debts had not been made by the Fund.

- (f) Payments of motor vehicle insurance claim of Rs.5,634,178 had been brought to account in the Provision for Motor Claim Account instead of accounting in the Claim Expenses–Motor Account. As such, the value of those two accounts had been understated and overstated by Rs.5,634,178 respectively.

2.2.3 Unexplained Differences

There was a difference between credits and debits of Rs.36,836,958 and Rs.30,702,859 of debit cards and credit cards respectively belonging to a private institution, in the schedule submitted relating to the balance receivable as at 31 December 2015 and schedule submitted as at 31 December 2016 relating to the year 2015 respectively by the Reinsurance Division and evidence that those values, had been settled were not available as well.

2.2.4 Transactions not supported by adequate Authority

The following observations are made.

- (a) Even though the payment of commission remaining as a practice of the Strike, Riot and Civil Commotion Division (SRCC&TF) had been discontinued since the year 2008, it had been recomputed and allocated from the profit therefor since the year 2016. The legal basis relating to this payment of Rs.89,809,561 shown in the financial statements in the year under review, had not been made available to Audit.
- (b) Property loans up to Rs.3 million had been granted to the officers of the Fund under 03 categories at the interest rates of 3.5 per cent from the employee and 7.5 per cent, 5 per cent and 2.5 per cent from the employer on the approval of the Board of Directors Paper No.88/01 of 31 October 2012. Moreover, no approval from the General Treasury or instructions of any circular or approval whatsoever had been obtained therefor. However, property loans had been



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granted to seventeen officers of the Fund under this category since the year 2012 and the expenditure on interests incurred therefor during the year by the Fund, amounted to Rs.3,854,638.

- (c) In addition to the property loans mentioned in paragraph (b) above, personal loans had been granted to officers through a state bank by the Fund only on the said approval of the Board of Directors. Despite having limited the payment of loans to a maximum of Rs.1.5 million for Executive Officers and Rs.500,000 for Non-Executive Officers, that loan limit of Non-Executive Grades had been increased from Rs.500,000 to Rs.750,000 on the capacity of settling the loan. Moreover, it was observed in audit that in granting these loans, the interest payable is divided between the employee and the Fund. Further, 128 Non-Executive employees and 13 Executive employees of the Fund had obtained personal loans from a state bank by 31 December 2016. Accordingly, the amount of interest payable therefor by the Fund as at 31 December 2016 totalled Rs.18,711,687.

2.2.5 Lack of Evidence for Audit

The following observations are made.

- (a) Debtors age analysis and letters of confirmation of balances relating to the motor vehicle general insurance value amounting to Rs.123,534,491, had not been made available to Audit.
- (b) Even though a sum of Rs.5,528,802,851 receivable from reinsurance institutions relating to the natural disaster insurance scheme, had been shown in the financial statements of the Fund by 31 December 2016, the letter of confirmation of balances thereon had not been made available to Audit. According to the Letter of Management Representation No.NITF/FIN/02/2016 of 26 April 2018, the Management had informed the audit that a sum of Rs.3,468,019,881 out of the said amount was further receivable. However, according to the said letter, a sum of Rs.535,040,194 receivable from reinsurance institutions, included in the financial statements relating to that

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programme had not been confirmed by the Letter of Management Representation.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken to identify and recover a balance of Rs.9,053,364 included in the receivable balance of premium income of the Reinsurance Division as at 31 December 2016.
- (b) Disaster funds had been released by the National Insurance Trust Fund to the Ministry of Disaster Management and other institutions without obtaining estimates for various disaster situations. As such, the remaining balances of Rs.14,928,705 had not been recovered even by 31 December 2016.
- (c) The balance of Rs.3,462,112 shown as premium income receivable from parties relating to the Note No.10.1 of the financial statement 2016 of the Strike, Riot, Civil Commotion and Terrorist Funds Division (SRCC &TF) was brought forward since the year 2014 and action had not been taken to recover that balance even by 14 July 2017, the date of audit.
- (d) Even though it had been informed to Audit that action will be taken to make the Agriculture and Agrarian Insurance Board (AAIB) aware in respect of Rs.42.5 million, credited to the Account relating to crop insurance as at 31 December 2015 and to make payments expeditiously after getting down relevant documents, that balance had not been settled even by 31 July 2017.
- (e) Value Added Tax (VAT) and Nation Building Tax (NBT) totalling Rs.5,005,761 relating to premiums included in the receivable premium income of the Reinsurance Division, had not been settled up to 31 December 2017 by an insurance company.



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2.4 Effect of Action occurred after the date of Balance Sheet

According to Note No.2.3.8 of the financial statements, the Management had made an assessment on the going concern of the Fund. However, it was revealed in audit that the financial position of the Fund had deteriorated as compared with the preceding years due to delay in obtaining reinsurance coverage of Rs.15 billion for the year 2017 of the National Insurance Cover for natural disasters, to make payments for disasters occurred during that period, from funds of the Insurance Trust Fund and to make exchange of funds between insurance classes on the approval of the Cabinet of Ministers dated 09 June 2016. Even though, the Fund had not sustained a loss in the year under review, it was observed that the loss before tax of the Fund had been Rs.552,501,540 by 31 May 2017 and the retained earnings as well had decreased by Rs.2,543,773,950 by 31 August 2017 as compared with 31 December 2016. Moreover, the value of non-current assets such as property, plant and equipment owned by the Fund amounted to Rs.37,802,741 by 31 December 2016 and the value of assets invested as at that date amounted to Rs.11,195,999,167. That investment value had decreased to Rs.8,300,859,568 by 31 August 2017 and it was further being decreased and as such, it was observed that Fund has been running at a risk.

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

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

Reference to Laws, Rules, Regulations, etc.	Non-compliances
<p>(a) Regulation of Insurance Industry Act, No.43 of 2000</p> <p>Section 27</p>	<p>Even though separate accounts should be maintained in respect of each sub-class of the insurance scheme, the Fund had not prepared sectoral financial statements or reports on accounts thereon for other Divisions except for the Strike,</p>

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Riot, Civil Commotion and Terrorist Funds Division (SRCC &TF). Despite that, a balance payable amounting to Rs.2,308,114 among internal departments had been shown in the financial statements of the year under review.

(b) Inland Revenue Act,
No.10 of 2006

Section 114

The Pay As You Earn Tax had not been deducted from holiday allowance of Rs.871,427 paid to officers who are under obligations for Pay As You Earn Tax, in January 2016 relating to the year 2015 and the officers who are under obligations for Pay As You Earn Tax amongst the non-staff officers had not been identified from February to July 2016.

(c) Public Enterprises
Circular No.PED/12 of 02
June 2003

(i) Section 8.3.8

Even though it was mentioned that donations and gifts should not be made without the prior approval of the Cabinet of Ministers, a sum of Rs.1,159,220 had been granted as donations to various institutions and persons by the Fund.

