



PUTTING THE NATION FIRST



National Insurance Trust Fund
Annual Report 2017



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OUR VISION

**SAFETY-NET AND PROTECTION FOR ALL
NEEDY SECTORS**

OUR MISSION

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

Affordable, Effective, 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 Reinsurance market in Sri Lanka to provide additional capacity to the local Insurance Market.

PUTTING THE NATION FIRST

If the past few years have taught us anything it is that life is uncertain. As Sri Lankans struggled and yet rallied together in order to strengthen the country from the storms that blew in literally and metaphorically, we were reminded again, of our vital role in the community. We went above and beyond in ensuring that their needs were looked after and we too made progress, slowly but surely to fortify ourselves amidst the challenges that came with it. With our mission to safeguard the often overlooked segments of society keenly guiding our actions, we present to you our year under review, A year in which we, the National Insurance Trust Fund put the nation first.

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 95,UPTO Building ,
Sir Chittampalam A Gardiner Mawatha,
Colombo 02,
Sri Lanka

Contact Details

General Line :+94 11 2026600
Fax : +94 112 338 778 / +94 114 366 003
Email: mail@nitf.lk or
Email: mails@nitf.lk
Corporate Website: [http:// www.nitf.lk](http://www.nitf.lk)

Members of the Board (as at 01/11/2019)

Mr. Manjula De Silva (Chairman)
Mr. Trevine Fernandopulle
Mr. Asendra Siriwardena
Mr. Chandana Kumarasinghe
Mr Rohana de Silva
Mr. D.P.G. Pradeep
Mr. C. Jayasooriya

Mr. Mawahib Mowjood (Present Chairman
from 19/02/2020)

Secretary to the Board

Ms. Udari Ranhotigamage

External Auditors

The Auditor General
National Audit Office
No.306/72, Polduwa Road
Battaramulla

Bankers

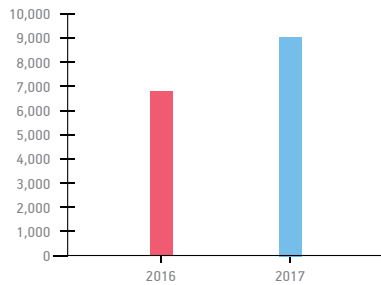
- Peoples Bank
- Bank of Ceylon
- National Savings Bank

FINANCIAL HIGHLIGHTS

	2016	2017	Change
Gross Written Premium (LKR Mn)	6,845	9,071	33%
Net Earned Premium (LKR Mn)	8,851	11,614	31%
Net Benefits and Claims (LKR Mn)	5,543	9,901	79%
Profit Before Tax (LKR Mn)	2,840	1,077	-62%
Investment & Other Income (LKR Mn)	984	1,143	16%
Profit After Tax (LKR Mn)	2,839	976	-66%
Total Assets (LKR Mn)	19,516	18,553	-5%

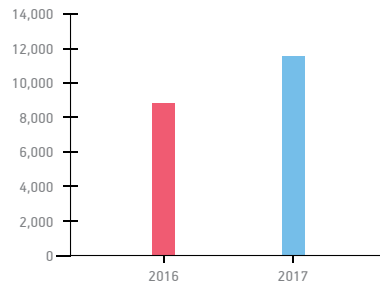
Gross Written Premium

(LKR Mn)



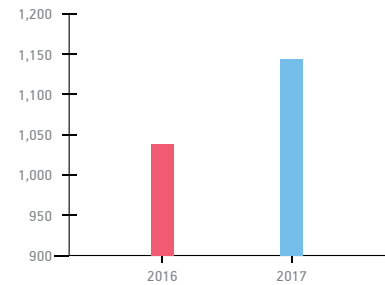
Net Earned Premium

(LKR Mn)



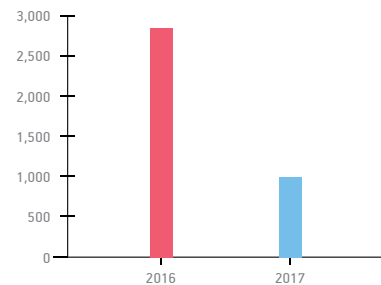
Net Benefits and Claims

(LKR Mn)



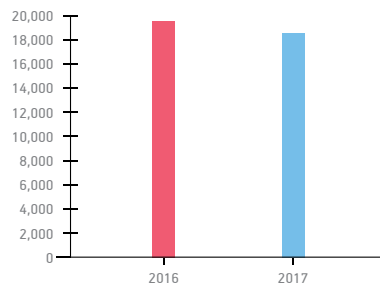
Profit After Tax

(LKR Mn)



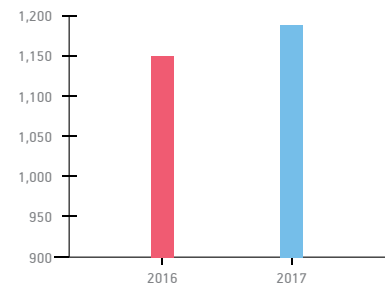
Total Assets

(LKR Mn)



Investment & Other Income

(LKR Mn)





**ENSURING THAT
YOUR HARD
WORK IS NEVER
WASTED**



**SHELTERING YOU
WITH CARE AND
PROTECTION**

OWNERSHIP AND STATUTORY MANDATE

NITF is a fully Government of Sri Lanka (GOSL) owned enterprise established by the National Insurance Trust Fund Act, No. 28 of 2006

Statutory mandate

The mandate of the NITF is defined by the NITF Act as:

- Whereas the Government has provided benefits and safeguards to officers in the public service and provincial public service against unforeseeable risks related to health, personal accident and damage to properties inter alia through a contributory insurance scheme operated by commercial insurance organisations and other funds established for such purpose :
- And whereas the Government is also operating benefit schemes and insurance schemes for the benefit of the more vulnerable segments of society, including Samurdhi beneficiaries, farmers, fishermen and persons engaged in self employment
- And whereas the Government is desirous of streamlining such insurance and such other benefit schemes and to that end the Government intends to set up a National Insurance Trust Fund in order to be able to provide the aforesaid facilities in a more effective and coordinated manner whilst ensuring maximum benefits to all persons eligible for benefits in terms of this Act :

CORPORATE GOALS

01

To provide total solutions for reinsurance needs of the Sri Lankan Insurance Market by way of being a professional and customer friendly reinsurer and meeting highest service standards in line with international best practices

02

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.

03

To become the most preferred reinsurer in Sri Lanka by 2017 and the leading reinsurer in the Asian region by 2019 with a net worth of Rs. 50 Billion.

04

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

05

To provide insurance solutions to agricultural industry and its stakeholders to uplift the commercial viability of agricultural business and living standards of the farmers in Sri Lanka.

06

To become the most efficient and effective health insurance provider and claim settler in the country serving both government servants and other needy groups.

CORPORATE GOALS

07

To position NITF as the information hub and professional insurance knowledge center in Sri Lanka

08

To become the most preferred insurance provider for all government institutions by strengthening the relationship with government institutions to exploit general insurance business

09

To transform the Trust Fund Board structure into a sustainable corporate structure by establishing two separate commercial entities (Government owned Limited Liability companies) with its own capital to operate reinsurance business and general insurance business. General insurance company can be a subsidiary of the reinsurance company. A second subsidiary to be established if needed to enter into life insurance business.

10

To become socially responsible by becoming a green institution with a demonstrated commitment to environment protection

11

To establish a dynamic system which facilitate speedy claim settlement in both general insurance and reinsurance providing customer satisfaction.

12

To obtain an international financial rating that portrays the financial strength and stability of NITF.

13

To establish a professional accounting and reporting system and audit function to uphold transparency.

14

To transform the restricted investment function into a dynamic operational function after obtaining authority to engage in diversified investment options

15

To enter into strategic partnerships with the health care industry to facilitate a superior service to government employees who are currently enjoying Agrahara insurance benefits

16

To maximize the reach and visibility of NITF by using the government operational structures such as District Secretariats

17

To work in cohesion with the similar institutions existing under government sector

18

To establish a talent management policy and a process to enrich the human capital of NITF to become the most preferred organization to work for by professionals in the insurance industry in Sri Lanka.

HISTORICAL MILESTONES

2006

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

2007

- NITF absorbs the Strike, Riot, Civil Commotion and Terrorism (SRCC & T) Fund
- NITF initiates the reinsurance business with a 20% compulsory reinsurance programme

2009

NITF expands into the general insurance business

2013

- A crop insurance scheme is established according to the budget proposal of 2012
- 20% compulsory reinsurance (retrocession) program extends to 30%

2016

- NITF broadens its portfolio by establishing National Natural Disaster Insurance Scheme (NNDIS)
- Agraphara scheme is expanded with the introduction of Gold and Silver membership options

YEAR IN REVIEW

NITF New Year celebrations (2nd January 2017)

NITF staff celebrated the New Year at the NITF office premises, in the presence of NITF's Chairman, Mr. Manjula De Silva and Chief Executive Officer, Mr. Sanath C De Silva.



NITF and Lanka Hospitals sign MOU under Agrahara (5th January 2017)

An MOU was signed between NITF and Lanka Hospitals, at the NITF premises, to provide benefits for Agrahara Medical Scheme members. The MOU was signed by NITF's CEO, Mr. Sanath C De Silva and CEO, Lanka Hospitals, Dr. Prasad Medawatta. NITF Chairman Mr. Manjula De Silva, CMO Lanka Hospitals, Mr. R.M.N.S. Ratnayake and Assistant Manager Marketing, Mr. Thanujaya Gunasekara, were present at the signing.



NITF and Hemas Hospitals signs MOU (5th January 2017)

An MOU was signed between NITF and Hemas Hospitals at the NITF premises, by NITF's CEO Mr Sanath C De Silva and Director Hemas Hospitals, Mr. Lakith Peiris, in the presence of NITF Chairman Mr. Manjula De Silva and the Head of Operations of Hemas Hospitals, Mr. Prabhan Gunawardena.



Disaster Risk Financing Workshop (January 2017)

NITF CEO, Mr. Sanath C De Silva, participated as a resource person, in a Disaster Risk Financing Workshop, held at the Cinnamon Grand Colombo on January 2017. The event was organised by the Asian Development Bank.



NITF Matara District Branch opening (30th January 2017)

NITF's Matara District branch was opened on 30th January 2017 at the Matara District Secretariat premises. NITF Chairman, Mr. Manjula De Silva, NITF CEO, Mr. Sanath C. De Silva, Matara District Secretary Mr. Pradeep Ratnayaka, other officers of the District Secretariat, and the staff members of NITF participated at the opening ceremony.



YEAR IN REVIEW



MOU between NITF and Nawaloka Hospital PLC (23 rd February 2017)

An MOU was signed between NITF and Nawaloka Hospital PLC at the NITF premises by CEO, Mr.Sanath C De Silva and Executive Director of Nawaloka Hospital PLC's, Mr.Uditha Harsith Dharmadasa in the presence of NITF's Chairman Mr. Manjula De Silva and Nawaloka Hospital PLC's Head of Finance & Corporate Planning, Mr. NalakaNiroshana.



World Bank support to restructure NITF (23 rd February 2017)

Cabinet approved a US \$ 75 million loan from the International Development Association (IDA) of the World Bank, for a financial sector modernisation project from 2017-2022, which also includes the restructure of NITF by separating the general insurance and reinsurance business.

MOU between NITF and Balasooriya Hospitals (10th March 2017)

An MOU was signed between NITF and Balasooriya Hospitals (Pvt) Ltd. at the NITF premises, by CEO Mr. Sanath C. De Silva and the Chairman of Balasooriya Hospitals, Mr. B.M.A.P.G. Balasooriya in the presence of NITF's Chairman Mr. Manjula De Silva and Mr. S.Karthy Keswarar.



MOU between NITF and Prabhodha Hospital Private Ltd. (24 th March 2017)

An MOU was signed between NITF and Prabhodha Hospital Private LTD at the NITF premises by NITF CEO, Mr.Sanath C De Silva and Chairman of Prabhodha Hospital, Dr. Asiri Dissanayaka.



MOU between NITF and Ceylon Hospitals (28th June 2017)

An MOU was signed between NITF and Ceylon Hospitals PLC at the NITF premises by NITF CEO, Mr.Sanath C De Silva and Ceylon Hospital's COO/Director Medical Services of Ceylon Hospitals Dr. Wimal Karandagoda.



**MOU between NITF and Ruhunu Hospital
(17th August 2017)**

An MOU was signed between NITF and Ruhunu Hospital Pvt Ltd at the NITF premises by NITF CEO, Mr.Sanath C De Silva and Director Administration of Ruhunu Hospital, Mr.Janith K. Liyanage.



BOARD OF DIRECTORS



Mr. Manjula de Silva
Chairman



Mr. Trevine Fernandopulle
Board Member



Mr. Asendra Siriwardena
Board Member



Mr. Rohana de Silva
Board Member



Mr. Chandana Kumarasinghe
Board Member



Mr. D. P. Wimalasena
Board Member

PROFILES OF THE BOARD OF DIRECTORS

Mr. Manjula de Silva **(Chairman)**

Manjula de Silva was appointed as the Chairman of NITF on 06.04.2015. Previously, 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 an MBA from the London Business School, UK. He is also a FCMA (UK) and a CGMA.

Mr de Silva 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 the CEO for 2 more years. He has also served as the General Manager of Eagle NDB Fund Management Company Ltd (currently NDB Wealth Management), the General Manager of Corporate Lines and Human Resources, Eagle Insurance Co.Ltd (currently AIA Insurance) and the Director General of the Public Enterprises Reform Commission (PERC).

He also served as the Chairman of the CIMA (Chartered Institute of Management Accountants) Sri Lanka Board in 2016 and subsequently served on its Regional Board for the 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. 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 resigned. Mr Ruwanchandra has been attending Board meetings since August 2016. During the year 2017 he was also serving as the Director General of the Department of National Budget.

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 the Senior Assistant Secretary to the Ministry of Health and Indigenous Medicines.

Mr. D.P. Wimalasena **(Board Member)**

Mr. D. P. Wimalasena (Class1. SLACS Officer) was appointed as a Board member on 14-12-2015 and has been attending Board meetings during the year 2017 until June 2017. In 2017 he was serving as the Chief Accountant of the Ministry of Finance, until June of that year. Mr. Wimalasena holds a B.COM. (Special) degree from the University of Colombo and also holds a Master's 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 a holder of an LLB Degree and is a practicing lawyer.

Mr. Chandana Kumarasinghe **(Board Member)**

Mr. Chandana Kumarasinghe was appointed as a board member on 14.12.2015. In 2017, 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 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), a Non Executive Director of Union Bank PLC and a Non Executive Director of Dutch Lanka Trailer Manufacturing Ltd (a member of the Tata Group India).

Mr. N. M. D. Nawarathne

(Board Member)

Mr. N. M. D. Nawarathne was appointed as a Board member on 31.07.2017, replacing Mr. D.P. Wimalasena. In 2017 he was serving as the Chief Accountant to the Ministry of Finance, after Mr. D.P. Wimalasena.

CORPORATE AND SENIOR MANAGEMENT TEAM



Mr. Sanath C. De Silva
– Chief Executive Officer

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

Ms. Nimali Pathirana
– Assistant General Manager – Insurance

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

Ms. Nimali Perera
– Head of Branch Supervision Department



Ms. Dammika Weerakoon
– Head of Finance Division

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

Ms. Upeksha Ekanayake – Head of Motor Underwriting Department

Mr. Kavindra Jayasinghe
– Head of IT Department

Mr. Sithara Asanka Jayalath
– Head of Administration Division

Mr. Namal Kanchana
– Head of Investment Division



Mr. Sisitha Chandra Kumara
– Head of Financial Reporting Division

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

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

Ms. Deshani Nanayakkara
– Head of Reinsurance & SRCC Department

Mr. M.N.K. Pandigamage
– Head of Mathara Branch

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



Mr. Anura Samarakoon
– Head of Agrahara Department

Ms. Nimesha Sahabandu – Head of Micro Insurance Department

Ms. Gayani Siyambalagoda
– Executive Secretary

Ms. Gayathri Soysa – Head of Internal Audit Department

Mr. Shamal Sumudu Senarathna
– Head of Anuradhapura Branch

CREDIT RATING AND STABILITY

Fitch rating for 2017
AA- (lka)

FitchRatings



PRODUCTS AND SERVICES

<p>Reinsurance NITF is the national reinsurer and provides reinsurance coverage for other general insurance companies in Sri Lanka</p>
<p>NITF Agrahara The Agrahara medical Insurance scheme, which applies to all public servants and their dependents, was introduced by the Ministry of Public Administration Circular No: 5 /1997 and was brought under NITF from 1st of January 2006.</p>
<p>Strike, Riot, Civil Commotion and Terrorism Cover (SRCC & TC) The SRCC & TC is applicable within the geographical limits of Sri Lanka and insurance coverage is provided through registered general insurance companies.</p> <p>Registered General Insurance Companies as at end December 2017:</p> <ol style="list-style-type: none">1. Fairfirst Insurance Limited2. Sanasa Insurance Company Ltd3. Amana Takaful PLC4. Co-operative Insurance Company Ltd5. Ceylinco General Insurance Ltd6. HNB General Insurance Ltd7. Janashakthi General Insurance Ltd8. MBSL Insurance Company Ltd9. Allianz Insurance Lanka Ltd10. Sri Lanka Insurance Corporation Ltd11. Continental Insurance Lanka Ltd12. People's Insurance PLC13. LOLC Insurance Company Ltd14. Orient Insurance Ltd
<p>National Natural Disaster Insurance Scheme (NNDIS) The NNDIS was introduced on 01/04/2016 and covers lives and properties, specifically all households and small business establishments. Any business of which annual turnover does not exceed Rs 10 million is covered up to Rs 2.5 million rupees each, in respect of damages (per event) caused to their property and contents due to cyclones, storm, tempest, flood, land slide, hurricane, earthquake, tsunami and any other similar natural perils, excluding drought.</p> <p>All fishermen registered under the Department of Fisheries are covered to the value of Rs.1 million each.</p>
<p>Motor Insurance From 2008, NITF is offering Motor Insurance covers for government bodies.</p> <p>NITF has also expanded to private vehicles of government servants with the introduction of Agrahara Motor.</p>
<p>Non-Motor Insurance NITF is offering General Insurance Covers for Government Bodies</p>

SERVICE DELIVERY NETWORK



The NITF services delivery network comprised 31 services points which included:

- The NITF Head Office in Colombo
- 2 regional branches in Matara and Anuradhapura
- Offices in District Secretariats - 19
- Offices in Divisional Secretariats - 07
- Offices in Chief Secretariats - 01 (Kurunegala)
- Private Premises - 01 (Kandy)

Ampara
Rathnapura
Kalutara
Akuressa

Kandy
Kegalle
NuwaraEliya
Gampaha
Badulla
Seethawaka
Matale
Hanguranketha
Bandarawela
Mahiyanganaya
Kurunegala
Wennappuwa
Trincomalee
Jaffna
Batticaloa
Polonnaruwa
Vavuniya
Kilinochchi
Mullaitive
Ipalogama
Mannar
Hambantota
Galle
Monaragala

MESSAGE FROM CHAIRMAN

It is my pleasure to present the annual report and audited financial statement of the National Insurance Trust Fund (NITF) for the financial year ended 31 December 2017. As Sri Lanka's only domestic reinsurance provider, and the administrator of the country's largest public welfare oriented insurance programmes, NITF is the insurance safety net of the country. In this context, NITF's financial status is a key indicator of the country's ability to recover from unexpected and large scale shocks in the future. Therefore, NITF's financial health is a matter of public welfare and I am pleased to report that NITF has shown commendable resilience during 2017 in discharging its mandated objectives.

Once more, when faced by a national level natural disaster in the form of island wide floods, NITF stepped up to take on a large share of the financial burden to facilitate recovery. The May 2017 floods, which followed just one year after a similar calamity in 2016, put a massive burden on NITF's finances, particularly as reinsurance coverage had not been reactivated at the time of this second round of floods. NITF has recorded an after tax profit of Rs 976 million for the financial year 2017. NITF also obtained a Fitch rating of AA-(Ika), which confirms its financial soundness.

Contribution to the country

The far reaching contribution made by NITF to the country and the people during 2017, is aptly demonstrated by the gross benefits and claims paid during the year, which totalled to a staggering Rs 11.4 billion, compared to Rs 5.7 billion in 2016. The growth in disbursements indicates the vital economic support extended by NITF at times of natural disasters and other unexpected difficulties faced by the public. Without this vital financial support from NITF, the economy would have taken much longer to return to normalcy following large scale disasters and many vulnerable segments of society would not have recovered at all, thereby increasing the poverty rates of the country.

At industry level NITF continued to support the insurance sector of the country through the provision of reinsurance coverage. NITF is the country's only reinsurer providing reinsurance covers to primary insurers. All primary insurers are required to cede 30% of their total liability from general reinsurance, to NITF.

Governance and compliance

As stewards of a key element of the country's risk management system, the Board and the senior management are fully cognisant of their fiduciary duties and during the year under review the Board met regularly

to review and discuss the financial status of NITF. Strong prudential measures were maintained at all times to safeguard the assets of the Fund, and we have attempted to implement industry best practices with regards to internal controls and risk management systems, while insisting on good governance practices at all times. As part of this process NITF has complied with all regulatory changes imposed during the year and has fully adopted the Risk Based Capital (RBC) model and the Incurred But Not Reported (IBNR) provisions in its financial reporting. All taxes and statutory payments to employees have been made on time.

Plans for the future

Moving forward, NITF will focus on expanding the existing insurance schemes to enhance benefits to the public while strengthening human resource management to enhance service delivery and improve productivity. Investment management to increase financial returns, will also receive more attention and we are also evaluating opportunities to integrate IT systems to support the bottom line through operational and cost efficiencies.

We will also continue with our initiatives on amending the NITF Act to enable international reinsurance operations to rebalance NITF's risk portfolio. NITF's current structure as a trust fund creates many impediments to

commercial operations. Therefore, we have proposed that NITF be restructured with separate limited liability companies created under NITF, to operate the reinsurance business and general insurance business. I am confident we shall make headway in this objective in the near future.

In conclusion, I would like to thank the Minister of National policies and Economic Affairs, Secretary and Additional Secretaries for their cooperation during a challenging year. The Secretary to the Treasury and other Treasury Officials were always supportive and I extend my gratitude to them. Our regulator has provided us with invaluable guidance during the year and I extend my gratitude to the Chairperson, Director General and the officials of the Insurance Regulatory Commission. I also extend my appreciation to members of the Board, senior management and all employees led by the CEO for their contributions during the year, that has made it possible for NITF to overcome the challenges faced during the year.



Mawahib Mowjood

Chairman

25. 02. 2020

**PROTECTING
THOSE WHO
HAVE PLEDGED
THEIR LIVES IN
PUBLIC SERVICE**



**MAKING YOUR
GOLDEN
YEARS MORE
WORTHWHILE**



CEO'S REVIEW OF OPERATIONS

The financial year 2017 was a challenging year for NITF (National Insurance Trust Fund) from both operational and financial perspectives, as the country faced the second large scale flood only one year after the devastating floods of 2016. Despite, large claim settlement, NITF recorded a profit for the year 2017 keeping continuous improvement in its services to the people of Sri Lanka. It is also noteworthy that NITF scored an AA- credit rating from Fitch Rating Lanka, endorsing the eminence of NITF by reflecting the financial stability and resilience, in the face of extreme pressure.

Financial Progress

NITF has managed its financial portfolio worthily during the volatile period of year 2017, providing pleasing service to the customers while surviving in the insurance industry. Gross Written Premiums in 2017 recorded as Rs. 9.071 billion as against to Rs. 6.845 billion in 2016 showing growth of 33% in 2017 against 2016. This was mainly due to upturn in Gross Written Premiums of Reinsurance and Strike, Riot, Civil Commotion and Terrorism Fund. Similarly, Net Earned Premiums in 2017 increased to Rs. 11.613 billion from Rs. 8.850 billion in 2016 reporting a 31% of growth.

On the other hand, due to payment of flood claims, the Gross Benefit and Claims incurred in 2017 has rose by 99% up to Rs. 11.455 billion which is a drastic upsurge from Rs. 5.761 billion in 2016. As a result, the Total

Comprehensive Income dwindled to Rs. 1.176 billion in 2017 from Rs. 2.661 billion in 2016. The decline is 56%.

When considering the financial position, Total Equity and Total Assets has slightly decreased from Rs. 7.565 billion to Rs. 7.146 billion and from Rs. 19.515 billion to Rs. 18.553 billion respectively. Furthermore, the Liabilities has also got down with a 5% marginal reduction to Rs. 11.406 billion in 2017 from Rs. 11.951 billion in 2016.

The Financial Assets recorded a moderate drop of 27% from Rs. 11.188 billion in 2016 to Rs. 8.161 billion in 2017 due to the settlement of claims incurred as a result of flood event in May 2016 under National Natural Disaster Insurance Scheme (NNDIS). Further, Property, Plant and Equipment reduced to Rs. 39.471 billion in 2017 compare to the Rs. 43.058 billion in 2016 which is an 8% reduction.

All in all, notifying the financial progress and grade of the Fitch Rating of AA-, National Insurance Trust Fund exhibits a reasonably sound financial position even with a replicate natural disaster challenges faced during the period.

Operational Progress

Given NITF's the prominent role in the social security system of the country, we have a network of representatives in all 25 Districts, housed in offices of District Secretariats.

This countrywide representation enables a good service level to enhance amongst local communities, to respond with a fairly high level of speed and accuracy.

Expanding the initiative of the Agrahara Gold and silver membership schemes, during the 2017 the two categories were introduced for the semi Government sector along with the benefit of separate operating E-cards to all the members of those two categories. The Agrahara Motor Insurance product was launched offering special coverage features for the government servants who owned a vehicle which is a vital initiative of NITF. With the aim of covering all the sectors of the country, NITF launched a pilot project in Anuradhapura, for farmers' health insurance, in order to support the country's farming community.

With the new initiatives and further improvements of the existing products NITF continued its incessant service in year 2017 too.

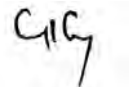
Human Resource and Administrative Progress

First pillar strength of the success of NITF undoubtedly is our staff besides our customers. As at end of 2017, NITF belonged total of 285 employees of which a majority of 210 being permanent employees and contract cadre. During the year 2017, NITF had employed 25 daily paid employees. The MintHRM system which was initiated in 2016,

was fully implemented in 2017 increasing the effectiveness and efficiency of administration of the institution leading to a resilient NITF in years to come.

Appreciation

Achievements in NITF in every step gained with the dedicated team work of each and every stakeholder. Hence, I would like to express my sincere gratitude for the NITF team for their commendable contributions towards the achievements of 2017. I also wish to thank the public and the customers of NITF who are the driving factors of ours, for their trust and sincere cooperation. Further, I would like to extend my sincere appreciations to the Chairman and the Board of Directors, Officers in Ministry of Finance and Officers of Insurance Regulatory Commission of Sri Lanka for their support during the year 2017 and look forward to serve the people contributing to the social security with better in future.



Geetha Wimalaweera

Chief Executive Officer (Acting)

09.05.2020

CONTRIBUTION TO COUNTRY

Contributions to the Consolidated Fund

Contributions to the Consolidated Fund 2017: Rs. 1,500 Mn

Year	LKR Mn
2016	3200
2015	3000
2014	4000
2013	3200
2012	4200
2011	3495

Gross benefits and claims paid

Gross benefits and claims paid : Rs 11.455 Bn in 2017 vs Rs 5.761 Bn in 2016

(a) Gross benefits and claims paid	2017	2016
Reinsurance	(2,039,286,678)	(2,882,078,138)
SRCC & Tr	(12,314,131)	250,927
General Insurance - Motor	(202,402,854)	(142,640,392)
General Insurance - Medical & Other	(151,205,332)	(49,937,952)
Crop Insurance	(1,593,396,750)	(68,646,391)
Disaster	(4,699,472,888)	(757,620,458)
Agrahara Medical Insurance Scheme	(2,757,161,073)	(1,860,745,461)
Total	(11,455,239,706)	(5,761,417,865)

CSR ACTIVITIES DURING 2017

Blood donation campaign

The Welfare Society of the NITF organised a blood donation campaign on 12th October 2017 at the NITF premises.



OPERATING ENVIRONMENT

The demand for insurance in Sri Lanka is relatively low due to the low level of disposable income coupled with lack of awareness, and understanding, availability of certain social security benefits and a community based society. Therefore, insurance penetration remained stagnant at around 1% during the last decade. Insurance density is expressed by the total premium income as a percentage of total population. In 2017, insurance density has slightly improved to Rs. 7,677 compared to Rs. 6,747 recorded in 2016.

However, penetration levels are expected to improve with time. The country is expected, in the medium to long term, to move into the middle income level bracket and the improved disposable income will result in higher insurance penetration. Further, the expected regulatory developments in the medium term in relation to micro insurance, targeting needs of the low income population will have potential to enhance the insurance penetration level of the country.

The demographic transitions in Sri Lanka is expected to increase the ageing population, where one out of every four persons, will be an elderly person in another two decades' time. This will result in creating demand for insurance products specially on health and pensions. Further, the upcoming IFRS 17, which will be effected in the medium term can create holistic changes on insurers' systems, processes, capital, risk management etc.

Insurance industry

In 2017, insurance companies prepared for changes in the taxation system, which had different impacts on insurance companies. Amendments to the taxation laws, which came into effect on 01st April 2018, caused significant effects in certain areas, such as life insurers' surplus distribution to shareholders and policyholders, computation of taxable profit etc. Accordingly, during 2017, certain life insurers transferred relevant surpluses to shareholders' fund from the life fund with the recommendations of their

Appointed Actuaries. As a result, profits of the year 2017 have significantly improved. Another factor that impacted the insurance sector performance in 2017, and especially NITF, was the natural disasters that swept through the country, including heavy monsoon rains that triggered floods and landslides in certain districts in the island.

The total assets of the insurance sector amounted to Rs. 582,417 million as at 31st December 2017, which is a moderate growth of 10.87% compared to growth rate of 12.61% in 2016. Total assets reported by life insurers amounted to Rs. 392,400 million in 2017, while total assets reported by general insurers amounted to Rs. 185,767 million in 2017.

Total Assets of Insurance Companies

	2013	2014	2015	2016(a)	2017(b)
Long Term Insurance (Rs. millions)	216,275	247,061	312,713	345,589	392,400
General Insurance (Rs. millions)	155,636	174,588	151,177	173,985	185,767
Reinsurance (Rs. millions)	1,453	3,065	3,417	5,755	4,250
Total (Rs. millions)	*356,760	*422,031	*466,519	525,329	582,417

* Inter Segment Transactions have been eliminated.

Life insurers have reported profit before tax of Rs. 23,401 million during the year 2017. Total profit before tax reported by general insurers amounted to Rs. 8,543 million in year 2017, compared to Rs. 13,236 million reported in 2016. Other than one company, all other general insurers have been able to derive profits showing a turnaround compared to 2016 where four companies showed losses from business.

Total Gross Written Premium (GWP) of the insurance industry has grown by 15.07% to Rs. 164,623 million (2016: Rs. 143,067 million) in 2017. The growth in premium was largely driven by general insurance business, mainly from motor and health insurance sub-classes. Total GWP of the general insurance business amounted to Rs. 93,119 million in 2017 compared to Rs. 79,590 million in 2016, reflecting a growth of 17%. The life insurance industry also positively contributed to the premium income by reporting a growth rate of 12.65%. Sale of investment type products and decreasing term assurance products have driven the growth of life insurance premium in 2017 compared to 2016. Accordingly, life insurance companies reported total GWP of Rs. 71,504 million (2016: Rs. 63,477 million) in year 2017.