(ii) Section 9.14.1

An approved Manual of Procedures relating to management of human resources was not available with the Fund and even though it had been informed by the Letter No.NITF/OC/03/2014 sent to the Department of Public Enterprises on 16 August 2016 that the said Manual will be submitted for the approval after preparation and updating completely by considering the institutional requirement, no future action whatsoever had been taken up to now.



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(d) Financial Regulations of
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Financial Regulation 396 Action in terms of the Financial Regulations had not been taken in respect of 33 cheques totalling Rs.976,585 issued relating to 03 current accounts of the Fund and remained for more than 06 months but not submitted for the payment.

2.6 Funds Management

The following observations are made.

- (a) A sum of Rs.100 million had been granted in October 2016 to the Agricultural and Agrarian Insurance Board for the “Kethata Aruna Pohora Diriya Insurance Programme” by the Fund without a pre-estimate and out of that, only a sum of Rs.59,401,901 had been spent during the year under review. The remaining amount of Rs.40,598,099 had been returned to the Fund on 31 March 2017.
- (b) According to a Decision of the Board of Directors, taken on 29 July 2015, the balance of the Agrahara Collection Account, opened with the objective of collecting Agrahara Membership Fees amounted to Rs.14,750 as at 31 December 2016. However, according to files, no money whatsoever had been credited to this account since November 2015 and as such, the objective of opening this account had not been achieved.

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2.7 Non-compliance with Tax Regulations

The following observations are made.

- (a) As the Fund is registered under the Simplified Value Added Tax(SVAT) Scheme, within 15 days after a month of providing the service for a registered purchaser, credit vouchers should be submitted to the relevant registered supplier of services. However, credit vouchers for SVAT invoices had not been received from Mineral Sands Limited, who is a registered purchaser, to the Fund. As such, the receivable amounts excluding VAT relating to those invoices had been received to the Fund. Nevertheless, action had not been taken to identify those SVAT values. As such, unsettled values of Rs.35,806 had been included in receivable balances older than 90 days in debtors age analysis of the General Insurance Division(Non-Motor).
- (b) The total value of depreciation for accounting had been deducted from the income instead of deducting the capital allowance which is a deduction allowed in ascertaining the taxable income in terms of Section 25 of the Inland Revenue Act, No.10 of 2006. According to computations made in Audit, the capital allowance had been Rs.7,730,203. Nevertheless, the value of depreciation for accounting of Rs.7,056,814 had been deducted from the income and shown therein.
- (c) In terms of Sub-section 2.2 of Cage 30 of the Instruction Series for incorporated income tax report relating to the year of assessment 2016/2017, the certificate of an external Auditor should be submitted along with the income tax report for deducting Notional Tax Credits from taxable income. Nevertheless, the Fund had not taken action to obtain this certificate from an external Auditor in the year 2016 as well as in preceding years.



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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 2016 had been a surplus of Rs.2,839,751,855 as compared with the corresponding surplus of Rs.4,303,897,565 for the preceding year, thus indicating a deterioration of Rs.1,464,145,710 in the financial result of the year under review as compared with the preceding year. Even though the gross premium income had increased by Rs.919,020,772, the increase in the payments and write offs of net benefits and claims by Rs.2,534,277,747 had been the main reason for the above deterioration in the year under review.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus which was Rs.2,083,023,166 in the year 2012 had fluctuated annually up to the year 2014 and it had been Rs.4,562,029,897 in the year 2015. Further, it had declined to Rs.2,839,751,855 in the year 2016. Moreover, in readjusting the employees' remuneration, Government tax and depreciation for non-current assets, to the financial result, the contribution of the Fund which was Rs.2,165,850,389 in the year 2012 had increased gradually up to the year 2014. However, it had again decreased from the year 2015 and had been Rs.3,011,061,987 in the year under review.

4. Operating Review

4.1 Performance

In terms of Section 12(a) of the National Insurance Trust Fund No.28 of 2006, the objectives of the Board are providing benefits and safeguards—

- to public officers, provincial public service officers and local government service officers and to persons retired from the public service, the provincial public service and the local government service, and who are presently in receipt of pension from the government, the Provincial Council or the local government service, as the case may be;
- to Samurdhi beneficiaries and their families, in terms of the Samurdhi Authority of Sri Lanka Act, No. 30 of 1995 ;
- to farmers, fishermen and persons engaged in self-employment ;

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- to the needy persons or groups of persons identified by the Minister from time to time on the recommendation of the Board, against unforeseen health risks, personal accident and damage to property through a contributory insurance scheme to be operated by the Board.

The following observations are made in respect of achieving those objectives.

- According to the Public Administration Circular No.12/2005 (vi) of 29 April 2016, action had been taken to further expand the insurance cover, entitled to public officers under two insurance schemes to which contributions would be made on their consent. At present, a number of approximately 0.2 million members of 1750 institutions, had agreed and registered under this new scheme. However, data relating only to 650 out of those institutions had been entered into the system. Moreover, accounting as well had not been made so as to enable the identification of receipt of premiums separately relating to Gold, Silver and General Insurance Schemes.
- It had been decided to grant funds received from cultivation tax of 1 per cent from the profit of financial and insurance institutions, to the Agriculture and Agrarian Insurance Board for making payments for damages caused to cultivations whenever necessary. Moreover, the approval had been obtained by the Cabinet Paper No.16/0525/706/017 of 07 April 2016 to implement an Agricultural Loan Protection Insurance Scheme for farmers who received subsidy fertilizer under the Programme “Kethata Aruna Pohora Diriya” by using this entire cultivation tax. However, according to the Progress Review Report, it was observed that no functions whatsoever had been carried out during the year under this Loan Protection Insurance Scheme.
- A private company had been selected by the Fund in the year 2016 for providing reinsurance coverage and the Reinsurance Agreement for the year 2016 was valid up to the period from 01 April 2016 to 01 April 2017. Accordingly, a sum of Rs.336 million had been paid to reinsurers by the Fund as the net cost of the reinsurance coverage from 04 quarterly premiums at a



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rate of Rs.84 million for the said year. The following matters were observed in this connection.

- (i) According to the Cabinet Memorandum No.MNPE/2016/35 of 20 May 2016, the intended objective of obtaining this reinsurance coverage was protecting the financial position of the institution against the disadvantageous position which would arise due to unusual damages caused by such natural disasters. However, according to the information presented to Audit, despite having paid a sum of Rs.3,750,798,782 as disaster relief in the year 2016, only a sum of Rs.153,326,181 had been received therefor from this reinsurance institution. Accordingly, reinsurance coverage had covered only 4 per cent of payments made for all disasters and as such, achievement of that objective was problematic in Audit.
- (ii) The above mentioned institution had been selected for the reinsurance relating to years 2017/2018 as well and the Fund had entered into the relevant agreement on 26 May 2017, that is, on 25 May 2017 the day after the date of occurring flood emergency situation. Therefore, a period over 02 months had elapsed after cancellation of the previous agreement. As such, the Fund had to cover these disaster damages by using funds of the institution. According to the information presented to Audit, a sum of Rs.1,482,908,152 had been paid as disaster damages by the institution by 19 September 2017.