Under the new Risk Based Capital Rules, insurers are required to maintain a minimum of Rs 500 million as the Total Available

Capital (TAC) and a minimum 120% Capital Adequacy Ratio. Most companies carrying on long term insurance business were able to meet the minimum TAC requirement of Rs 500 million for years 2016 and 2017. Total TAC of the industry improved by 9.17% in year 2017 and recorded at Rs 191,175 million. As regards the CAR, all companies were able to meet the Enforcement Level of CAR, which is set at 160%, for years 2016 and 2017, with the exception of one company. However, their CAR was above the minimum level required. The average CAR for the industry improved from 302% to 321% in year 2017.



**KEEPING YOU
SAFE ON LIFE'S
JOURNEY**



**TAKING
CARE OF THE
GRASSROOTS
THAT HELP THE
COUNTRY GROW**

OPERATIONS REVIEW

NITF has an island wide service delivery network that comprised 31 service points in 2017. These include the head office in Colombo, two branch offices in Matara and Anuradhapura that come under the purview of Regional Managers, and 28 NITF units located in District Secretariats and Divisional Secretariats.

The network located outside Colombo is a key channel to deliver NITF insurance services and are also leveraged to obtain ground level information on the types and level of insurance services that need to be provided, particularly following national natural disasters.

During the financial year 2017, the extensive NITF outstation network was utilised most effectively to identify genuine flood victims and thereby minimise abuse of resources.

Regional development programmes

During the year, and NITF commenced a programme to motivate employees in regional offices by conducting regional meetings.

Technical training programmes were conducted at regional offices to improve knowledge in relevant subject matters.

Performance of Products

Year 2017, was an unexpectedly challenging year for NITF due to the large exposure to natural disasters for the second year back to back. Consequently, the burden of claims and benefits settlement almost doubled from Rs 5.5 billion in 2016 to 9.9 billion in 2017, which put a heavy burden on the bottom line. As a result, total expenses increased from Rs 6.9 billion in 2016, to Rs 11.6 billion. However, NITF was able to declare an after tax profit of Rs 976.2 million for 2017, against the profit of Rs 2.8 billion in 2016, which is a commendable achievement given the massive increase in outflows for the year.

Our sustained profitability is almost entirely attributable to the strong performance of our products with the GWP improving from Rs 6.8 billion to Rs 9.0 billion. In addition, the contribution for Agrahara increased from Rs 2.0 billion to Rs 2.7 billion and we also increased the crop insurance levy from Rs 1.5 bn to Rs 1.8 bn.

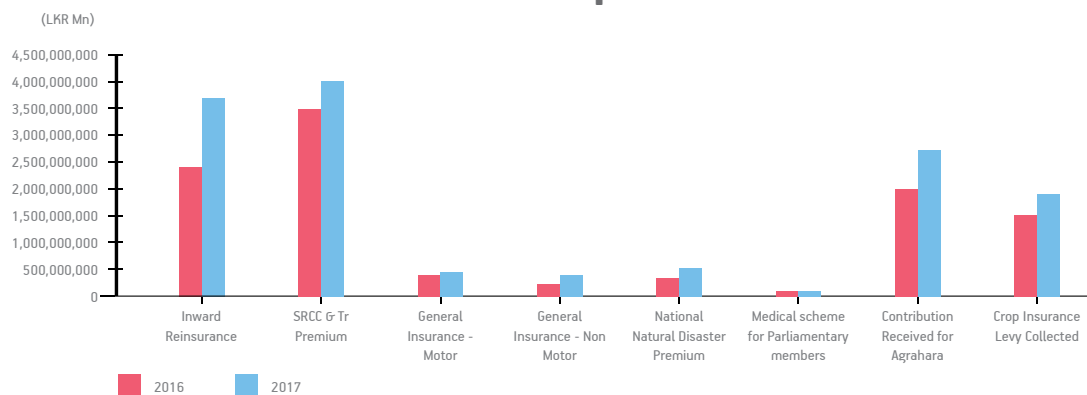
NITF income from insurance products 2016 Vs 2017

	2017	2016
Inward Reinsurance	3,683,389,120	2,397,372,589
SRCC & Tr Premium	4,036,282,848	3,533,324,423
General Insurance - Motor	417,885,956	382,196,410
General Insurance - Non Motor	413,720,543	182,864,533
National Natural Disaster Premium	500,000,000	300,000,000
Medical scheme for Parliamentary members	20,000,000	18,000,000
Contribution Received for Agrahara	2,726,522,599	2,004,436,602
Crop Insurance Levy Collected	1,878,361,459	1,511,302,032

Net benefits and claims

	2017 Rs.	2016 Rs.
Net benefits and claims	(9,900,699,368)	(5,543,154,699)

NITF income from insurance products 2016 Vs 2017



OPERATIONS REVIEW

Agrahara medical insurance scheme

'Agrahara' is Sri Lanka's largest medical insurance scheme with a membership of over 825,000. The scheme extends to families of members, which takes the coverage to nearly 2.2 million Sri Lankans. This is a contributory scheme where a nominal monthly contribution is deducted from salaries from all pensionable Government officers.

During the 2017 financial year Agrahara received a contribution of Rs. 500 million from the Treasury and collected Rs 2.2 billion through member contributions. A total payout of Rs 2.8 billion was made in medical insurance claims during the year.

	2017 LKR	2016 LKR
Contribution from members	2,154,586,499	1,450,866,802
Contribution from the Treasury	500,000,000	550,000,000
Agrahara pension scheme	58,785,600	3,569,800
Semi Government scheme	13,150,500	-
Total contribution	2,726,522,599	2,004,436,602
Claim Expenditure	2,873,715,118	1,860,745,461
Deficit/Excess	(30,638,474)	(43,146,974)

Breakdown of claims

Claims	Total Claims		Claims Paid		Outstanding claims	
	2017	2016	2017	2016	2017	2016
Death	1,986	1,954	1,867	1,834	53	77
Disability	246	209	186	182	28	20
Childbirth	13,916	10,668	13,039	9,934	687	492
Cancer	1,003	670	923	617	57	38
Cardiac	841	932	828	920	8	6
Spectacles	71,522	68,512	66,187	62,303	1,746	1,409
Government hospital charges for other illnesses	48,388	32,525	44,858	30,269	1,186	1,331
Private hospital charges for other illnesses	27,440	21,688	23,147	18,361	1,422	1,305
Kidney	35	10	35	10	0	0
Paralysis	2	2	2	2	0	0
Total	165,379	137,170	151,072	124,432	5,187	4,678

Agrahara gold and silver schemes for government sector

In 2016, the Agrahara gold and silver schemes were introduced for the government sector. 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.

Agrahara Gold and silver scheme for semi Government sector

In 2017, the Agrahara Gold and silver schemes were introduced for the semi Government sector

Agrahara Pension Scheme

The Agrahara Pension Scheme was introduced in May 2016 and was further expanded in 2017 supported by strong demand for this product. The pension scheme is applicable exclusively for full government employees pensioned after January 1, 2016.

Agrahara E- Cards

In January 2012, started to issue E-cards to all members to enhance the efficiency of services render to Agrahara beneficiaries.

In 2017 NITF started issuing separate gold and silver cards to Agrahara gold and silver members.

NITF has entered into agreements with a number of private hospitals on provision of benefits to Agrahara members. Some of these benefits include:

- Agrahara members are entitled to receive discounts based on each agreement with the relevant hospitals.



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

The SRCC & T Fund, which is currently under the management of NITF, was originally established in 1987 as a separate insurance fund following a Cabinet decision to insure against losses or damage to property or personal injuries due to strikes, riot, civil commotions and terrorism. With incorporation of NITF, all funds lying to the credit of the SRCC&T Fund was transferred under NITF. Eventually, the money was transferred to a special account maintained by NITF. NITF obtains reinsurance cover from international reinsurers for the strike, riot, civil commotion and terrorism risks.

The insurance cover is provided to Sri Lankan citizens through general insurance companies. Strike, riot, civil commotion and terrorism insurance policies are underwritten by general insurance companies and the premiums are remitted to NITF. Claims under this cover are submitted to general insurance companies. These claims are examined at the monthly Working Committee meeting, and decisions are taken in relation to payment of claims.

OPERATIONS REVIEW

Status of SRCCGTF as at end 2017

	2017 LKR	2016 LKR
GWP	4,036,282,848	3,533,324,423
Interest Income	698,165,679	596,633,502
Other Income	2,206,357	2,909,368
Total Income	4,736,654,884	4,132,867,293
Claims incurred	(10,519,253)	33,677,236

The SRCCGTF recorded a total income of Rs 4.7 billion, compared to Rs 4.1 billion in 2016. Growth in income was due to GWP increasing from Rs 3.5 billion in 2016 to Rs 4.0 billion in 2017. The interest income from investments also increased to Rs 698.1 million from Rs 596.6 million in 2016.

Reinsurance

NITF is mandated by statute to be the national reinsurer of Sri Lanka. NITF commenced accepting reinsurance risk from General Insurance companies in Sri Lanka in 2008.

Every insurer is required, with effect from 1st January 2013, to reinsure 30%, on the total liability arising out of every general re-insurance policy, with the NITF, excluding long-term re-insurance contracts entered into by the insurer. Prior to this the percentage was 20%.

In 2016 the management of NITF took the initiative to have retrocession insurance in order to have reinsurance covers to face the risk of a possible escalation of claims from reinsurance. In 2017 too, NITF procured the retrocession cover to protect 30% compulsory liability arising out of general insurance.

	2017	2016
GWP	3,683,389,120	2,397,372,589
Investment Income (Rs)	143,989,165	240,949,250.22
Other Income (Rs)	26,527,702	6,144,708.52
Total Income (Rs)	3,853,905,987	2,644,466,548
Claims incurred (Rs)	2,326,410,295	2,620,738,212

General insurance - Motor

The motor division of NITF provides comprehensive and third party insurance covers to both government and private parties .

NITF provides value added services including rapid assessments of accidents island-wide and claim settlements within few days of document submission, for increased customer satisfaction

During the year in review, NITF's motor insurance business sustained growth momentum in the highly competitive motor insurance market by maintaining competitive rates, strengthening the service delivery network and launching a well coordinated marketing drive. Direct marketing through door-to-door canvassing at government institutions was increased across the country to increase premiums. Performance was 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.

Category	2017		2016	
	No of claims	Amount (Rs million)	No of claims	Amount (Rs million)
Private car	587	61.38	327	40.24
Motor cycle	2176	35.80	1912	29.09
Motor coach	189	18.10	170	15.46
Lorry/land vehicle	116	11.28	69	3.30
Dual purpose vehicle	514	56.21	391	42.06
Total	3,582	182.77	2869	130.14

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.

The GWP increased from Rs 382.1 million in 2016 to Rs 417.8 million in 2017. The division's total income grew from Rs 445.0 million to Rs 464.5 million with other income and investment income also increasing.

	2017	2016
GWP (Rs)	417,885,956	382,196,410
Investment Income (Rs)	45,486,114	55,729,178
Other Income (Rs)	1,204,881	7,111,199
Total Income (Rs)	464,576,951	445,036,786

OPERATIONS REVIEW

General insurance (Non-motor)

In 2017, NITF continued to expand the non motor customer base aggressively. Indicating the effectiveness of the marketing drive with the technical competence staff, NITF was successful in capturing a number of key large scale government sector clients during the year. This growth on the non motor market in 2017, also demonstrates NITF's competitiveness, in terms of pricing Technical advancement and service quality. Some of the major NITF clients during the year were;

1. The Sri Lanka Ports Authority
2. Defence Headquarters
3. The Regional Development Bank
4. The State Timber Corporation
5. The Tea Research Institute

NITF's general insurance (non-motor) business provides insurance coverage for Engineering, Fire, Marine, Miscellaneous and Health insurance etc. categories. The miscellaneous coverage extends to a variety of products including workmen's compensation, personal accident, travel, burglary, money in transit insurance, electronic equipment insurance, goods in transit insurance and banker's indemnity insurance etc.

	2017	2016
GWP (Rs)	413,720,543	182,864,533
Investment Income (Rs)	17,330,808	8,196,862
Other Income (Rs)	11,017	-
Total Income (Rs)	431,062,368	191,061,395

National Natural Disaster Insurance Scheme

The National Natural Disaster Insurance Scheme (NNDIS), which is administered by the NITF Micro Insurance Department, was initiated as a budget proposal for 2016 and provides blanket coverage for uninsured lives and properties. NITF received an annual premium of Rs 500 million from the Ministry of Finance, which is the policy holder of this insurance scheme for the period April 1, 2017 to March 31, 2018.

All households and small business establishments specified as those with annual turnover not exceeding Rs. 10 Mn, are covered 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 up to the aggregate limit of Rs. 10 billion per annum. Property damage faced by larger businesses and those having insured with an insurance company are excluded.

All fishermen registered under Department of Fisheries are also covered to the value of Rs. 1 million each, in respect of accidental death whilst engaged in fishing. All other victims of natural disasters benefit from an accidental death cover of Rs. 100,000 each, under the Personal Accident Insurance cover.

Agricultural loan protection scheme

In 2016, the Ministry of National Policies and Economic Affairs launched a National Agricultural loan protection scheme, exclusively for paddy cultivation, through NITF. The scheme is funded by the Crop Levy of 1% on Net Profit of banks, finance companies and insurance companies. Claims will be made by banks and other lending institutions engaged in granting agricultural credit.

The scheme is expected to help lending institutions recover their agricultural loans, while also protecting the creditworthiness of farmers and ensuring farmers can continue to borrow in the next cultivation season.

Govi Divi Aruna scheme

In order to further support the country's farming community, in 2017 NITF launched a pilot project in Anuradhapura, for a farmers' health insurance. Govi Divi Aruna is a health policy with a personal accident insurance cover for farmers. The scheme will be financed through a nominal premium payment effected through a renewable annual policy.

IT/ technologies

NITF is equipped with modern IT infrastructure, such as Cloud Computing Data Center to carry out the insurance operations island wide. State-of-the-art, tailor-made oracle based software solutions have also been developed to support the insurance business given the large volume of data that needs to be handled, due to NITF's large spectrum of operations. This ERP provides end to end solutions which NITF exercised a decade in operation.

The latest version of SAGE ACCPAC accounting and finance software package was introduced to improve the accuracy of accounting aspects.

Human Resources

As at end 2017, NITF had a total of 285 persons employed under it with a majority 210 being permanent employees and contract cadre. NITF also employed 25 daily paid employees in 2017. During the year 2 new executive recruitments were made. Employee turnover remained at a low 1% during the year. In order to streamline HR management, approval was obtained from the Management Services Department to restructure the current HR administration system.

Status of compliance

As at end 2017, NITF was fully compliant with all provisions of the Shop and Office Act and other government circulars pertaining to public administration. NITF has no outstanding statutory payments to any employees, and did not face any fines, or penalties, for non compliance, or delays in compliance, with any applicable labor laws during the financial year 2017.

OPERATIONS REVIEW

Type of employment contract	No of employees
Permanent Cadre	183
Contract Cadre	27
Daily Paid (Casual)	75
Total	285

Grievance management

NITF maintains an Open Door grievance management approach, where all employees have access to the Head of Human Resources and any grievances can also be escalated up to the CEO.

Performance evaluations and Promotions

All permanent and contract based employees faced performance evaluations in 2017. In addition, 20 promotions in Insurance Officer positions were given in 2017.

Training and development

Training is emphasised by NITF to improve skills across the employment grades and many training programmes were organised during the year. The training budget for 2017 included technical training events to upgrade and develop technical skills of different categories of employees, conferences and other events to expose employees to different market developments and also sponsorships of employees for higher educational qualifications.

Outward Bound Training

NITF organised an Outward Bound Training Programme on 24th, 25th and 26th November, at Hotel Sigiriya. This programme was conducted by the Outward Bound Trust Sri Lanka. NITF's CEO and staff members participated in this programme.

ENTERPRISE GOVERNANCE

Enterprise governance is the structure and relationships that control, direct, or regulate the performance of an enterprise and project, portfolio, infrastructure and processes. Enterprise governance is the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly.