4.2 Procurement Process

The following observations are made.

- (a) In terms of the Public Enterprises Circular No.4/2016 of 30 May 2016, two motor vehicles had been obtained under operating leasing method for a period of 5 years from 12 July 2016 by the Fund with the approval of the Department of Public Enterprises and the Line Ministry. According to the Supplement 28 of the Government Procurement Guidelines, total lease value or total lease period should be considered as the total cost of the procurement in a

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procurement on lease and the total value payable during 5 years for the said two motor vehicles, had been Rs.16,650,000.

The following matters were observed in this connection.

- (i) According to Guideline 2.14.1 of the Supplement 28 of the Procurement Guidelines, this procurement should be made on the recommendation of the Department Procurement Committee. However, the Department Procurement Committee had not been appointed by the Ministry for the year 2016 relating to procurements of the Fund.
- (ii) The approval for this procurement had been given only by two members of a Committee comprised of three members such as the Chairman, Chief Executive Officer and the Manager (Finance) of the Fund and one member had not given approval therefor stating as a "deviation from the procurement indicated by the National Budget Circular No.1/2016".
- (iii) According to the said Public Enterprises Circular No.4/2016 and the National Budget Circular No.01/2016 of 17 March 2016 attached to it, in the procurement of motor vehicles under Operating Leasing Method, the recommendation of an Evaluation Committee should be obtained before presenting for the approval of the Treasury and the prior approval of the General Treasury as well should be obtained before procuring the motor vehicle. However, the said recommendation as well as the approval of the Treasury had been obtained for these vehicles which were procured on 08 July 2016, after procurement of the motor vehicle, that is, 15 October 2016 and that approval had been sought only on 30 September 2016.



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- (iv) In terms of paragraph 2.3 of the National Budget Circular No.1/2016 of 17 March 2016, motor vehicles should be procured through calling for competitive bidding. However, the Fund had deviated from calling for competitive bidding stating that there are only 03 recognized financial institutions therefor in the market. However, in terms of paragraph 2.3 of the said circular, the qualified suppliers had been specified under 03 categories.
- (b) Action had been taken to construct a branch office in Matara area in the year 2016 and the estimated expenditure on those construction works and relevant activities thereon totalled Rs.1,688,882.

The following matters were observed in this connection.

- (i) According to Guidelines 4.3.1 and 4.3.2 of the Government Procurement Guidelines of the year 2006, the Total Cost Estimate including all associated costs should be prepared by the Fund which is the procuring entity. However, suppliers had been selected by calling for quotations as 3 procurements by the Fund without including all associated costs to the Total Cost Estimate.
- (ii) It was observed that a long period, that is, about one year had been taken for the obtaining of recommendation of the Evaluation Committee since the planning of this activity.
- (iii) According to the Letter No.DSM/ADM/GOVBU/08/01 of 01 June 2016 of the District Secretary, Matara, the purpose of renovating and maintaining the building located in front of the Secretariat had been assigned to the Fund. Nevertheless, new constructions had been carried out without any concurrence or legal agreement of the District Secretary.

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- (c) An insurance scheme had been proposed by the budget proposal -2016 to protect the entire country against natural disasters and it had been proposed to introduce an entire insurance coverage to the value of Rs.10,000 million (Rs.10 billion) comprising an insurance coverage to the value of Rs.2.5 million per capita and a coverage to the maximum limit of Rs.0.1 million per person who were affected by disasters and to introduce an accidental death cover to the value of Rs.01 million for fishermen who faced accidents while involving in fishery. Provisions of Rs.300 million and Rs.500 million had been allocated in the years 2016 and 2017 respectively as insurance premiums by the budget for the implementation of this scheme and the Fund had taken action to obtain reinsurance cover therefor.

The following matters were observed in this connection.

- (i) According to Guideline 2.14.1 of the Procurement Guidelines and revisions made thereto, procurements exceeding Rs.200 million should be made on the recommendation of the Cabinet Appointed Procurement Committee (CAPC). Even though the total value of this reinsurance had been Rs.420 million, action had not been so taken by the Fund. Moreover, procurement activities relating thereto had been carried out by the Fund on the recommendation of the Procurement Committee appointed for other Retrocession.
- (ii) Even though it had been expected to obtain this reinsurance coverage from international A rated institutions, the relevant advertisement had been published only in a local newspaper and in the website of the Fund.
- (iii) The Fund had taken action to obtain only the covering approval of the Cabinet of Ministers on 30 May 2016 for the Company selected deviating from the procurement process in the payment of premiums for reinsurance coverages. However, the Fund had entered into an agreement with the relevant reinsurer even by the instance of obtaining this approval, that is, 06 April 2016.



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4.3 **Staff Administration**

The following observations are made.

- (a) According to the information presented to Audit, the approved staff of the Fund as at 31 December 2016 stood at 269 and the actual staff stood at 210, thus resulting in 59 vacancies.
- (b) Even though the total cadre of 197 existed, had been increased by 37 per cent representing 269 by the Department of Management Services in the year 2016 for restructuring purpose of the Fund, restructuring activities of the Fund was in the initial stage even by now.
- (c) Recruitments for 22 permanent posts (Management Assistant/ Telephone Operator and Receptionist) in the secondary level and for 07 posts (Karyala Karya Sahayake) in the primary level of the approved cadre, had been made on contract basis.
- (d) The following matters were observed at the audit test check carried out in respect of recruitment of officers for 03 posts of top management and 13 posts at medium level in the approved cadre by the Fund during the year 2016.
 - (i) Appointment of members for interview boards had not been properly carried out.
 - (ii) Recruitments had not been made up to now for the post of Manager(General Insurance) for which advertisements had been published and applications, called before 28 December 2015.
 - (iii) Recruitments had been made for 02 posts by holding interviews improperly and without transparency. Moreover, applications had been called for another post recruited on 15 November 2016 deviating from the Approved Scheme of Recruitment.

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- (e) Five vacancies at senior level comprised of a post of Assistant General Manager, 03 posts of Manager and a post of Internal Auditor. However, approval had been granted to fill vacancies on acting basis instead of taking action to recruit officers on permanent basis for the said posts.
- (f) Fifty posts in the tertiary and secondary levels had been vacant even by 30 August 2017, the date of audit.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Draft Annual Report and the financial statements should be presented to Audit within 60 days after close of the financial year. Nevertheless, the final financial statements for the year under review had been presented to Audit only on 01 November 2017.