The strategic apex of the National Insurance Trust Fund (NITF) has recognized the importance of strong enterprise governance as the critical success factor of a sound control environment which will ultimately improve operational effectiveness, efficiency and economy, enhance the brand image and maintain public confidence, while adopting the salient corporate governance values such as discipline, transparency, independence, accountability, fairness and social responsibility.

NITF 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 high applicable governance standards in relation to all of its operations, processes and business activities, and maintains 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 by 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 – are 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 and risk management measures, during 2017,

NITF adopted the Risk Based Capital (RBC) approach and Capital Adequacy Ratio (CAR) computation.

NITF has obtained a credit rating of AA-(lka) from Fitch Rating Ltd which demonstrates the sound financial position of NITF.

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 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 NITF. In accordance with the National Insurance Trust Fund Act No 28 of 2006, the Chairman of the Board was appointed by the Minister of the line ministry under which NITF is functioning.

The Directors are responsible to their stakeholders for creating and delivering long term sustainable value, while ensuring that business affairs and other activities of NITF are managed ethically and within the regulatory and legal framework. The Directors' responsibilities encompass the

ENTERPRISE GOVERNANCE

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 10 Board meetings, all of which had excellent attendance displaying the Board's commitment towards discharging its duties. NITF management 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-2017

The Board of NITF meets regularly to discuss the ongoing business of NITF 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 10 Board meetings held during the year.

Attendance Schedule

Month of Board Meeting (2017)	No of Board Members Including Chairman	No of Board Members Attended in the Board Meeting, Including Chairman	Quorum
January	07	07	05
February	07	07	05
March	07	06	05
May	07	07	05
June	07	06	05
July	07	05	05
August	07	06	05
September	07	06	05
October	07	06	05
December	07	06	05

Role of Board Secretary

Ms. Udari Piyabhashini, 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 the 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 in compliance with Government rules and regulations and procurement guidelines issued by Ministry of Finance. All significant 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 concerned.

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.

During the year 2017, the Audit Committee continued to carry out the scope of the audit including the following.

1. Determine the responsibilities of the internal audit unit and review the annual audit plans
2. Review and evaluate the adequacy of the internal control system for all activities and processes of NITF
3. Review financial performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc...
4. Liaise with the 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 letters for remedial action.
8. Review implementation of recommendations/ directives of the committee on public enterprises

For the year 2017, three Audit Committee Meetings were held. The year under review was one of significant improvement in the internal controls. Internal audit reports were prepared monthly and follow up meetings were 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.

External Audit

The Auditor General performed the annual audit of the financial statements of the entity for the year ended 31st December 2017 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.

Working Committee

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

Technical Advisory Committee

The Technical Advisory Committee of the SRCCT fund was formed to take collective strategic decisions with regard to the SRCCT fund, which comprises heads of general insurance companies, or their representatives.

Human Resource Governance

In a dynamic industry such 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

ENTERPRISE GOVERNANCE

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 provide our junior managers with an opportunity to grow and progress within their careers. In an effort to align our business with its vision and strategic objectives, NITF pays close attention to its human resource succession planning for stronger leadership going forward. While aiming for excellence, NITF encourages its staff, at all levels, to discuss any grievances that they might have in a confidential manner.

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.

ENTERPRISE RISK MANAGEMENT

Enterprise risk management (ERM) is the process of identifying and addressing methodically the potential events that represent risks against the achievement of strategic objectives, or against opportunities to gain competitive advantage.

The fundamental elements of ERM are the assessment of significant risks and the implementation of suitable risk responses. Risk responses include; acceptance or tolerance of a risk, avoidance or termination of a risk, risk transfer or sharing via insurance, a joint venture or other arrangement, and reduction or mitigation of risk via internal control procedures or other risk prevention activities.

The ability of NITF to successfully monitor, analyse and respond to risk is central to the success of the organisation. 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 opportunities for value addition across the business. Given the importance of an effective risk analysis and management strategy, the organisation 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 organisation's continued success.

Risk management of NITF is a central part of its strategic management. The risk management process of NITF methodically addresses the risks attached to the activities of NITF. The successful risk management initiative of NITF is designed to the level of risk in the NITF, and aligned with other corporate activities, comprehensive in its scope, embedding into routine activities and dynamics by being responsive to changing circumstances. The focus of risk management of NITF is the assessment of significant risks and the implementation of suitable risk responses. The objective of NITF is to achieve maximum sustainable value from all the activities of the organisation.

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 organisation and its activities. The process proactively attempts to identify possible opportunities for the development of future business opportunities, particularly as it relates to the empowerment of the organisation's direct and indirect client base and all other related stakeholder groups.

The risk management process is embedded at every level of the organisation, 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 with the involvement of management is

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

The Audit Committee's mandate also extends to the formulation and execution of methods to evaluate infrastructure, 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 a manner that promotes efficient and secure operations within a framework of acceptable risk.

NITF adopts an Enterprise Risk Management model for a holistic view of all risks faced by the organisation. This way, 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 can analyse and act, to best serve and enhance stakeholder value.

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

ENTERPRISE RISK MANAGEMENT

The organisation's risk categorisation framework is split into three distinct categories. The preventable risk category is the most manageable, and arises from within the organisation. 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 recognises 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. This is ensured through effective controls and compliance with principles of good governance and fiscal responsibility that is instilled at every level of the organisation and across all business processes. NITF continues to maintain and reinforce a corporate culture that at all times protects the reputation of the organisation.

R02 - Fraud Risk

NITF has established an effective internal control system and accounting system in order to ensure strict protection against any type of fraud – whether internal or external, to the organisation. NITF has an effective internal audit section which continuously reviews all of the internal controls within the organisation to ensure that the risk of fraudulent activity is

minimised. 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 over arching 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 organisation implements continuous monitoring and evaluation to understand loss and retention experiences. By adopting a systematic approach to risk management, NITF is able to ensure that the 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 obtained reinsurance covers at a reasonable cost to cover its reinsurance portfolio for 2017 with reinsurers who have high financial ratings and high global ranking.

In 2017, the retrocession agreement (Excess of Loss) was arranged and the Catastrophic Excess of Loss reinsurance agreement was formed to cover the Strike, Riot, Civil Commotion and Terrorism Fund. Also in

2017, NITF formed a stop loss reinsurance agreement to cover the National Agriculture Loan Protection Insurance and an Excess of Loss reinsurance agreement for the National Natural Disaster Insurance Scheme.

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 credit worthiness and financial stability of institutions and individuals with whom the organisation engages in business. 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 contractual obligations such as claim 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-(Ika).

NITF invests all of its funds in Government securities and an adequate portion of them are held in short term maturing investments and repurchase agreements. A maturity

analysis of securities ensures that there is no serious mismatch between assets and liabilities and the fund stays adequately liquid.

R08 - Information Security System Risk

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

R09 - Business Continuity Risk

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 interruption to operations.

External Risks

This component of risk is largely out of organisational 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 an inadequately diversified portfolio of assets. In NITF's case, there is a concentration of investments 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 - Claim 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 claims.

R12 - Market Risk

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

R13 - Regulatory and Compliance Risk

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

R14 - Business Risk

Business risk has been mitigated by way of diversifying into many strategic business units such as reinsurance, strike, riot, civil commotion and terrorism insurance, motor insurance, agraphara insurance, natural disaster insurance and etc...

R15 - Foreign Exchange Risk

In order to eliminate foreign exchange transaction risks, 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 computerisation of operations. All operating divisions of NITF, are audited by the Internal Audit Department in order to minimise errors and discrepancies relating to premium collection and claims payments. Furthermore, all office operations have also been computerised 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:

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 2017, 10 Board Meetings have been held and Members of the Board have maintained excellent records of attendance at the meeting. The details of attendance of the members of the Board Meetings are as follows;

Agricultural Loan Protection Insurance Scheme, National Natural Disaster Insurance Scheme and Management of Strike, Riot, Civil Commotion & Terrorism Fund (SRCCGTF).

Financial Results

In 2017, NITF recorded a Gross Written Premium (GWP) of LKR. 9,071 Million as against to GWP in 2016 of 6,844 Million., NITF earned a Profit before Tax of LKR 1,077 Million as against to LKR. 2,839 Million in 2016.

Members of the Board	2017 Board Members Attendance Details												Appointment Date As	Date of Resignation
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Mr. Manjula De Silva	√	√	√		√	√	√	√	√	√		√	06/04/2015	
Mr.Trevine Fernandopulle	√	√	√		√	√	AB	√	√	AB		√	08/04/2015	
Mr.Asendra Siriwardena	√	√	AB		√	√	AB	√	AB	√		√	02/04/2015	
Mr. D. P.Wimalasena	√	√	√		√	AB							14/12/2015	30/05/2015
Mr.H.A.C.Kumarasinghe	√	√	√		√	√	√	AB	√	√		√	14/12/2015	
Mr.P.P.S.Rohana De Silva	√	√	√		√	√	√	√	√	√		√	05/05/2016	
Mr.K.D.S.Ruwanchandra	√	√	√		√	√	√	√	√	√		√	12/08/2016	12/12/2017
Mr.N.M.D.Nawarathne							√	√	√	√		√	31/07/2017	

(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 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 2017 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,

Auditors

The financial statement of 2017 of the Board was audited by the Auditor General in terms of Financial Act No. 38 of 1971.



Manjula de Silva
Chairman



Udari Piyabhashini
Secretary to the Board

Colombo
23rd July 2019

AUDIT COMMITTEE REPORT

The Audit Committee 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 2017. The Superintendent of Audit (SA) representing the Auditor General's Department attended meetings as an observer on the invitation of the committee.

Scope of the Audit

During the year 2017, the Audit Committee continued to carry out the scope of the Audit 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 an 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)

Three meetings of the Audit Committee were held for the year 2017 and the proceedings of the committee meetings were recorded with adequate details and were reported regularly to the Board.

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 Audit Committee paid attention on the comments and suggestions made by the Superintendent of Audit 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



**SUPPORTING THOSE
WHO SUPPORT
THEMSELVES THROUGH
ENTERPRISE**



**INSURING THOSE
WHO FACE THE
STORMS OF LIFE**

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IBNR & LAT CERTIFICATION

27 April 2018

To the shareholders of National Insurance Trust Fund



National Insurance Trust Fund 31 December 2017 Net IBNR and LAT Certification

I hereby certify that the undiscounted Central Estimate IBNR provision of LKR 577,876,078 including CHE is adequate in relation to the Net Claim Liability reserves of National Insurance Trust Fund as at the 31 December 2017, 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 2017, 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 3,566,750,109 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of National Insurance Trust Fund as at 31

December 2017, 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', enclosed in a thin black rectangular border.

Matthew Maguire

Fellow of the Institute of Actuaries of Australia (FIAA) For and on behalf of NMG Financial Services Consulting

Dated 27 April 2018

AUDITOR GENERAL'S REPORT

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 2017 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 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 26 October 2018.

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.

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.

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 2017 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 observations are made.

(i) **Sri Lanka Accounting Standard 16**

AUDITOR GENERAL'S REPORT

- (a) In terms paragraph 31 (a) of the Standard, after recognition as assets, an item of property, plant and equipment whose fair value can be measured reliably, shall be carried out at a revalued amount thereof and it is further mentioned that revaluation of an asset shall be made once in every 03 or 05 years. However, action had not been taken to revalue property, plant and equipment with a carrying amount of Rs.39,470,895 existed as at 31 December 2017.
- (b) Even though the assets costing Rs.3,432,638 had been fully depreciated as the useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of the Standard, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

(b) **Sri Lanka Accounting Standard 21**

In terms of paragraph 29 of the Standard, when monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the date of transaction and the date of settlement, an exchange difference results and the transaction is recognized in the accounting period itself in which it occurred. However, when the transaction/any value is settled in a subsequent accounting period, it is not determined on the change in the exchange rate during the period in which it is settled. As such, the profit in accounts had been overstated by Rs.994,384 due to changes in exchange rate in the year 2017.

2.2.2 **Accounting Deficiencies**

The following observations are made.

- (i) Even though the gross value of investment income of the Fund should be indicated in the financial statements, the investment income had been understated by Rs.123,111,800 in the financial statements due to inclusion of the net income.
- (ii) According to the information presented to Audit, premiums had been received as income by 31 December 2017. However, premiums totalling Rs.17,568,213 relating to the year 2017 had not been brought to account as income due to delay in issuing receipts and instead, the said value had been included in the "Motor Premium Advance Collected" Account.

- (iii) Action had not been taken to review balances totalling Rs.95,978,933 lapsed over 90 days, included in the premium income receivable and an unidentified balance of Rs.9,053,364 remained over a period of 06 years in the premium income-reinsurance receivable and to make provisions for bad and doubtful debts.
- (iv) Even though moneys had been credited to bank accounts due to a gap between the dates of daily cash deposits in District Secretariats and dates of receipts entered into the system, instances where those moneys had not been brought to account as income on relevant days, were observed. Accordingly, as revealed in the audit test check, an income of Rs.5,482,729 had been understated in accounts in the year under review.
- (v) Even though foreign currency monetary items should be translated by using the closing rate at the end of every reporting period, it had not been so translated. As such, a net profit of Rs.5,918,344 had been understated in the final financial statements of the Fund.

Item -----	Value -----
Non-translation of balances in receivable premium income accounts of the Reinsurance Division	Rs. 5,884,934
Difference of adjustment of the balance in the US\$ Current Account of the SRCC Division	622,682
Indicating the loss of Rs.262,796 as a profit of Rs.371,872 in the translation of the exchange rate	(589,272)
	----- 5,918,344 =====

- (vi) Even though foreign currency monetary items should be translated by using the closing rate at the end of an accounting period, it had not been so translated. As such, the loss of Rs.56,614 in the balance of non-motor premium income receivable, had not been brought to account in the final financial statements.
- (vii) There were credit balances totalling Rs.278,024 in the General Insurance – (Non-motor) Debtors Age Analysis as at 31 December 2017 and those balances had not been identified and settled.

AUDITOR GENERAL'S REPORT

- (viii) The financial statements of the Fund consist of two divisions such as SRCC and NITF Division and the receivable balance included in other non-financial assets totalling Rs.3,462,112, was a loan balance obtained from the SRCC Division by the NITF for granting Staff Distress Loans. Even though it had been informed that the said loan balance had been settled by the NITF Division, evidence relating thereto had not been made available to Audit. Further, it had not been indicated as a balance payable further, in accounts of the NITF Division. Moreover, though it had been indicated as a balance receivable in the SRCC Division, the evidence relating to the said value as well, had not been made available to Audit.
- (ix) The audit fees for the year 2016 had been Rs.886,200 and making provisions for audit fees for the year 2017 even based on the said amount and accounting the expenditure relating to the year had not been carried out, thus understating the expenditure and liability in the financial statements.
- (x) A health insurance scheme had been implemented for employees of the Fund and a sum of Rs.9,813,773 had been paid for employees of the Fund in the year 2017 as indemnity through the said insurance scheme. However, out of the value of premium of Rs.3,331,750 relating thereto, only a sum of Rs.2,269,500 had been received in the year 2017 and the remaining premium of Rs.1,062,250 had not been included in the financial statements.

2.2.3 Unexplained Differences

The following observations are made.

- (i) A difference of Rs.472,880 was observed between the balances included in letters of confirmation of balances and the receivable balances included in the age analysis, which were sent to institutions selected on a sample basis relating to the General Insurance - Non-motor Division.
- (ii) Even though the value of Treasury Bonds according to financial statements had been Rs.888,946,713, according to confirmation of balances and the schedule made available to Audit, it had been Rs.889,407,219, thus indicating a difference of Rs.539,494. It was observed that the inclusion of a balance of matured development bond in accounts further had been the reason for said difference.

2.2.4 Lack of Evidence for Audit

Evidence indicated against each following item of accounts had not been made available to Audit.

Item	Value	Evidence not made Available
	Rs.	
(a) Premium income receivable-Reinsurance	9,053,364	Detailed schedules, Age analysis, Confirmation of balances
(b) Premium income receivable - Motor	101,030,311	Confirmation of balances
(c) Deposits paid	1,136,176	Age analysis, Confirmation of balances
(d) Returning cheques receivable	270,049	Confirmation of balances, detailed schedules
	585,481	Detailed schedules, Age analysis, Confirmation of balances

	112,075,381	
	=====	

2.2.5 Accounts Receivable and Payable

The following observations are made.