5.2 Budgetary Control

Variances ranging from 11 per cent to 239 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 instrument of financial control.

5.3 Effectiveness of the Management Information System

The following observations are made.

- (a) Even though the preparation of cash book and the bank reconciliation statement were being carried out by using Zillione Cash Book software by the Fund, accounting software of Sage Accpacc had been used for the maintenance of Ledger Accounts and preparation of final accounts. Further, it was observed that transfer of data between software had been carried out without proper internal control and transfer of these data had been carried out by the Information Technology Division without intervention of the Accounts Division therefor. As such, in the preparation of bank reconciliation statements



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monthly, differences were observed between the balances of the cash book at the end of the month and the monthly closing balances of the cash book which was considered in the preparation of bank reconciliation statements.

- (b) Control of passwords in carrying out accounts through this software was at a weak level and as such, there was a possible risk of entering into the Accounts System by any officer.
- (c) A system audit of the Fund had been carried out by paying Rs.1,150,000 to a private audit firm for the period from May to June 2016 and it had been pointed out that the Management had not paid attention even by 31 December 2016 for rectification of defects of the data system of the Agrahara Division.

6. 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 areas of control.

<u>Areas of Systems and Controls</u>	<u>Observations</u>
(a) Financial Control	<p>(i) Failure in entering cheque numbers accurately in the cash book.</p> <p>(ii) Failure to mention the date of preparation of bank reconciliation statements presented to Audit.</p> <p>(iii) Accounting certain expenses on cash basis in the preparation of financial statements monthly and quarterly.</p> <p>(iv) Variances between balances of petty cash books and physical balances, non-certification and non-approval of petty cash vouchers and improper numbering of vouchers.</p>

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- (v) Non-maintenance of updated Register of Fixed Assets in the SRCC and TF Divisions of the Fund.
- (vi) Improper maintenance of Register of Distress Loans.
- (vii) Failure in preparing estimates accurately and granting advances as per the requirement.
- (viii) Failure in preparing and approving journal vouchers in recording journal entries and obtaining a printout of the updated double entry by Sage Accpacc and observing instances of placing signatures of officers relating to preparation, checking and approval of the said print out.
- (ix) Failure to enter all cheques sent by mail, in the relevant register.

(b) Accounting

- (i) Sales invoices of the General Insurance – Non-Motor Division had not been through a computer system according to the numbers put in order previously. As such, differences were observed between the invoice numbers included in the list of debtors balances, obtained by the computer system and numbers mentioned in the invoice register maintained by the relevant Division.
- (ii) Failure to issue a receipt for receiving all monies or cheques.
- (iii) Failure to determine limits for the approval of journal entries.



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- (iv) Failure in entering journal entries into the accounting system with proper approval and indicating a reference in relevant subsidiary registers as evidence therefor.
- (b) Human Resources Management
 - (i) Failure in making recruitments in compliance with the approved Scheme of Recruitment.
 - (ii) Improper appointment of Interview Boards.
- (c) Management of Branches
 - (i) Deficiencies in assets management.
 - (ii) Unavailability of temporary insurance cover notes and proper registers on printed formats received from the Head Office.
 - (iii) Lack of proper evidence relating to misplacement of those documents.
 - (iv) Improper use of temporary insurance cover note book.
 - (v) Unavailability of a proper register relating to scrap materials and insurance cards.
 - (vi) Problems in control of petty cash.
 - (vii) Unavailability of proper procedure for arrival, departure, leave and for movement.
 - (viii) Delays in depositing cash in the bank, collected in sub-offices.
 - (ix) Improper acceptance of applications in scanning Agrahara applications and improper disposal of them.

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

H.M.Gamini Wijesinghe

Auditor General

Statement of Financial Position

As at 31 December	Notes	2016 Rs.	2015 Rs.
Assets			
Intangible assets	7	-	-
Property, plant and equipment	8	43,058,543	34,125,797
Financial Assets	9	11,187,844,373	10,388,972,726
Reinsurance Receivable		5,528,802,851	-
Premium receivables	10	1,340,840,446	1,060,898,025
Soft Loans	11	67,081,271	129,244,611
Other non financial assets	12	159,891,434	32,307,438
Deferred Commission	13	482,908,910	421,132,953
Cash at bank and in hand	14	705,205,727	166,785,332
Total assets		19,515,633,556	12,233,466,883
Equity and Liabilities			
Retained earnings		7,831,705,609	8,744,382,870
Other component of equity		(266,847,481)	(88,871,109)
Total equity		7,564,858,128	8,655,511,761
Liabilities			
Insurance contract liabilities	18	9,795,236,509	3,257,914,116
Retirement benefit obligation	19	15,090,870	16,458,008
Other liabilities	15	1,865,533,436	303,582,998
Bank overdraft	14	274,914,611	-
Total liabilities		11,950,775,427	3,577,955,122
Total equity and liabilities		19,515,633,555	12,233,466,883

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 74 to 96 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

01 November 2017
Colombo

Statement of Comprehensive Income

Year ended 31 December	Notes	2016 Rs.	2015 Rs.
Gross written premiums	1	6,813,757,955	5,062,685,701
Contribution Received for Agrahara	1	2,004,436,602	1,636,567,419
Crop Insurance Levy Collected		1,511,302,032	1,259,134,207
Premiums ceded		(760,552,873)	-
Net written premiums		9,568,943,716	7,958,387,326
Net change in Reserve for unearned premium		(718,437,265)	(26,901,647)
Net earned premium		8,850,506,451	7,931,485,679
Revenue from other operations			
Fees and commission income	2	4,704,803	6,596,760
Investment & Other Income	3	983,984,377	849,786,808
Other revenue		988,689,180	856,383,568
Gross benefits and claims paid	4	(5,761,417,865)	(3,227,140,119)
Claims ceded to reinsurers	4	6,868,180,969	-
Gross change in contract liabilities	4	(6,649,917,802)	1,562,913
Change in contract liabilities ceded to reinsurers	4	-	-
Net benefits and claims		(5,543,154,699)	(3,225,577,206)
Underwriting and acquisition cost (including reinsurance)	5	(1,068,320,881)	(946,632,594)
Other operating and administrative expenses	6	(387,968,196)	(224,939,681)
Total benefits, claims and other expenses		(6,999,443,776)	(4,397,149,482)
Profit/(Loss) before tax		2,839,751,855	4,390,719,765
Income tax expense		-	(86,822,200)
Profit/(Loss) for the year		2,839,751,855	4,303,897,565
Other Comprehensive Income			
Net change in available for sale financial assets		(182,717,265)	(261,686,342)
Actuarial gain on gratuity valuation		4,740,893	-
Other comprehensive income for the year, net of tax		(177,976,372)	(261,686,342)
Total Comprehensive Income		2,661,775,484	4,041,637,990