- (i) In terms of Note No.10.1 of the statement of financial position as at 31 December 2017, the value receivable from reinsurance institutions for the year 2016/17 had been Rs.4,574,100,921 and the said balance was 25 per cent of the total financial position as at 31 December 2017. The said balance had decreased by Rs.954,701,937 representing 17 per cent as compared with the year 2016 and the reinsurance value recoverable was as follows.

	Value
	Rs.
Reinsurance receivable - RETRO	2,157,672,249
Reinsurance receivable -NNDIS	2,416,428,672

	4,574,100,921
	=====

AUDITOR GENERAL'S REPORT

The following matters were observed in this connection.

- (a) Out of the said balance recoverable from reinsurance institutions, only a total sum of Rs.1,590,250,491 had been recovered by 17 January 2019, the date of audit and a sum of Rs.1,679,464,649 had been written off during the year. Even though the approval of the Board of Directors for writing off of a sum of Rs.490,479,162 out of the said amount, had been made available to audit, a proper approval for writing off of a sum of Rs.1,188,985,487 had not been made available to audit even by 02 July 2019.
- (b) However, according to the Letter No. NITF/FIN/02/2016 of 26 April 2018 of Management Representative, it had been pointed out to audit that a sum of Rs.3,117,190,041 of the said value recoverable, can be recovered. Out of that, only a sum of Rs.1,590,250,491 representing 51 per cent had been recovered by 19 January 2019.
- (ii) Balances of Rs.12,263,329 brought to account as rejected claim payments brought forward from the year 2015 had not been settled even by 25 July 2018 due to failure to maintain a proper Data Base including information on Agraphara Insurance members and weaknesses in the system of settlement of claims.
- (iii) A refundable premium balance of Rs.3,843,488 relating to the SRCC Division had remained since the year 2007 and action had not been taken to pay and settle those premiums payable to relevant insurance institutions or to take necessary measures therefor.
- (iv) A total sum of Rs.2,907,894 to be reimbursed from the SRCC Division to the NITF Division over a period of 03 years, had not been reimbursed.
- (v) Even though a sum of Rs.184,055 recoverable from the Ministry of Finance and Mass Media and Departments thereunder since the year 2015 had been indicated in the premium income receivable under General Insurance-Non-motor, according to confirmations made available to Audit, there was no such balance recoverable.
- (vi) The premium income of General Insurance-Non-Motor, of Rs. 323,711,536 receivable as at 31 December 2017 comprised of a balance of Rs.95,978,993 exceeded 90 days and it comprised of balances remained from the years 2015 and 2016. The Fund has not taken action to recover those balances up to now.

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

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

**Reference to Laws, Rules,
Regulations**

Non-compliances

-
- (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
-
- (i) Public Finance Circular No.03/2015 Even though the Ad-hoc Sub-impressts obtained, should be settled immediately after the completion of the purpose it is granted, a period from 02 months to 06 months had lapsed for settling sub-impressts of Rs.1,055,115 granted in the year 2017.
- (ii) Financial Regulation 396 The payee of each 'outstanding cheque' should be addressed as soon as possible after the period of validity has expired, requesting him to return the cheque for revalidation. If the cheque is returned by the payee, it should be revalidated and returned without delay. The Fund had not followed such a procedure in respect of cheques which were cancelled by the Fund.
- (iii) Financial Regulation 396 (d) Action in terms of Financial Regulation had not been taken on cheques valued at Rs.6,860,412 remained uncashed for more than 06 months.
- (b) Public Administration Circular No. 07/2015 In terms of the Circular, the maximum amount that can be granted as festival advance, is Rs.10,000. However, the Fund had paid festival advance based on the basic salary of the staff by neglecting the said limit. As such, a sum of Rs.1,871,081 had been paid to 142 employees exceeding the said limit in the year under review without a proper approval.
- (c) Section 113 of the Inland Revenue Act, No.10 of 2006 Even though no assessment whatsoever had been made for any year of assessment, income tax should be paid in four installments on or before the fifteenth day respectively of August, November and February in that year of assessment and the fifteenth day of May of the next succeeding year of assessment. However, the Fund had not paid income tax based on self-assessment.

AUDITOR GENERAL'S REPORT

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

- Section 8.3.8 A total sum of Rs.2,170,000, had been granted in the year under review as sponsorships by the Fund without the approval of the Cabinet of Ministers.
- Section 9.14 Action had not been taken to prepare a Manual of Procedures in terms of the Circular and obtain the concurrence of the Secretary to the Treasury.

- (e) Regulation of Insurance Industry Act, No.43 of 2000
Section 49 Even though a quarterly return containing such information as may be determined by rules made in that behalf, should be sent to the Sri Lanka Insurance Regulatory Commission within 45 days after closure of every quarter, it was observed in audit that quarterly reports of the Fund, are not furnished within the said period.

2.4 Transactions not supported by Adequate Authority

The following matters were observed.

- (i) Cheques had been issued for paying compensation to persons affected by natural disasters through an account operated by a state bank in foreign currency for foreign currency transactions. An approval obtained for using the money of that account for paying distress compensation, had not been made available to audit and as the said account is dormant at present, it had been pointed out to audit that the said account had been so used.
- (ii) According to Instructions No.IBSL/DG/SUP/17/06/233 of 28 June 2017 of the Sri Lanka Insurance Regulatory Commission, exchange of moneys cannot be made among divisions. However, moneys had been exchanged among divisions of the Fund in the years 2016 and 2017. As such, a sum of Rs.1,651,072,897 should have been settled by 15 October 2018 by the Reinsurance Division to other divisions.

2.5 Non-compliance with Tax Regulations

The following matters were observed.

- (i) It was observed in audit that it is not complied with paragraph (a) of Section 25 of the Inland Revenue Act, No.10 of 2006 on deductions allowed in ascertaining profits and income. It had been indicated as replies relating thereto that as the Fund is an institution owned by the Government, payment and calculation of taxes had been made by holding discussions with officers of the Department of Inland Revenue and that it had been agreed to deduct the value of depreciation for accounting from the revenue instead of the allowance for depreciation for first years, that is since the year 2009. However, written confirmations relating to the concurrence made with the Department of Inland Revenue to confirm the said reply, had not been made available to Audit up to now.
- (ii) In terms of paragraph 114 (c) of Sri Lanka Accounting Standard 1 on the presentation of financial statements, supporting information for items presented in the financial statements should be presented by notes and moreover, calculation of income taxes should be disclosed in terms of Sri Lanka Accounting Standard 12 on income taxes. However, the Fund had not disclosed the income tax liability by a note in the financial statements.
- (iii) A value of Rs.185,529,964 relating to the payment of net claims of General Insurance- Non-Motor, included in financial statements, had been recognized as Rs.185,631,974 representing an overstatement by Rs.102,010 in the calculation of tax liability of the year 2017. As such, the actual tax liability and expenditure on income of the year had been understated by Rs.28,563 in the financial statements.
- (iv) In determining profits and income for computation of tax liability in terms of Inland Revenue Act, No.10 of 2006, it is not allowable for 25 per cent out of expenditure on advertisements. However, the value of expenditure on advertisements of Rs.3,980,192 included in expenditure on other operations and administration had been considered as Rs. 2,905,750 in the computation of tax liability and out of that, only 25 per cent representing Rs.726,437 had been added to the income as a disallowable expense. As such, the difference between Rs.995,048 representing 25 per cent of the value of Rs.3,980,192 and Rs. 726,437 had been Rs.268,611, thus understating the tax liability and the expenditure on taxes by Rs. 75,211 in the financial statements of the year 2017.

AUDITOR GENERAL'S REPORT

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2017 had resulted in a net profit of Rs.976,233,935 as compared with the corresponding net profit of Rs.2,839,751,855 for the preceding year, thus indicating a deterioration of Rs.1,863,517,920 in the financial result of the year under review as compared with the preceding year. Even though the net premium income had increased by Rs.2,763,322,531, the increase in net benefits and expenditure on claims by Rs.4,357,544,669 had been the main reason for the above deterioration in the financial result of 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.4,240,847,242 in the year 2013 had increased to Rs.4,737,846,670 as at the end of the year 2014. However, it had declined in the years 2015 and 2016. It had further declined to Rs.976,233,935 by Rs.1,863,517,920 in the year 2017. 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.4,326,939,182 in the year 2013 had annually fluctuated after the said year and it had decreased to Rs.1,285,935,618 in the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

- (i) In terms of paragraph (g) of Section (2) of the National Insurance Trust Fund Act, No.28 of 2006, persons receiving benefits under the Samurdhi Authority Act, No. 30 of 1995 and farmers, fishermen and persons engaged in self-employment are covered by the insurance coverage. However, the Fund had not taken action to recover premiums by implementing those insurance schemes even in the year 2017.
- (ii) Failure in implementing / insufficient implementation of following activities during the year, to be implemented by each division according to the Action Plan of the year 2017 of the National Insurance Trust Fund, was observed. Details are given below.

Reference to the Action Plan	Division	Description
		Failure in implementing/ insufficient implementation
01	Reinsurance	It had been planned to reinsure motor and non-motor general insurance in the year 2017. Even though the initial activities of the said purpose had been commenced, the Fund had failed to complete it even by 05 November 2018.
02	Strike, Riot, Civil Commotion and Terrorist Fund	Even though it had been planned to automate the accounts of the Fund of which accounts are operated according to the Manual Accounting System, it had not been completed even by 15 October 2018.
03	General Insurance- Non-Motor Division	<ul style="list-style-type: none"> i. Even though this Division had planned to obtain an integrated foreign insurance deed for expanding the existing insurance coverage during the year 2017, the Fund had failed to complete the said purpose due to inability to summon a person who provides foreign facilities and to obtain reinsurance. ii. Even though it had been proposed to insure the state properties which were not insured, evidence for commencement of those activities, had not been made available. iii. Even though the Fund had pointed out that the insurance of fishing boats had been commenced in the year 2017, awareness programmes thereon had not been implemented.
04	General Insurance- Motor Division	Even though it had been planned to increase the income through the insurance of motor vehicles of the private sector, introduce the insurance of private motor vehicles of public officers as “Agrahara Motor”, attract consumers through the consumer management programme and to facilitate for obtaining schemes from branch offices by providing information technology facilities, performance of those activities during the year was at a low level.

AUDITOR GENERAL'S REPORT

05	Natural Disaster Division	<p>It had been planned to establish a natural disaster pool for the insurance industry and objectives such as providing a report thereon to the Chief Executive Officer and briefing the insurance industry on advantages received from the said pool, were included therein. However, no activity whatsoever relating thereto had been carried out even by 15 October 2018 and the Fund had informed that it had not been implemented due to failure in receiving the concurrence of the Insurance Association of Sri Lanka.</p>
06	Crop Insurance and Micro Insurance Division	<p>i. Even though it had been planned to introduce insurance coverage so as to cover migrant employees and livestock and farmers by the Micro Insurance Division, action had not been taken therefor by the date of audit. Moreover, it had been planned to implement an agricultural loan protection insurance scheme for protecting farmers from losses occurred due to loans, it had not been implemented even by 15 October 2018.</p> <p>ii. Even though it had been planned to insure 200,000 farmers under the payment of annual premium of Rs.1,200 through the Govi Divi Aruna Insurance Coverage and to earn an annual premium income of Rs.240,000,000, insurance of farmers or earning of any premium income had not been carried out. However, expenditure of Rs.192,780 had been incurred therefor.</p>
07	Information Technology Division	<p>The Audit had pointed out from several years that the preparation of financial statements is not correct due to shortcomings in existing information system. Accordingly, the Audit had been informed that the requirement of a new information technology system has been identified and a request had been made to the University of Moratuwa for obtaining the consultancy service with a view to introducing a new system. However, it was not observed in audit that any future steps whatsoever had been taken thereon.</p>
08	Financial Division	<p>Even though it had been planned in the year 2017 to divide the Fund into reinsurance and general insurance, those activities had not been carried out during the year. Even though this activity has been commenced by now, the Fund has stated that it cannot be implemented within a period of one year.</p>

09	Investment Management Division	<p>According to the Action Plan, the following activities had been planned to be carried out by this Division. However, it had not been so done even by the end of the year 2017.</p> <ul style="list-style-type: none"> i. Taking action to revise provisions of the Act pertaining to investment ii. Taking action to invest in Government securities by the private sector to maximize the investment benefits iii. Strengthening the investment by purchasing shares of hospitals iv. Carrying out researches on the investment market
10	Agrahara Division	<ul style="list-style-type: none"> (i) In terms of Sections (ii) and (iii) of Public Administration Circular No.12/2005 (i) of 18 May 2005, it had been indicated that public officers should be compulsorily registered for the Agrahara Insurance. However, according to the information of the Department of Management Services, all public officers except for the three forces had been 1,119,441 as at the end of the year 2017. Nevertheless, according to the information presented to Audit, the total number of public officers registered under this scheme by 10 September 2018 stood at only 696,501. Accordingly, the Fund had failed to register nearly 38 per cent of public officers who had completed 12 years of service at present under the Agrahara Insurance Scheme. (ii) The Fund had introduced a format on 06 February 2017, notifying to send premiums received to the Fund under the Agrahara Insurance Scheme through soft copies or a compact disk including the name and the National Identity Card Number of the officer according to the monthly abatement list, with the motive of maintaining members' accounts separately, updating of monthly accounts and expediting of payment of Agrahara claims. However, 257 out of 1,744 institutions had not taken action accordingly and the Fund had failed to take future measures relating thereto and prepare a proper data base for Agrahara Insurance and to achieve the above objectives.

AUDITOR GENERAL'S REPORT

- (iii) According to Section 37(1) of the Regulation of Insurance Industry Act, (Section 16 as amended later) the Sri Lanka Insurance Regulatory Commission may by notice in writing, require any insurer to furnish to it copies of policy forms issued by such insurer, for purpose of examining whether the interests of policy holders are being adequately safeguarded, and it shall be the duty of such insurer to comply with such notice. However, action had not been so taken by the National Insurance Trust Fund under the purview of the said Institute, relating to Gold, Silver and Retirement Insurance Scheme for public employees and the Gold and Silver Insurance Schemes for Semi Government Officers commenced in the year 2016.
- (iv) The Fund had purchased 45 Agrahara Magnetic Reader Machines including cards in the years 2011 and 2015 by spending a sum of Rs.25,743,020 and only 17 machines out of them had been issued to the hospitals. Out of the machines issued to hospitals, 7 machines had been returned to the Fund in January 2018 stating that it was difficult to carry out activities by connecting with the network of hospitals and 22 machines had not been issued to hospitals. However, 05 machines out of them were in inoperative condition and the physical existence of 7 machines was not revealed to Audit. Accordingly, whether the purpose of purchasing the machines had been achieved, was questionable in Audit. Nevertheless, the Fund had informed the Audit that they have changed to the method of identifying members through a more effective system convenient to all at present and that providing with card reader machines is less effective. As such, it was observed in Audit that the above expenditure had been fruitless.
- (v) The Audit had been informed that the Fund had entered into agreements with 22 hospitals for providing facilities to members submitting Agrahara cards of the Fund. Even though it was observed that the period of agreement of 13 hospitals out of them had expired, new agreements had not been entered into. Moreover, Agrahara cards introduced in the years 2016 and 2017 for retired and Semi- Government officers had not been issued.

- (vi) According to the agreement, it had been indicated that system facilities are provided for identifying members through Agrahara identity cards. However, out of the 02 valid agreements, the said facilities had been provided only to one hospital. Even though Agrahara Normal, Gold and Silver cards were issued, an introduction of new discount rates was not observed separately for those cards and the Fund had not introduced the benefits entitled to the member by introducing members of Gold and Silver Insurance to hospitals.

4.2 Management Activities

(a) **Using the name National Insurance Trust Fund Board by the National Insurance Trust Fund**

The National Insurance Trust Fund had used the name, National Insurance Trust Fund Board as well. In enquiring about this matter, the Fund had indicated in terms of Section 4 of the National Insurance Trust Fund Act, No.28 of 2006, which mentions the establishment of the National Insurance Trust Fund, (hereinafter called the “Board”) that a National Insurance Trust Fund Board comprising persons specifically mentioned in Section 6 of the Act, is established and the said Section implies that even though the Institute can be called National Insurance Trust Fund or National Insurance Trust Fund Board, the Institute had become popularly known in the field of insurance as National Insurance Trust Fund.

- (b) The following observations are made as well.
 - (i) As compared with the preceding year, the premium income receivable, in the General Insurance – Non-motor Division had increased by Rs.178,870,895 and a systematic procedure for the recovery of the said income was not observed in Audit. Moreover, it was observed that invoices had been issued in the year 2017 as well for debtors with a debtors’ time limit exceeding 360 days, included in the said recoverable balances. Delays in the recovery of receivable balances had resulted in limiting cash inflows of the Fund and the Fund had taken action to provide new insurance coverages without taking necessary steps to recover those moneys.

AUDITOR GENERAL'S REPORT

- (ii) In terms of Section 54 of the Act, it had been decided to appoint an independent auditor to carry out an investigation on the affairs of the National Insurance Trust Fund by the Letter No. IRCSL/DG/LEG/18/03/139 dated 27 March 2018 of the Director General of the Commission and activities relating thereto had not been completed even by the date of this report.
- (iii) It was mentioned in Public Administration Circular No.12/2005 of 18 May 2005 that all officers of public and provincial public service holding permanent and pensionable posts are qualified for the Agrahara Insurance Scheme and in terms of Section 2 of the National Insurance Trust Fund Act, No.28 of 2006 as well, the Semi-Government officers were not covered by this insurance scheme. However, it was observed in Audit that 30 Semi-Government institutions are claiming benefits under Agrahara Insurance by 31 August 2018 on the approval of the Board of Directors of the Fund. Moreover, contributions of Rs.14,915,950 had been collected from 12 Semi-Government institutions by 31 December 2017 and benefits amounting to Rs.7,183,772 had been paid.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should take action in terms of the Letter No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the “2030 Agenda” of the United Nations on Sustainable Development and the Fund had not been aware of the manner of implementation of the functions coming under its scope relating to the year under review. As such, sustainable development goals, targets, the manner of achieving those targets and the indices for measuring those targets had not been identified.

6. Procurements

The following observations are made.

- (i) An order had been placed for purchase of 650,000 magnetic cards and 20 magnetic card reader machines at a total cost of Rs.21,820,000 from a private institution on 04 November 2011. A sum of Rs.4,364,000 representing 20 per cent of the total cost thereof had been paid as advance therefor by the Fund. Even though 221,630 cards had been supplied on 10 October 2014, payments of Rs.2,440,000 and Rs.3,585,000

had been made for 100,000 and 150,000 cards on 21 March 2012 and 24 July 2012 respectively. Moreover, an overpayment of Rs.865,285 had been made for 28,370 cards. The said card printed in the year 2014 is presently in inoperative condition and the relevant institution was inoperative as well. Even though the Audit had made enquiries on the recovery of overpayments made and future steps taken relating thereto, no replies had been made up to now.

- (ii) A sum of Rs.3,923,020 had been spent in the year 2015 for purchase of 300,000 magnetic cards and 25 magnetic card reader machines and according to the said procurement, quotations submitted by the supplier and relevant procurement files had not been presented to Audit and it had been reported that they have been misplaced.
- (iii) Action had not been taken even by the date of this report to distribute 10,000 magnetic cards received to the Fund on 07 June 2018, among the relevant members.
- (iv) An insurance scheme had been proposed by the budget proposals – 2016 for covering of losses occurred as a result of cyclones, storms, droughts, floods, landslides, hurricanes, earth tremors, tsunami and such other natural disasters. Accordingly, it had been proposed to introduce an entire insurance coverage to the value of Rs.10,000 million 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 coverage 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 to the Fund in the years 2016 and 2017 respectively as insurance premiums by the budget for the implementation of this scheme. The following matters were observed during the examination held in this connection.
 - i. The total value of the reinsurance coverage for the years 2016/2017 amounted to Rs.420 million and according to Guideline 2.14.1 of the Procurement Guidelines and revisions made thereto, procurements exceeding Rs.200 million should be carried out on the recommendation of the Cabinet Appointed Procurement Committee (CAPC). However, in the commencement of this procurement, the Fund had not obtained such recommendations.

AUDITOR GENERAL'S REPORT

- ii. The Fund had selected a supplier without following a proper procurement procedure relating to reinsurance coverage and obtained only the covering approval of the Cabinet of Ministers on 30 May 2017 therefor. However, even by the instance of obtaining approval, which is by 06 April 2016, the private company which is the reinsurer, had not entered into an agreement with the Fund.
- iii. The period of reinsurance coverage relating to the year 2016/17 had expired by 31 March 2017 and action had been taken to renew it. Evidence that the procurement activities relating thereto had been carried out properly, was not made available to Audit as well.
- iv. The time frame prepared by the Fund for the said procurement and the time frame relating to the procurement process submitted to the Department of Public Finance were different from each other. Moreover, this time frame did not agree with the time frame relating to procurement activities mentioned in Revision 31 of the Procurement Guidelines 2006. However, the Fund had given reasons that the time taken for appointing the Cabinet Approved Procurement Committee and the Technical Evaluation Committee and the time taken for completing the procurement process according to Government Procurement Guidelines had resulted in the delay in renewing the said reinsurance coverage.
- v. Even though the reinsurance coverage should have been implemented again from 27 May 2018 for the year 2018/19, the agreement for the old reinsurance coverage had been extended from 27 May 2018 to 31 July 2018 by the Fund. Moreover, an additional sum of Rs.149,923,973 had been paid therefor to the reinsurance institution. The Cabinet approval had not been received even by 15 October 2018, the date of Audit for the said agreement and as such, the two relevant parties had not entered into the agreement.
- vi. In terms of Section 79 of the Regulation of Insurance Industry Act, No.43 of 2000 as amended by the Regulation of Insurance Industry (Amendment) Act, No.23 of 2017, no person shall act or hold itself out as an insurance broker unless such person is a holder of a certificate of registration as a broker granted by the Board and is a member of an Association of Insurance Brokers approved by the Board. Nevertheless, reinsurance coverages had been obtained in the years 2017 and 2018 in 03 divisions of the Fund through a broker who was not registered at the Sri Lanka Insurance Regulatory Commission.

6.1 Irregular Transactions

The lease agreement on the buildings of the Head Office of the Fund had expired on 30 September 2017 and the said building had been again rented by increasing the lease rent from Rs.1,650,000 to Rs.2,400,000 contrary to the procurement process. Even though the Fund had subsequently entered into the agreement on 15 December 2017, action had not been taken to obtain an assessment of building rent from the Valuation Department. Moreover, the Fund had agreed to pay a service charge not mentioned in the old agreement and penalties relating thereto.

6.2 Identified Losses

The following observations are made.

- (i) Even though the reinsurance agreement for the years 2016/2017 expired on 01 April 2017, the Fund had failed to enter into a new reinsurance agreement for the continuous implementation of the said agreement from that date. As such, the Fund could not obtain assistance of the reinsurance company for providing relief to people affected with floods and landslide disasters occurred on 25 May 2017. Accordingly, the Fund had to pay Rs.1,497,914,007 as compensation relating thereto. Moreover, the Fund had been deprived of a sum of Rs.497,914,007 receivable to the Fund if the reinsurance agreement was implemented. Further, as values of payment of compensation for the disaster occurred in November 2017, not paid by reinsurers had not exceeded the deductible claim expense, the Fund had not received compensation from the reinsurance company therefor as well. The Fund had made payments of Rs.476,614,977 contrary to the reinsurance agreement and the reinsurers had refused to reimburse those moneys. As such, the Fund had sustained a loss by the said value.
- (ii) In the receipt of moneys for reinsurance balances receivable in the years 2016 and 2017, losses of Rs.3,888,779 and Rs.13,005,027 had occurred respectively due to the change in exchange rates.

6.3 Staff Administration

The approved cadre and the actual cadre of the Fund as at 31 December 2017 stood at 271 and 211 respectively while 60 vacancies existed in the permanent staff. The following observations are made in this connection.

- (a) Five vacancies existed in senior posts and they comprised one post of Assistant Manager, 03 posts of Manager and one post of Internal Auditor. Officers had been appointed on acting basis from 01 September 2018 for the above posts.

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- (b) In terms of paragraph 13.3 of Chapter II of the Establishments Code, an acting appointment should be made as a temporary measure only and until a substantive appointment is made. However, acting appointments had been made for 04 posts for over a period of 04 months without making substantive appointments.
- (c) According to the information made available to Audit, 68 officers being on day's pay and 29 officers being paid salaries on contract basis not included in the approved cadre, had been recruited in the year under review. However, files had not been maintained relating to those recruitments and evidence was not observed in Audit that recruitments had been properly made by publishing newspaper advertisements.
- (d) Applications had been called for 05 posts by publishing newspaper advertisements in the year under review, spending a sum of Rs.454,844 and recruitments had not been made for those 05 posts even by 12 October 2018, the date of Audit.
- (e) Even though newspaper advertisements had been published by spending a sum totalling Rs.396,405 in 02 instances in the years 2017 and 2018 for recruitment of an officer for the post of Assistant Manager – Investment and Risk Management, recruitments had not been made due to non-application of a qualified officer even by the date of this report.
- (f) The Manager of the Anuradhapura Branch had been interdicted from 28 August 2018 due to a financial misappropriation and a payment of Rs.47,280 had been made for the investigation report relating thereto. However, it was not observed even by 26 September 2018, the date of Audit, whether the final investigation report had been issued or future steps had been taken.

7. **Accountability and Good Governance**

7.1 **Presentation of Financial Statements**

The Draft Annual Report and financial statements should be presented to the Auditor General within 60 days after the closure of the financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003. However, the financial statements of the year under review had been presented to Audit only on 07 December 2017.

7.2 Internal Audit

Even though an Internal Audit Plan had been prepared for the year 2017, audit examinations had not been carried out accordingly and reports thereon submitted.

7.3 Budgetary Control

Variations ranging between 20 per cent and 470 per cent were observed in the comparison of budgeted income and expenditure with the actual income and expenditure of the Board, thus observing that the budget had not been made use of as an effective instrument of management control.

7.4 Tabling of Annual Reports

The Annual Report of the Fund should be tabled in Parliament within 150 days after the closure of the year of accounts in terms of Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003. Nevertheless, the Annual Report for the year 2016 had not been tabled in Parliament even by 31 October 2018.

8. 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 the following areas of control.

Areas	Observations
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01.Financial Control	(i) Failure in estimating the requirement and granting advances (ii) Failure in updating Registers of Advances (iii) Non-submission of cash deposit slips and receipts according to regulations indicated in the Guidelines on Financial Accounts of the Fund, to the Branch Supervision Division (iv) Non-submission of payment vouchers and other evidence relating to transactions by the parties who incurred expenses during the prescribed period, to the Accounts Division.

AUDITOR GENERAL'S REPORT

The Debtors' Age Analysis had not been updated and as such, a difference of Rs.85,037,720 was observed between the Debtors' Age Analysis and the main Ledger.

02.Accounting

- (i) Defects in the accounting system being used for accounting by the Fund
- (ii) According to Audit observations in the preceding years, installments of distress loans and the interest thereon had been recovered from the salaries of officers as prescribed. However, ledger accounts had not been updated.
- (iii) Information of two Divisions are included in the financial statements and one Division had been computerized and the accounts of the other Division had been prepared manually.

03.Insurance coverage from natural disasters

Instances of improper payment of compensation relating to insurance coverage from natural disasters.

04.Deficiencies in the Management Information System

The financial statements of the Fund comprised of 02 parts and out of them the accounts and related registers had been prepared through a computerized system by one Division. However, the registers including accounts under the other Division had been maintained manually. As such, it was observed in Audit that deficiencies in accounting had occurred.

W.P.C. Wickramaratne
Auditor General

STATEMENT OF FINANCIAL POSITION

As At 31st December	Notes	2017 Rs.	2016 Rs.
Assets			
Intangible assets	7	1,377,708	0
Property, plant and equipment	8	39,470,985	43,058,543
Financial Assets	9	8,161,427,792	11,187,844,373
Reinsurance Receivable	10.1	4,574,100,921	5,528,802,851
Premium receivables	10.2	2,109,164,970	1,340,840,446
Soft Loans	11	14,069,897	67,081,271
Other non financial assets	12	1,922,337,050	159,891,434
Deferred Commission	13	597,083,610	482,908,910
Cash at bank and in hand	14	1,133,642,497	705,205,727
Total assets		18,552,675,429	19,515,633,556
Equity and Liabilities			
Retained earnings		7,213,150,131	7,831,705,609
Other component of equity		(66,791,641)	(266,847,481)
Total equity		7,146,358,490	7,564,858,128
Liabilities			
Insurance contract liabilities	17	8,879,856,741	9,795,236,509
Retirement benefit obligation	18	29,660,364	15,090,870
Other liabilities	15	2,496,799,835	1,865,533,436
Bank overdraft	14	-	274,914,611
Total liabilities		11,406,316,939	11,950,775,427
Total equity and liabilities		18,552,675,429	19,515,633,556

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


AGM/Finance


Director


Director

20-Mar-18
Colombo

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December	Notes	2017 Rs.	2016 Rs.
Gross written premiums	1	9,071,278,467	6,844,785,577
Contribution Received for Agrahara	1	2,726,522,599	2,004,436,602
Crop Insurance Levy Collected		1,878,361,459	1,511,302,032
Reinsurance Premiums ceded		(1,146,635,715)	(760,552,873)
Ceded to SRCC & Tr Fund		(28,647,172)	(31,027,621)
Net written premiums		12,500,879,639	9,568,943,716
Net change in Reserve for unearned premium		(887,050,657)	(718,437,265)
Net earned premium		11,613,828,982	8,850,506,451
Revenue from other operations			
Fees and commission income	2	6,350,874	4,704,803
Investment & Other Income	3	1,143,209,930	983,984,377
Other revenue		1,149,560,805	988,689,180
Gross benefits and claims Incurred	4	(11,455,239,706)	(5,761,417,865)
Claims ceded to reinsurers	4		6,868,180,969
Gross change in contract liabilities	4	2,077,748,294	(6,355,570,386)
Change in contract liabilities ceded to reinsurers	4	(239,679,294)	
Gross change in IBNR		(283,528,663)	(294,347,416)
Net benefits and claims		(9,900,699,368)	(5,543,154,699)
Underwriting and acquisition cost (including reinsurance)	5	(1,440,826,507)	(1,068,320,881)
Other operating and administrative expenses	6	(344,678,298)	(387,968,196)
Total benefits, claims and other expenses		(11,686,204,174)	(6,999,443,776)
Profit/(Loss) before tax		1,077,185,612	2,839,751,855
Income tax expense		(100,951,677)	-
Profit/(Loss) for the year		976,233,935	2,839,751,855
Other Comprehensive Income			
Net change in available for sale financial assets		208,755,171	(182,717,265)
Actuarial (gain)/loss on gratuity valuation		(8,699,331)	4,740,893
Other comprehensive income for the year, net of tax			(177,976,372)
Total Comprehensive Income		1,176,289,775	2,661,775,484

STATEMENT OF CHANGES IN EQUITY

	Retained earnings Rs.	Available- for-sale financial assets Rs.	Total equity Rs.
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	7,831,705,609	(266,847,481)	7,564,858,128

STATEMENT OF CHANGES IN EQUITY

As At 31st December 2017	Retained earnings Rs.	Available- for-sale financial assets Rs.	Total equity Rs.
Profit for the year	976,233,935		976,233,935
Net change in available for sale financial assets		208,755,171	208,755,171
Cash Transferred to the Consolidated Fund	(1,500,000,000)		(1,500,000,000)
Year End Closing Difference	(44,253,311)		(44,253,311)
Income Tax Payable 2016/2017	(97,669,225)		(97,669,225)
Amortised discounts on Bonds	26,235,147		26,235,147
Refund crop AAIB	42,871,673		42,871,673
Incentive 2016	(3,140,650)		(3,140,650)
RI Premium General	(2,921,713)		(2,921,713)
Opening - AR Control RI	(38,856,406)		(38,856,406)
Opening - AR Control Non Motor	83,109,718		83,109,718
Cheque Return	(324,575)		(324,575)
ETF 3%	305,147		305,147
Motor bike Advance & Motor Receivable	(57,582,588)		(57,582,588)
ESC	(2,068,743)		(2,068,743)
Other Previous Year Adjustment	(493,887)		(493,887)
Acturial (gain)/loss on gratuity valuation		(8,699,331)	(8,699,331)
Balance as at 31 December 2017	7,213,150,131	(66,791,641)	7,146,358,490

Accounting policies and notes on pages 87 through 115 form an integral part of the Financial Statements.