Statement of Changes in Equity

As at 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	4,303,897,565	-	4,303,897,565
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)
Balance as at 31 December 2015	8,744,382,870	(88,871,109)	8,655,511,761
Profit for the year	2,839,751,855	-	2,839,751,855
Net change in available for sale financial assets	-	(182,717,265)	(182,717,265)
Actuarial gain on gratuity valuation	-	4,740,893	4,740,893
Cancellation of invoices reinsurance	(34,714,833)	-	(34,714,833)
Cash Transferred to the Consolidated Fund	(3,200,000,000)	-	(3,200,000,000)
Income Tax Payable 2012/13	(578,674,926)	-	(578,674,926)
Amortised discounts on Bonds	47,663,316	-	47,663,316
Depreciation adjustment	2,614,431	-	2,614,431
Adjustments to Premium Refunds	7,306,615	-	7,306,615
SLIPS return Non Motor	22,500	-	22,500
Motor premium	(75,000)	-	(75,000)
Deposit paid write off	(392,000)	-	(392,000)
Reinsurance Premium Adjustment	3,869,230	-	3,869,230
Rent expense	(48,450)	-	(48,450)
Balance as at 31 December 2016	7,831,705,610	(266,847,481)	7,564,858,128

Accounting policies and notes on pages 74 through 96 form an integral part of the Financial Statements.
Figures in bracket indicate deductions.

Cash Flow Statement

Year ended 31 December		2016 Rs.	2015 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		2,839,751,855	4,390,719,765
Adjustments for :			
Interest Income		(967,301,878)	(801,608,493)
Depreciation		7,056,814	6,579,710
Net Fair Value Changes		(177,976,372)	(261,686,342)
Prior Year Adjustments		(555,043,548)	(109,734,409)
Loss/ (Profit) on Disposal of Fixed Assets		-	1,096,675
		1,146,486,872	3,225,366,907
Change in Operating Assets	A	(5,998,105,224)	80,893,698
Change in Operating Liabilities	B	8,098,135,583	129,564,810
Cash Flow from Operating Activities		3,246,517,230	3,435,825,416
Gratuity Paid		(229,889)	(646,511)
Net Cash Generated from Operating Activities		3,246,287,341	3,435,178,905
Cash Flows from Investing Activities			
Net Acquisition of Financial Investments		(798,871,647)	(1,283,398,847)
Interest Received		967,301,878	703,726,452
Recovery of Soft Loans		62,163,340	58,976,296
Disposal of Property Plant and Equipment		-	15,500
Acquisition of Property, Plant and Equipment		(13,375,128)	(4,505,960)
Net Cash Used from Investing Activities		217,218,443	(525,186,559)
Cash Flows from Financing Activities			
Cash Transferred to the Consolidated Fund		(3,200,000,000)	(3,000,000,000)
Net Cash Used in Financing Activities		(3,200,000,000)	(3,000,000,000)
Net Increase / (Decrease) in Cash and Cash Equivalents	C	263,505,784	(90,007,654)
Net Cash and Cash Equivalents at the beginning of the Year		166,785,332	256,792,986
Cash and Cash Equivalents at the end of the Year		430,291,116	166,785,332
Notes to the Cash Flow Statement			
A. Change in Operating Assets			
(Increase)/ Decrease in Deferred Commission		(61,775,957)	(54,511,252)
(Increase)/ Decrease in reinsurance premium receivable		(5,528,802,851)	-
(Increase)/ Decrease in Premium Receivable		(279,942,420)	83,361,009
(Increase)/ Decrease in Other Non Financial Assets		(127,583,996)	52,043,941
		(5,998,105,224)	80,893,698
B. Change in Operating Liabilities			
Increase / (Decrease) in Insurance Contract Liabilities		6,537,322,393	17,654,772
Increase / (Decrease) in Retirement Benefit obligation		(1,137,249)	5,740,215
Increase / (Decrease) in Other liabilities		1,561,950,438	106,169,823
		8,098,135,583	129,564,810
C. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year		430,291,116	166,785,332
Less: Net Cash and Cash Equivalents at the beginning of the Year		166,785,332	256,792,986
Net Increase / (Decrease) in Cash and Cash Equivalents		263,505,784	(90,007,654)

Notes to the Financial Statements

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" with the amendment Act no. 28 of 2007 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 31st October, 2017

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 are responsible for preparation and presentation of this 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, (refer page 70).
- ♦ 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. (refer page 71)
- ♦ A Statement of Changes in Equity depicting all changes in shareholders' equity. (refer page 72)
- ♦ 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 (refer page 73) and

- ♦ Notes to the Financial Statements comprising Accounting Policies and other explanatory information both financial and non-financial, (refer page from 74 to 96).

1.7 Number of Employees

The staff strength of the Board as at 31st December 2016 was 206 (2015 – 186).

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

2.1.1 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.

2.1.2 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

2.1.3 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.

2.2 Reporting Period

The reporting period is from January to December 2016.

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 recognized 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 recognized 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 recognized in the Statement of Comprehensive Income. No such indication of impairment was experienced during the year under review. DAC is derecognized 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.

During the year under review, the Board decided to provide 15% of total legal claims for litigation provision.

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.

2.3.6 Valuation of Retirement Benefit Obligation- Gratuity

The liability recognized in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance

Notes to the Financial Statements

service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognized immediately in Other Comprehensive Income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to pay the gratuity to an employee arises only on completion of 5 years of continued service. The Liability is not externally funded.

The accounting policy on valuation of retirement benefit obligation has changed in 2016 and this is first time adoption of actuarial valuation by using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'.

The same adoption was done for the year 2015 and restated the respective retirement benefit obligation, liability and the effect to the comprehensive income was also recorded as follows.

Reduce the retirement benefit obligation, liability in the financial position as at 31.12. 2015 by Rs. 573,234 and reduce the retirement benefit cost in the comprehensive income 2015 by Rs. 573,234. The movements in the retirement benefit obligation are disclosed Note 19 to the financial position.

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:

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 recognized 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 recognized in the income statement when the asset is derecognized.

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:

Plant & Machinery	Over 10 years
Furniture & Fitting	Over 13.33 years
Office Equipments	Over 13.33 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.

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 88.

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. 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.

Notes to the Financial Statements

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 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 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

Notes to the Financial Statements

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

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 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.

Claims liabilities

The provision in respect of Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) are actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a quarterly basis.

The provision in respect of Claims Incurred But Not Reported (IBNR) was first time recorded as at 31.12. 2016 and disclosures are made in Note 18 to the financial position as at 31.12. 2016.

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

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 recognized 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.

Notes to the Financial Statements

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are 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 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.