Figures in bracket indicate deductions.

CASH FLOW STATEMENT

Year ended 31 December		2017 Rs.	2016 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		1,077,185,612	2,839,751,855
Adjustments for :			
Interest Income		(1,138,264,819)	(967,301,878)
Depreciation		7,316,750	7,056,814
Net Fair Value Changes		200,055,840	(177,976,372)
Prior Year Adjustments		(94,789,413)	(555,043,548)
Loss/ (Profit)on Disposal of Fixed Assets		(4,945,111)	-
		46,558,859	1,146,486,872
Change in Operating Assets	A	(1,690,242,910)	(5,998,105,224)
Change in Operating Liabilities	B	(370,495,553)	8,098,135,583
Cash Flow from Operating Activities		(2,014,179,604)	3,246,517,230
Gratuity Paid		-	(229,889)
Net Cash Generated from Operating Activities		(2,014,179,604)	3,246,287,341
Cash Flows from Investing Activities			
Net Disposal/(Acquisition) of Financial Investments		3,026,416,582	(798,871,647)
Interest Received		1,138,264,819	967,301,878
Recovery of Soft Loans		53,011,374	62,163,340
Disposal of Property Plant and Equipment		6,029,880	-
Acquisition of Intangible Assets		(1,377,708)	-
Acquisition of Property, Plant and Equipment		(4,813,960)	(13,375,128)
Net Cash Used from Investing Activities		4,217,530,986	217,218,443
Cash Flows from Financing Activities			
Cash Transferred to the Consolidated Fund		(1,500,000,000)	(3,200,000,000)
Net Cash Used in Financing Activities		(1,500,000,000)	(3,200,000,000)
Net Increase / (Decrease) in Cash and Cash Equivalents	C	703,351,381	263,505,784
Net Cash and Cash Equivalents at the beginning of the Year		430,291,116	166,785,332
Cash and Cash Equivalents at the end of the Year		1,133,642,497	430,291,116

CASH FLOW STATEMENT

Year ended 31 December	2017 Rs.	2016 Rs.
Notes to the Cash Flow Statement		
A. Change in Operating Assets		
(Increase)/ Decrease in Deferred Commission	(114,174,700)	(61,775,957)
(Increase)/ Decrease in reinsurance premium receivable	954,701,929	(5,528,802,851)
(Increase)/ Decrease in Premium Receivable	(768,324,524)	(279,942,420)
(Increase)/ Decrease in Other Non Financial Assets	(1,762,445,615)	(127,583,996)
	(1,690,242,910)	(5,998,105,224)
B. Change in Operating Liabilities		
Increase / (Decrease) in Insurance Contract Liabilities	(915,379,769)	6,537,322,393
Increase / (Decrease) in Retirement Benefit obligation	14,569,494	(1,137,249)
Increase / (Decrease) in Other liabilities	530,314,722	1,561,950,438
	(370,495,553)	8,098,135,583
C. Increase / (Decrease) in Cash and Cash Equivalents		
Net Cash and Cash Equivalents at the end of the Year	1,133,642,497	430,291,116
Less: Net Cash and Cash Equivalents at the beginning of the Year	430,291,116	166,785,332
Net Increase / (Decrease) in Cash and Cash Equivalents	703,351,381	263,505,784

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 06th December 2018

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 these Financial Statements.

1.6 Statement of Compliance

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

The Financial Statements include the following components:

- A Statement of Financial Position providing the information on the financial position of the Board as at the yearend, (refer page 81).
- 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 82)
- A Statement of Changes in Equity depicting all changes in shareholders’ equity. (refer page 83-84)
- 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 85-86) and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information both financial and non-financial, (refer page from 87 to 115).

1.7 Number of Employees

The staff strength of the Board as at 31st December 2017 was 211 (2016 – 206).

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.

NOTES TO THE FINANCIAL STATEMENTS

2.12 Functional and presentation currency

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

2.13 Materiality and Aggregation

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

2.2 Reporting Period

The reporting period is from January to December 2017.

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

2.3 Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making

the judgments about the carrying amount of assets and liabilities that are not readily apparent from other sources.

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

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

2.3.1 Valuation of Insurance contract liabilities

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

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

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

2.3.2 Impairment of Deferred Acquisition Cost (DAC)

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

2.3.3 Assessment of Impairment

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

2.3.4 Provision for Liabilities and Contingencies

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

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 recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date

using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised 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 movements in the retirement benefit obligation are disclosed Note 18 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

NOTES TO THE FINANCIAL STATEMENTS

or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

Computer Software
–amortization Over 4 Years

2.4.2 Property, Plant & Equipment

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

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

2.4.3 Depreciation

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

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 105

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 (LGR); 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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

2.6.8 Insurance receivables

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. According to the Premium Payment warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all General Insurance policies are issued subject to PPW and cancellable upon the expiry of 60 days if not settled.

NOTES TO THE FINANCIAL STATEMENTS

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.

2.6.11 Sales taxes and premium taxes

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

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

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority 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 not computed as per Sri Lanka Accounting Standard LKAS 19 Employee Benefits, using actuarial method of valuation.

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

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

2.6.13 Provisions and Contingent Liabilities

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

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

2.7 Revenue Recognition

2.7.1 Gross premiums

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

arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

1. NET PREMIUMS

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

	2017	2016
	Rs.	Rs.
1.1 Gross Written Premium		
Inward Reinsurance	3,683,389,120	2,397,372,589
SRCC G Tr Premium	4,036,282,848	3,533,324,423
General Insurance - Motor	417,885,956	382,196,410
General Insurance - Non Motor	413,720,543	182,864,533
National Natural Disaster Premium	500,000,000	300,000,000
Medical scheme for Parliamentary members	20,000,000	18,000,000
	9,071,278,467	6,813,757,955

1.2 Contribution collected for Agrahara medical Insurance Scheme

	2017	2016
	Rs.	Rs.
Contribution from Members	2,154,586,499	1,450,866,802
Contribution from the Treasury	500,000,000	550,000,000
Pensioners Insurance Scheme	58,785,600	3,569,800
Semi Government Scheme	13,150,500	
	2,726,522,599	2,004,436,602

2. FEES AND COMMISSION INCOME

	2017	2016
	Rs.	Rs.
Policyholder administration fees	6,350,874	4,704,803
Total fees and commission income	6,350,874	4,704,803

NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENT & OTHER INCOME

	2017	2016
	Rs.	Rs.
3.1 Loans and receivables interest income		
Interest income from Repurchase Agreements	160,720,267	322,526,043
	160,720,267	322,526,043
3.2 Available for sales interest income		
Interest income from Treasury Bills	203,450,756	308,587,706
Interest income from Treasury Bonds	743,835,183	328,758,699
	947,285,939	637,346,405
3.3 Held to maturity interest income		
Interest income from SLBD		7,429,430
Total investment income	1,108,006,205	967,301,878
3.4 Other Income		
Interest on Savings Account - USD	898,532	
Interest on Soft Loans	807,908	2,078,808
Interest on Staff Distress Loans	1,085,081	747,028
Disposal of Fixed Assets	4,945,111	13,856,663
Exchange Gain / loss	26,899,206	
Other	567,887	
	35,203,725	16,682,499
Total investment of other income	1,143,209,930	983,984,377

4. NET BENEFITS AND CLAIMS

For the year ended 31st December

	2017	2016
	Rs.	Rs.
(a) Gross benefits and claims paid		
Reinsurance	(2,039,286,678)	(2,882,078,138)
SRCC & Tr	(12,314,131)	250,927
General Insurance - Motor	(202,402,854)	(142,640,392)
General Insurance - Medical & Other	(151,205,332)	(49,937,952)
Crop Insurance	(1,593,396,750)	(757,620,458)
General Insurance - NNDIS	(4,699,472,888)	(68,646,391)
Agrahara medical Insurance Scheme	(2,757,161,073)	(1,860,745,461)
	(11,455,239,706)	(5,761,417,865)
(b) Claims ceded to reinsurers		
Reinsurance		3,557,320,000
General Insurance - NNDIS		3,310,860,969
		6,868,180,969
(c) Gross change in contract liabilities		
Reinsurance	137,254,896	(3,211,912,232)
SRCC & Terrorism	-	1,035,260
General Insurance - Motor	(7,003,676)	(31,895,979)
General Insurance - Medical & Other	(11,331,084)	(3,717,517)
Crop Insurance	(289,394,804)	
General Insurance - NNDIS	2,379,827,068	(3,003,240,511)
Agrahara medical Insurance Scheme	(131,604,106)	(105,839,408)
	2,077,748,294	(6,355,570,386)
(d) Change in contract liabilities ceded to reinsurers		
Reinsurance	(191,629,545)	
General Insurance - NNDIS	(48,049,749)	
	(239,679,294)	

NOTES TO THE FINANCIAL STATEMENTS

	2017	2016
	Rs.	Rs.
(e) Gross change in IBNR		
Reinsurance	(232,748,969)	(84,067,842)
SRCC & Terrorism	22,833,384	(34,963,423)
General Insurance - Motor	(57,045,536)	55,708,218
General Insurance - Medical & Other	(32,365,340)	(1,899,737)
Crop Insurance	133,625,924	(148,125,925)
General Insurance - NNDIS	-	
Agrahara medical Insurance Scheme	(117,828,127)	(80,998,707)
	(283,528,663)	(294,347,416)
Net benefits and claims	(9,900,699,368)	(5,543,154,699)

5. UNDERWRITING AND ACQUISITION COST

	2017	2016
	Rs.	Rs.
Acquisition Cost	(1,452,274,432)	(1,124,410,583)
Profit Commission Expenses	(102,726,775)	(105,387,928)
Change unearned commission reserve - SRCC	29,656,526	43,841,952
Change unearned commission reserve - General	(2,923,900)	8,374,401
Change unearned commission reserve - Reinsurance	87,442,074	3,873,350
	(1,440,826,507)	(1,173,708,809)

6. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2017 Rs.	2016 Rs.
Auditors Remuneration	886,200	180,000
Employee Benefit Expenses	201,433,256	164,253,318
Administration and establishment Expenses	128,226,905	107,673,497
Selling Expenses	4,021,842	1,388,925
Depreciation of Property Plant and Equipment	7,316,750	7,056,814
Legal Fees	623,345	868,495
Sponsorship	2,170,000	1,159,220
Total other operating and administrative expenses	344,678,298	282,580,269

	2017 Rs.	2016 Rs.
6.1 Employee Benefit Expenses		
Wages and salaries including bonus & incentives	128,427,751	114,058,912
Contributions to defined contributions plans		
Employees' Provident Fund	16,660,178	13,515,405
Employees' Trust Fund	3,961,613	3,563,451
Other personal cost	46,513,552	29,511,905
Retirement benefit cost	5,870,163	3,603,644
Total employee benefits expense	201,433,256	164,253,318

6.2 Administration and establishment Expenses

Professional fees	5,212,934	2,519,047
Electricity	7,934,750	7,174,592
Telephone	4,291,367	2,554,839
Printing & Stationary	14,429,664	7,950,542
Postage	2,376,429	2,249,064
Office Rent	22,701,988	21,331,434
Nation building tax expense	13,772	12,587,904
Other administration & establishment expenses	71,266,001	51,306,076
Total administration and establishment expenses	128,226,905	107,673,497

NOTES TO THE FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

For the year ended 31st December	2017	2016
	Rs.	Rs.
Cost		
At 1 January 2017	6,542,073	6,542,073
Additions	1,490,000	
At 31st December 2017	8,032,073	6,542,073
Accumulated amortisation and impairment		
At 1 January 2017	6,542,073	6,542,073
Amortisation	112,292	-
At 31st December 2017	6,654,365	6,542,073
Carrying amount		
At 31st December 2017		-
	1,377,708	-

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

At 31st December 2017	2017	2016
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 2017	34,628,244	47,519,627	10,542,841	23,338	92,714,050
Additions	202,830	3,256,407	1,348,723	-	4,807,960
Previous Year adjustment	-	-	6,000	-	6,000
Disposals	(4,823,071)	(1,062,148)	(210,737)	(7,250)	(6,103,206)
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2017	30,008,003	49,713,886	11,686,827	16,088	91,424,804
Accumulated Depreciation					
At 1 January 2017	28,569,701	16,928,480	4,133,989	23,338	49,655,508
Depreciation	2,837,088	3,638,374	841,286	7,316,749	
Disposals	(4,063,152)	(786,245)	(161,790)	(7,250)	(5,018,437)
At 31 December 2017	27,343,638	19,780,608	4,813,485	16,088	51,953,820
Carrying amount					
At 31 December 2016	6,058,543	30,565,557	6,434,442	-	43,058,542
At 31 December 2017	2,664,365	29,933,278	6,873,342	-	39,470,984

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

For the year ended 31st December	2017 Rs.	2016 Rs.
Motor Vehicles	3,416,550	3,416,550
Misc. Assets	16,088	16,088
	3,432,638	3,432,638

NOTES TO THE FINANCIAL STATEMENTS

9. FINANCIAL ASSETS

For the year ended 31st December

	Notes	2017 Rs.	2016 Rs.
Loans And Receivables	9.1	1,898,174,131	2,433,292,966
Available For Sale Financial Assets	9.2	6,263,253,661	8,701,092,379
Held to Maturity Financial Assets	9.3	-	53,459,028
		8,161,427,792	11,187,844,373

9.1 Loans And Receivables

Loans and receivables		1,898,174,131	2,433,292,966
Total financial instruments		1,898,174,131	2,433,292,966

Loans and receivables

Government Securities - Repo Investment		1,898,174,131	2,433,292,966
Total loans and receivables at amortised cost		1,898,174,131	2,433,292,966

9.2 Available For Sale Financial Assets

Government Securities - Treasury Bonds		5,504,936,441	5,304,469,505
Government Securities - Treasury Bills		758,317,220	3,396,622,874
		6,263,253,661	8,701,092,379

9.3 Held to Maturity Financial Assets

Sri Lanka Development Bonds			53,459,028
			53,459,028

10. PREMIUM RECEIVABLES

	2017	2016
	Rs.	Rs.
10.1 Reinsurance Receivable		
Reinsurance Receivable Retro	2,157,672,249	2,880,114,075
Reinsurance Receivable NNIDS	2,416,428,672	2,648,688,775
	4,574,100,921	5,528,802,851
10.2 Premium Receivable from :		
Direct customers	1,358,586,006	702,493,693
Intermediaries	750,578,963	638,346,753
	2,109,164,970	1,340,840,446
<i>10.2.1 Premium Receivable from Direct customers</i>		
General Insurance Motor	31,418,209	119,222,251
General Insurance Non motor	323,711,536	144,840,641
Inward Reinsurance	988,456,262	424,430,802
Parliamentary Members insurance	15,000,000	14,000,000
	1,358,586,006	702,493,693