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

1. NET PREMIUMS

1.1 Gross Written Premium

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

Year ended 31 December	2016 Rs.	2015 Rs.
Inward Reinsurance	2,397,372,589	1,737,839,949
SRCC & Tr Premium	3,533,324,423	3,018,417,937
General Insurance - Motor	382,196,410	242,090,517
General Insurance - Non Motor	182,864,533	36,599,503
General Insurance - Disaster Management	300,000,000	
Medical scheme for Parliamentary members	18,000,000	27,737,796
	6,813,757,955	5,062,685,701

1.2 Contribution collected for Agrahara medical Insurance Scheme

Year ended 31 December	2016 Rs.	2015 Rs.
Contribution from Members	1,450,866,802	1,236,567,419
Contribution from the Treasury	550,000,000	400,000,000
Pensioners Insurance Scheme	3,569,800	-
	2,004,436,602	1,636,567,419

2. FEES AND COMMISSION INCOME

Year ended 31 December	2016 Rs.	2015 Rs.
Policyholder administration fees	4,704,803	6,596,760
Total fees and commission income	4,704,803	6,596,760

3. INVESTMENT & OTHER INCOME

3.1 Loans and receivables interest income

Year ended 31 December	2016 Rs.	2015 Rs.
Interest income from Repurchase Agreements	322,526,043	230,199,663
Interest income from Debentures	-	88,394,975
	322,526,043	318,594,638

3.2 Available for sales interest income

Interest income from Treasury Bills	308,587,706	215,631,288
Interest income from Treasury Bonds	328,758,699	264,371,922
	637,346,405	480,003,210

3.3 Held to maturity interest income

Year ended 31 December	2016 Rs.	2015 Rs.
Interest income from SLBD	7,429,430	3,010,646
	7,429,430	3,010,646
Total investment income	967,301,878	801,608,493

3.4 Other Income

Interest on Soft Loans	2,078,808	3,110,618
Interest on Staff Distress Loans	747,028	730,037
Other	13,856,663	44,337,661
	16,682,499	48,178,316
Total Income	983,984,377	849,786,808

4. NET BENEFITS AND CLAIMS

Year ended 31 December	2016 Rs.	2015 Rs.
(a) Gross benefits and claims paid		
Reinsurance	(2,882,078,138)	(715,790,744)
SRCC & TR	250,927	(2,967,351)
General Insurance - Motor	(142,640,392)	(111,147,284)
General Insurance - Non Motor	(49,937,952)	(30,195,877)
Disaster Management	(757,620,458)	
Crop Insurance	(68,646,391)	(685,994,044)
Medical scheme for Parliamentary members	(16,416,373)	(19,087,311)
Agrahara medical Insurance Scheme	(1,844,329,088)	(1,661,957,508)
	(5,761,417,865)	(3,227,140,119)
(b) Claims ceded to reinsurers		
Reinsurance	3,557,320,000	-
Disaster Management	3,310,860,969	-
	6,868,180,969	-
(c) Gross change in contract liabilities		
Reinsurance	(3,295,980,074)	(527,238,148)
SRCC & Terrorism	(33,928,163)	2,187,114
General Insurance - Motor	23,812,239	(59,771,021)
General Insurance - Non Motor	(5,617,254)	(3,084,534)
Disaster Management	(3,003,240,511)	
Crop Insurance	(148,125,925)	489,137,093
Medical scheme for Parliamentary members		
Agrahara medical Insurance Scheme	(186,838,115)	100,332,409
	(6,649,917,802)	1,562,913
Net benefits and claims	(5,543,154,699)	(3,225,577,206)

Notes to the Financial Statements

5. UNDERWRITING AND ACQUISITION COST

Year ended 31 December	2016 Rs.	2015 Rs.
Acquisition Cost	(1,124,410,583)	(1,001,143,846)
Change unearned commission reserve - SRCC	43,841,952	10,769,720
Change unearned commission reserve - Reinsurance	8,374,401	43,741,532
Change unearned commission reserve - GI	3,873,350	-
	(1,068,320,881)	(946,632,594)

6. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

Year ended 31 December	2016 Rs.	2015 Rs.
Auditors Remuneration	180,000	180,000
Employee Benefit Expenses	164,253,318	131,921,282
Administration and establishment Expenses	107,673,497	83,592,545
Profit Commission Expenses	105,387,928	-
Selling Expenses	1,388,925	1,609,680
Depreciation of Property Plant and Equipment	7,056,814	6,579,710
Legal Fees	868,495	346,864
Sponsorships	1,159,220	709,600
Total other operating and administrative expenses	387,968,196	224,939,681

6.1 Employee Benefit Expenses

Wages and salaries including bonus & incentives	114,058,912	93,336,158
Contributions to defined contributions plans		
Employees' Provident Fund	13,515,405	11,135,836
Employees' Trust Fund	3,563,451	2,785,459
Other personal cost	29,511,905	18,923,614
Retirement benefit cost	3,603,644	5,740,215
Total employee benefits expense	164,253,318	131,921,282

6.2 Administration and establishment Expenses

Professional fees	2,519,047	671,327
Electricity	7,174,592	6,688,632
Telephone	2,554,839	1,739,178
Printing & Stationary	7,950,542	7,241,377
Postage	2,249,064	2,275,342
Office Rent	21,331,434	21,758,234
Nation building tax expense	12,587,904	
Other administration & establishment expenses	51,306,076	43,218,455
Total administration and establishment expenses	107,673,497	83,592,545

7. INTANGIBLE ASSETS

Year ended 31 December	2016 Rs.	2015 Rs.
Cost		
At 1 January 2015	6,542,073	6,542,073
Additions		
At 31 December 2016	6,542,073	6,542,073
Accumulated amortisation and impairment		
At 1 January 2015	6,542,073	6,542,073
Amortisation	-	-
At 31 December 2016	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	2016	2015
Software	6,542,073	6,542,073

8. PROPERTY, PLANT & EQUIPMENT

Company	Motor Vehicles Rs.	Office Equipment Rs.	Furniture & Fittings Rs.	Misc. Assets Rs.	Total Rs.
Cost					
At 1 January 2016	34,628,245	36,436,039	8,251,301	23,338	79,338,922
Additions	-	11,057,998	2,317,130	-	13,375,128
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2016	34,628,245	47,494,037	10,568,431	23,338	92,714,050
Accumulated Depreciation					
At 1 January 2016	25,448,531	16,183,106	3,558,150	23,338	45,213,125
Depreciation	3,121,170	3,219,833	715,811	-	7,056,814
Disposals	-	-	-	-	-
Previous Year adjustment	-	(2,474,459)	(139,972)	-	(2,614,431)
At 31 December 2016	28,569,701	16,928,480	4,133,989	23,338	49,655,508
Carrying amount					
At 31 December 2015	9,179,714	20,252,932	4,693,151	-	34,125,797
At 31 December 2016	6,058,543	30,565,557	6,434,442	-	43,058,542

Notes to the Financial Statements

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

Year ended 31 December	2016 Rs.	2015 Rs.
Miscellaneous Assets	23,338	23,338

9. FINANCIAL ASSETS

Year ended 31 December	Notes	2016 Rs.	2015 Rs.
Loans And Receivables	9.1	2,433,292,966	4,268,076,752
Available For Sale Financial Assets	9.2	8,701,092,379	5,890,404,632
Held to Maturity Financial Assets	9.3	53,459,028	230,491,342
		11,187,844,373	10,388,972,726

9.1 Loans And Receivables

Year ended 31 December	2016 Rs.	2015 Rs.
Loans and receivables	2,433,292,966	4,268,076,752
Total financial instruments	2,433,292,966	4,268,076,752

Loans and receivables

Government Securities - Repo Investment	2,433,292,966	4,268,076,752
Debentures - Unquoted		
Total loans and receivables at amortised cost	2,433,292,966	4,268,076,752

9.2 Available For Sale Financial Assets

Year ended 31 December	2016 Rs.	2015 Rs.
Government Securities - Treasury Bonds	5,304,469,505	2,898,681,590
Government Securities - Treasury Bills	3,396,622,874	2,991,723,042
	8,701,092,379	5,890,404,632

9.3 Held to Maturity Financial Assets

Sri Lanka Development Bonds	53,459,028	230,491,342
	53,459,028	230,491,342

10. PREMIUM RECEIVABLES

Year ended 31 December	2016 Rs.	2015 Rs.
Premium Receivable from :		
Direct customers	702,493,693	507,851,102
Intermediaries	638,346,753	553,046,924
	1,340,840,446	1,060,898,025

10.1 Premium Receivable from Direct customers

General Insurance Motor	119,222,251	39,682,591
General Insurance Non motor	144,840,641	5,033,772
Inward Reinsurance	424,430,802	446,043,246
Parliamentary Members insurance	14,000,000	17,091,493
	702,493,693	507,851,102

11. SOFT LOANS

Soft loans	67,081,271	129,244,611
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12. OTHER NON-FINANCIAL ASSETS

	2016 Rs.	2015 Rs.
Advances & Prepayments	5,996,509	4,725,187
Refundable Deposits	4,980,250	6,780,250
Staff Distress Loans	21,739,991	17,418,397
Receivable from AAIB	40,598,099	-
Deferment of Reinstatement premium	67,502,500	-
Receivable from Disaster Management	15,738,250	-
Economic Service Charge	2,554,923	2,554,923
Cheque Return Receivable	780,912	828,681
	159,891,434	32,307,438

13. DEFERRED COMMISSION

	2016 Rs.	2015 Rs.
As at 1 January	421,132,952	366,621,700
Provision made /(released) during the year	61,775,957	54,511,252
As at 31 December	482,908,909	421,132,952

Notes to the Financial Statements

14. CASH AND CASH EQUIVALENTS

Year ended 31 December	2016 Rs.	2015 Rs.
Petty Cash	185,363	159,002
Cash at bank	705,020,364	166,626,330
Cash in hand and at bank	705,205,727	166,785,332
Bank overdraft*	(274,914,611)	-
Total cash and cash equivalents	430,291,116	166,785,332

*Note - This is only a Book Overdraft due to Reinsurance payment to be made

15. OTHER LIABILITIES

	Notes	2016 Rs.	2015 Rs.
Other financial liabilities	15.1	586,787,527	193,756,079
Other non financial liabilities	15.2	1,278,745,909	109,826,918
		1,865,533,436	303,582,998

15.1 Other financial liabilities

Claim cheques/SLIPS returned payable	6,052,738	5,369,830
Motor premium Advance Collected	15,319,066	29,328,516
Commission payable - Reinsurance	42,442,577	56,796,368
Restatement Premium payable	350,451,671	-
Annual fee and Cess payable	8,480,878	28,431,933
Premium Refund Payable	46,715,161	53,670,950
Profit Commission Payable	89,809,561	-
Accrued expenses	6,910,129	7,838,761
Other payables	20,605,746	12,319,721
	586,787,527	193,756,079

15.2 Other non financial liabilities

Income tax payable	569,137,650	19,659,524
Value added tax payable	83,354,811	66,805,113
Nation building tax payable	26,260,698	23,351,532
Payable to the Consolidated Fund	600,000,000	-
Withholding tax payable	(7,250)	10,750
	1,278,745,909	109,826,918

16. SEGMENT INFORMATION

Gross Written Premium to Underwriting results of the above categories of product are given below.

PREMIUMS	2016							
	Motor Rs.	Non Motor Rs.	Disaster Management	Reinsurance Rs.	SRCC Rs.	Health Scheme Agrahara/MP	Crop Insurance Scheme	Total Rs.
Gross written premiums	382,196,410	182,864,533	300,000,000	2,397,372,589	3,533,324,423	18,000,000	-	6,813,757,955
Contribution Received for Agrahara	-	-	-	-	-	2,004,436,602	-	2,004,436,602
Crop Insurance Levy Collected	-	-	-	-	-	-	1,511,302,032	1,511,302,032
Premiums ceded	-	-	(508,506,900)	(252,045,973)	-	-	-	(760,552,873)
Net written premiums	382,196,410	182,864,533	(208,506,900)	2,145,326,616	3,533,324,423	2,022,436,602	1,511,302,032	9,568,943,716
Net change in Reserve								
for unearned Premium	(33,597,156)	(120,334,798)	(73,972,603)	(230,836,424)	(259,027,791)	(668,493)	-	(718,437,265)
Net Premiums Earned (A)	348,599,255	62,529,734	(282,479,503)	1,914,490,192	3,274,296,632	2,021,768,108	1,511,302,032	8,850,506,451
Reinsurance commission income	-	-	-	-	-	-	-	-
Change in deferred RI com income	-	-	-	-	-	-	-	-
Net reinsurance commission income (B)	-	-	-	-	-	-	-	-
Fee income	4,608,854	95,949	-	-	-	-	-	4,704,803
Total Underwriting Income (A + B + C)	353,208,109	62,625,683	(282,479,503)	1,914,490,192	3,274,296,632	2,021,768,108	1,511,302,032	8,855,211,254
Acquisition costs	(1,812,906)	-	-	(557,479,855)	(509,028,120)	-	-	(1,068,320,881)
Change in deferred acquisition costs	-	-	-	-	-	-	-	-
Net acquisition costs (D)	(1,812,906)	-	-	(557,479,855)	(509,028,120)	-	-	(1,068,320,881)
Gross claims incurred	(174,536,371)	(53,655,469)	(3,760,860,969)	(6,093,990,370)	1,286,187	(1,966,584,869)	(68,646,391)	(12,116,988,251)
Reinsurance recoveries	-	-	3,310,860,969	3,557,320,000	-	-	-	6,868,180,969
Net Claims Incurred Before IBNR (E)	(174,536,371)	(53,655,469)	(450,000,000)	(2,536,670,370)	1,286,187	(1,966,584,869)	(68,646,391)	(5,248,807,283)
Gross change in other technical reserves - IBNR	55,708,218	(1,899,737)	-	(84,067,842)	(34,963,423)	(80,998,707)	(148,125,925)	(294,347,416)
Net Claims Incurred (E)	(118,828,153)	(55,555,206)	(450,000,000)	(2,620,738,212)	(33,677,236)	(2,047,583,576)	(216,772,316)	(5,543,154,699)
Administrative expenses (F)	(48,658,073)	(12,164,518)	-	(24,329,036)	(144,677,831)	(145,974,219)	(12,164,518)	(387,968,196)
Total Underwriting Expenses (D + E + F)	(169,299,132)	(67,719,724)	(450,000,000)	(3,202,547,104)	(687,383,187)	(2,193,557,795)	(228,936,834)	(6,999,443,775)
Underwriting Result	183,908,977	(5,094,041)	(732,479,503)	(1,288,056,911)	2,586,913,445	(171,789,686)	1,282,365,198	1,855,767,478
Investment & Other Income for the year	62,840,376	8,196,862	-	247,093,959	599,542,870	2,039,484	64,270,827	983,984,377
Profit before tax	246,749,353	3,102,821	(732,479,503)	(1,040,962,953)	3,186,456,315	(169,750,202)	1,346,636,024	2,839,751,856