11. SOFT LOANS

	2017	2016
	Rs.	Rs.
Soft Loans	14,069,897	67,081,271

NOTES TO THE FINANCIAL STATEMENTS

12. OTHER NON-FINANCIAL ASSETS

	2017 Rs.	2016 Rs.
Advances & Prepayments	7,286,308	5,996,509
Refundable Deposits	4,670,250	4,980,250
Receivable from AAIB	-	40,598,099
Prepayment Reinsurance Premium	10,466,315	-
Staff Distress Loans	27,578,377	21,739,991
Other receivable	195,140	-
Deferment of Reinstatement premium	-	67,502,500
Economic Service Charge	-	2,554,923
Cheque Return Receivable	585,481	780,912
Temporary Advance (from SRCC to NITF)	1,868,093,066	-
General Insurance Motor	973,009	-
Agrahara Department - NITF	2,489,103	-
Refund receivable	-	15,738,250
	1,922,337,050	159,891,434

13. DEFERRED COMMISSION

	2017 Rs.	2016 Rs.
As at 1 January	503,962,390	421,132,952
Provision made /(released) during the year	93,121,220	61,775,957
At 31st December	597,083,610	482,908,909

14. CASH AND CASH EQUIVALENTS

	2017 Rs.	2016 Rs.
Petty Cash	233,577	185,363
Cash at bank	1,133,408,921	705,020,364
Cash in hand and at bank	1,133,642,497	705,205,727
Bank overdraft	-	(274,914,611)
Total cash and cash equivalents	1,133,642,497	430,291,116

15. OTHER LIABILITIES

	Notes	2017 Rs.	2016 Rs.
Other financial liabilities	15.1	2,288,633,737	586,787,527
Other non financial liabilities	15.2	208,166,097	1,278,745,909
		2,496,799,835	1,865,533,436

15.1 Other financial liabilities

Claim cheques/SLIPS returned payable	12,263,329	6,052,738
Unpresented Cheque Payable	6,860,412	-
Motor premium Collected	17,568,213	15,319,066
Commission payable - Reinsurance	42,434,299	42,442,577
Restatement Premium payable	170,718,808	350,451,671
Annual fee and Cess payable	16,769,587	8,480,878
Refund Payable	4,063,728	46,715,161
Accrued expenses	11,086,404	6,910,129
Profit Commission Payable	120,403,318	89,809,561
Other payables	18,372,572	20,605,746
Temporary Advance (from SRCC to NITF)	1,868,093,066	-
	2,288,633,737	586,787,527

15.2 Other non financial liabilities

Government Levies	208,166,097	1,278,745,909
	208,166,097	1,278,745,909

NOTES TO THE FINANCIAL STATEMENTS

16. SEGMENT INFORMATION

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

PREMIUMS	2017							
	Motor Rs.	Non Motor Rs.	Disaster Mgt Rs.	Reinsurance Rs.	SRCC Rs.	Health Scheme Agrahara/ MP	Crop Insurance Scheme	Total Rs.
Gross written premiums	417,885,956	413,720,543	500,000,000	3,683,389,120	4,036,282,848	-	-	9,051,278,467
Contribution Received for Agrahara	-	-	-	-	-	2,746,522,599	-	2,746,522,599
Crop Insurance Levy Collected	-	-	-	-	-	-	1,878,361,459	1,878,361,459
Reinsurance Premiums ceded	-	(26,051,323)	(641,552,500)	(175,000,000)	(108,750,000)	-	(195,281,892)	(1,146,635,715)
Ceded to SRCC & Tr Fund	(7,853,266)	(20,793,905)	-	-	-	-	-	(28,647,172)
Net written premiums	410,032,690	366,875,314	(141,552,500)	3,508,389,120	3,927,532,848	2,746,522,599	1,683,079,567	12,500,879,639
Net change in Reserve for unearned Premium	(32,798,672)	(160,540,661)	(49,111,847)	(450,105,786)	(193,211,500)	(1,282,192)	-	(887,050,657)
NET PREMIUMS EARNED (A)	377,234,018	206,334,653	(190,664,347)	3,058,283,335	3,734,321,348	2,745,240,408	1,683,079,567	11,613,828,982
Fee income (B)	6,259,599	91,275	-	-	-	-	-	6,350,874
TOTAL UNDERWRITING INCOME (A + B)	383,493,618	206,425,928	(190,664,347)	3,058,283,335	3,734,321,348	2,745,240,408	1,683,079,567	11,620,179,856
Acquisition costs	-	(2,923,900)	-	(733,932,935)	(703,969,671)	-	-	(1,440,826,507)
Change in deferred acquisition costs	-	-	-	-	-	-	-	-
Net acquisition costs (C)	-	(2,923,900)	-	(733,932,935)	(703,969,671)	-	-	(1,440,826,507)
Gross claims Incurred	(209,406,530)	(162,536,416)	(2,319,645,820)	(1,902,031,782)	(12,314,131)	(2,888,765,179)	(1,882,791,554)	(9,377,491,412)
Reinsurance recoveries	-	-	(48,049,749)	(191,629,545)	-	-	-	(239,679,294)
Changing of IBNR	(57,045,536)	(32,365,340)	-	(232,748,969)	22,833,384	(117,828,127)	133,625,924	(283,525,663)
Net claims paid	(266,452,067)	(194,901,756)	(2,367,695,569)	(2,326,410,295)	10,519,253	(3,006,593,306)	(1,749,165,629)	(9,900,699,368)
Reinsurers share of change in outstanding claims	-	-	-	-	-	-	-	-
NET CLAIMS INCURRED (D)	(266,452,067)	(194,901,756)	(2,367,695,569)	(2,326,410,295)	10,519,253	(3,006,593,306)	(1,749,165,629)	(9,900,669,363)
UNDERWRITING RESULT(A+B+C+D)	117,041,551	8,600,272	(2,558,359,916)	(2,059,896)	3,040,870,930	(261,352,898)	(66,086,062)	278,653,980
Administrative expenses (E)	(56,855,148)	(15,793,097)	(31,586,194)	(31,586,194)	(28,816,363)	(173,724,064)	(6,317,239)	(344,678,298)
TOTAL EXPENSES (C+D+E)	(323,307,215)	(213,618,753)	(2,399,281,763)	(3,091,929,424)	(722,266,781)	(3,180,317,370)	(1,755,482,868)	(11,686,204,174)
Investment & Other Income for the half year	60,186,403	(7,192,825)	(2,589,946,110)	(33,646,090)	3,012,054,562	(435,076,962)	(72,403,301)	(66,024,318)
Profit before tax	106,877,397	10,149,000	(2,589,946,110)	136,870,777	3,712,426,603	(427,570,710)	128,378,655	1,077,185,612

17. INSURANCE CONTRACT LIABILITIES

(a) Insurance Provision	31st December 2017								
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Disaster Management	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities	Agrahara Contract Liabilities	Total	
	Notes	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Provision for reported claims by policyholders		-							-
Outstanding claims provision		158,750,607	13,391,312	624,057,943	3,189,581,238	27,723,865	290,000,000	237,443,514	4,540,948,480
Provision for unearned premiums	17.1	138,449,097	301,592,030	123,287,671	1,289,186,192	1,895,202,124		13,315,068	3,761,032,182
Provision for claims IBNR	17.2	1,337,318	34,265,077	-	316,816,811	12,130,039	14,500,001	198,826,834	577,876,079
Total insurance contract liabilities	17.3	298,537,022	349,248,419	747,345,614	4,795,584,241	1,935,056,028	304,500,001	449,585,416	8,879,856,741

17.1 Outstanding claims provision

	31st December 2017								
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Disaster Management	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities	Agrahara Contract Liabilities	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1 January	151,746,931	2,060,228	3,003,885,011	3,326,836,134	35,934,660	605,196	105,839,408	6,626,907,568	
Increase / Decrease in Provision	7,003,676	11,331,084	(2,379,827,068)	(137,254,896)	(8,210,795)	289,394,804	131,604,106	(2,085,959,089)	
31st December	158,750,607	13,391,312	624,057,943	3,189,581,238	27,723,865	290,000,000	237,443,514	4,540,948,480	

17.2 Provision for unearned premiums

	31st December 2017							
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Disaster Management	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Parliamentary Members Contract Liabilities	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1 January	105,650,425	141,051,368	74,175,824	839,080,406	1,701,990,624	12,032,877	2,873,981,525	
Premiums unearned during the period	32,798,672	160,540,661	49,111,847	450,105,786	193,211,500	1,282,192	887,050,657	
31st December	138,449,097	301,592,030	123,287,671	1,289,186,192	1,895,202,124	13,315,068	3,761,032,182	

17.3 Provision for claims IBNR

	31st December 2017							
	Motor Insurance Contract Liabilities	Non Motor Contract Liabilities	Disaster Management	Reinsurance Contract Liabilities	SRCC Contract Liabilities	Crop Contract Liabilities	Agrahara Contract Liabilities	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 1 January	(55,708,218)	1,899,737	-	84,067,842	34,963,423	148,125,925	80,998,707	294,347,416
Increase / Decrease in Provision	57,045,536	32,365,340	-	232,748,969	(22,833,384)	(133,625,924)	117,828,127	283,528,663
31st December	1,337,318	34,265,077	-	316,816,811	12,130,039	14,500,001	198,826,834	577,876,079

NOTES TO THE FINANCIAL STATEMENTS

18. RETIRING BENEFIT OBLIGATION

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

	2017	2016
	Rs.	Rs.
Balance at the beginning of the year	15,090,870	16,458,008
Add: Retiring gratuity expenses	18.1 14,569,494	(1,137,249)
Less: Benefits paid during the year	-	(229,889)
Balance at the end of the year	29,660,364	15,090,870

18.1 Retiring Gratuity Expense

Current service cost	4,042,659	3,603,644
Interest cost	1,827,504	-
Actuarial (gain)/loss	8,699,331	(4,740,893)
	14,569,494	(1,137,249)

19. RISK MANAGEMENT

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.

The above risk exposure is mitigated by diversification across a large portfolio of insurance classes. 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 and reinsurance 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.

NOTES TO THE FINANCIAL STATEMENTS

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 and insured vehicles 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 management evaluates the exposure and the new investments in instruments in order to reduce the risks.
- The regular review by the Board also minimises the credit risks.

Premium receivables

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

	Notes	2017 Rs.	2016 Rs.
Loans and receivables	9.1	1,898,174,131	2,433,292,966
Available for sale financial assets	9.2	6,263,253,661	8,701,092,379
Premium Receivables	10	2,109,164,970	1,340,840,446
Soft Loans	11	14,069,897	67,081,271
Cash in hand and at bank	14	1,133,642,497	705,205,727
		11,418,305,156	13,247,512,789

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 company's exposure to liquidity risk:

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

* Contingency fund plans are in place, to meet the emergency call of funds.

iii. Market risk

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

a) Interest rate risk

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

b) Foreign currency risk

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

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

TWELVE YEARS SUMMARY

Statement of Financial Performance
for the year ended December 31,

	2017	2016	2015	2014	2013
Revenue					
Net Earned Premium Income	11,613,828,982	8,850,506,451	7,931,485,679	8,015,628,345	5,452,318,662
Benefits, losses and Expenses					
Insurance claims and acquisition cost	(11,341,525,875)	(6,611,475,579)	(4,172,209,800)	(3,899,969,969)	(1,763,476,689)
	272,303,106	2,239,030,872	3,759,275,879	4,115,658,376	3,688,841,974
Other Revenue					
Investment Income	1,108,006,205	967,301,878	801,608,493	624,075,269	691,492,020
Interest on Soft Loans	807,908	2,078,808	3,110,618	11,937,931	5,915,955
Other Income	40,746,691	19,308,494	51,664,458	3,902,584	4,165,001
	1,149,560,805	988,689,180	856,383,568	639,915,785	701,572,977
Expenditure					
Staff Related Costs	201,433,256	164,253,318	132,494,516	84,790,542	76,487,490
Administration Expenses	143,245,042	223,714,879	93,018,399	88,128,033	64,621,143
Finance & Other Expenses	-	-	-	-	8,459,075
Total Expenditure	344,678,298	387,968,196	225,512,915	172,918,575	149,567,708
Taxation	(100,951,677)		(86,822,200)		
Income Over Expenditure after tax	976,233,935	2,839,751,856	4,303,324,332	4,582,655,585	4,240,847,242

{All Figures in Sri Lankan Rupees}

2012	2011	2010	2009	2008	2007	2006
3,886,183,341	3,606,365,031	3,926,469,856	4,019,486,220	3,427,950,662	2,654,902,681	318,902,642
(2,281,470,751)	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)	(1,736,355,732)	(1,423,044,038)	(242,465,993)
1,604,712,590	1,726,878,335	1,634,396,873	1,943,549,415	1,691,594,930	1,231,858,643	76,436,649
615,813,544	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
7,278,316	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
18,886,182	743,614	1,006,353	471,787	917,841		
641,978,043	734,319,701	816,105,721	1,380,055,889	1,225,806,111	566,978,363	
72,006,709	56,000,854	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
74,402,484	68,915,550	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
17,258,273	21,581,925	32,425,697	38,401,103	5,380,035	3,385,205	138,170
163,667,466	146,498,329	119,887,735	120,772,099	55,114,528	29,029,109	2,980,916
2,083,023,167	2,314,699,707	2,330,614,859	3,202,833,205	2,862,286,513	1,769,807,897	73,455,733

TWELVE YEARS SUMMARY

Statement of Financial Position

As at 31 December (in Sri Lankan Rupees)

	2017	2016	2015	2014	2013
Assets					
Property Plant and Equipment	40,848,693	43,058,543	34,125,797	26,251,881	19,317,968
Financial Investments	8,161,427,792	11,187,844,373	10,388,972,726	9,105,573,879	6,667,518,021
	8,202,276,484	11,230,902,916	10,423,098,523	9,131,825,761	6,686,855,988
Current Assets					
Receivable	8,619,672,838	7,096,616,002	1,222,450,075	1,416,831,322	1,686,049,990
Cash and Cash Equivalents	1,133,642,497	705,205,727	166,785,332	278,096,913	305,495,813
Current Assets	9,753,315,335	7,801,821,729	1,389,235,407	1,694,928,235	1,991,545,803
Total Assets	17,955,591,819	19,032,724,645	11,812,333,930	10,826,753,995	8,678,381,792
Equity & Liabilities					
Accumulated Fund	7,146,358,490	7,564,858,128	8,655,511,761	7,723,034,946	6,950,664,274
	7,146,358,490	7,564,858,128	8,655,511,761	7,723,034,946	6,950,664,274
Technical Reserve					
Unearned Premium	3,761,032,182	2,873,981,525	2,155,544,260	2,128,642,612	1,622,656,295
Deferred Commission	(597,083,610)	(482,908,910)	(421,132,953)	(366,621,700)	(199,173,169)
	3,163,948,573	2,391,072,615	1,734,411,307	1,762,020,912	1,423,483,126
Liability					
Non-Current Liabilities					
Government grant	-	-	-	-	66,960
Profit Commission payable	120,403,318	89,809,561	-	-	12,287,375
	120,403,318	89,809,561	-	-	12,354,336
Current Liabilities					
Claim payable	5,118,824,558	6,921,254,984	1,102,369,856	1,111,616,732	273,060,335
Other payable	2,406,056,880	2,065,729,357	320,041,006	230,081,405	18,819,722
	7,524,881,438	8,986,984,341	1,422,410,862	1,341,698,137	291,880,056
Total Equity and Liabilities	17,955,591,819	19,032,724,645	11,812,333,930	10,826,753,995	8,678,381,792

	2012	2011	2010	2009	2008	2007	2006
	24,739,202	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465	1,461,388
	5,375,914,672	4,444,546,262	5,574,107,463	8,550,206,721	7,749,178,616	5,449,343,240	
	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
	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
	103,641,397	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122	13,357,202
	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
	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
	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
	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
	1,059,398,308	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727	
	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)	
	882,865,620	801,957,122	681,819,505	846,685,740	856,318,432	716,378,490	
	66,960	142,150	284,330	719,190	719,190	719,190	719,190
	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
	12,354,336	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257	719,190
	286,078,050	392,410,772	518,000,207	329,499,921	333,321,632	602,777,397	
	74,726,585	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	360,804,635	633,101,294	760,265,557	507,483,784	639,442,967	872,469,968	431,842,361
	7,168,943,108	9,944,937,649	11,150,123,921	10,783,553,647	10,022,135,643	8,256,798,653	526,663,560



NATIONAL INSURANCE TRUST FUND