Notes to the Financial Statements

17. INSURANCE CONTRACT LIABILITIES

(a) Insurance Provision	Notes	2016					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		(55,708,218)	1,899,737	84,067,842	-	148,125,925	259,383,993
Outstanding claims provision	17.1	151,746,931	3,005,945,239	3,326,836,134	35,934,660	605,196	6,626,907,568
Provision for unearned premiums	17.2	105,650,425	215,227,193	839,080,406	1,701,990,624	12,032,877	2,873,981,525
Total insurance contract liabilities		201,689,138	3,223,072,169	4,249,984,382	1,737,925,284	160,763,998	9,760,273,086

(b) Technical Provision	Notes	2016					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		(55,708,218)	1,899,737	84,067,842	-	148,125,925	259,383,993
Outstanding claims provision	17.1	151,746,931	3,005,945,239	3,326,836,134	35,934,660	605,196	6,626,907,568
Provision for unearned premiums	17.2	105,650,425	215,227,193	839,080,406	1,701,990,624	12,032,877	2,873,981,525
Total insurance contract liabilities		201,689,138	3,223,072,169	4,249,984,382	1,737,925,284	160,763,998	9,760,273,086

17.1 Outstanding claims provision

	2016					Total	
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities		Agrahara Contract Liabilities
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
As at 1 January	128,991,910	3,084,534	774,923,902	39,324,019	65,000,000	91,045,492	1,102,369,856
Increase / Decrease in Provision	22,755,021	3,002,860,705	2,551,912,232	(3,389,359)	(64,394,804)	14,793,916	5,524,537,712
As at 31 December	151,746,931	3,005,945,239	3,326,836,134	35,934,660	605,196	105,839,408	6,626,907,568

17.2 Provision for unearned premiums

	2016					Total	
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Parliamentary Members Contract Liabilities		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
As at 1 January		72,053,269	20,919,792	608,243,982	1,442,962,833	11,364,384	2,155,544,260
Premiums unearned during the year		33,597,156	194,307,401	230,836,424	259,027,791	668,493	7,18,437,265
As at 31 December		105,650,425	215,227,193	839,080,406	1,701,990,624	12,032,877	2,873,981,525

18. RETIRING BENEFIT OBLIGATION

Movements in present value of the retirement benefit obligation are as follows

	2016 Rs.	2015 Rs.
Balance at the beginning of the year	16,458,008	11,364,304
Add: Retiring gratuity expenses	18.1 (1,137,249)	5,740,215
Less: Benefits paid during the year	(229,889)	(646,511)
Balance at the end of the year	15,090,870	16,458,008

18.1 Retiring Gratuity Expense

Current service cost	3,603,644	5,740,215
Interest cost	-	-
Actuarial (gain)/loss	(4,740,893)	-
	(1,137,249)	5,740,215

19. RISK MANAGEMENT**19.1 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
Financial 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.

Notes to the Financial Statements

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.

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.

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

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.

21. 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	2016 Rs.	2015 Rs.
Loans and receivables	9.1	2,433,292,966	4,268,076,752
Available for sale financial assets	9.2	8,701,092,379	5,890,404,632
Premium Receivables	10	1,340,840,446	1,060,898,025
Soft Loans	11	67,081,271	129,244,611
Cash in hand and at bank	14	705,205,727	166,785,332
		13,247,512,789	11,515,409,352

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.

Notes to the Financial Statements

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

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.

Financial Position

(in Sri Lankan Rupees)

As at 31 December	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Assets											
Property Plant and Equipment	43,058,543	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	11,187,844,373	10,388,972,726	9,105,573,879	6,667,518,021	5,375,914,672	4,444,546,262	5,574,107,463	8,550,206,721	7,749,178,616	5,449,343,240	
	11,230,902,916	10,423,098,523	9,131,825,761	6,686,855,988	5,400,653,874	4,474,153,140	5,610,203,474	8,593,810,225	7,793,838,397	5,474,583,705	1,461,388
Current Assets											
Receivable	7,096,616,002	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	705,205,727	166,785,332	278,096,913	305,495,813	1,036,413,917	3,542,969,945	3,594,104,553	1,101,730,003	239,795,258	560,259,122	13,357,202
	7,801,821,729	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	19,032,724,645	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	7,564,858,128	8,655,511,761	7,723,034,946	6,950,864,274	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
	7,564,858,128	8,655,511,761	7,723,034,946	6,950,864,274	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	287,398,152	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	(482,908,910)	(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)	
	2,391,072,615	1,734,411,307	1,762,020,912	1,423,483,126	882,865,620	801,957,122	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	89,809,561	-	-	12,287,375	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
	89,809,561	-	-	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	6921,254,984	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	2,065,729,357	32,004,100	230,081,405	1,881,972	74,726,585	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	8,986,984,341	1,422,410,862	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	19,032,724,645	11,812,333,930	10,826,753,995	8,678,381,792	7,168,943,108	9,944,937,649	11,150,123,921	10,783,553,647	10,022,135,643	8,256,798,953	526,663,560

Note - In 2015 gratuity reinstatement has been done due to change in accounting policies

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

Telephone Numbers: +94 11 4873900-5, +94 11 2026600
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. A. Vimalenthirarajah
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

IMPACT

