ANNUAL REPORT - 2018

NATIONAL INSURANCE TRUST FUND

CONTENTS

ABOUT NATIONAL INSURANCE TRUST FUND

OUR VISION

Safety Net and Protection for all needy sectors.

OUR MISSION

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

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

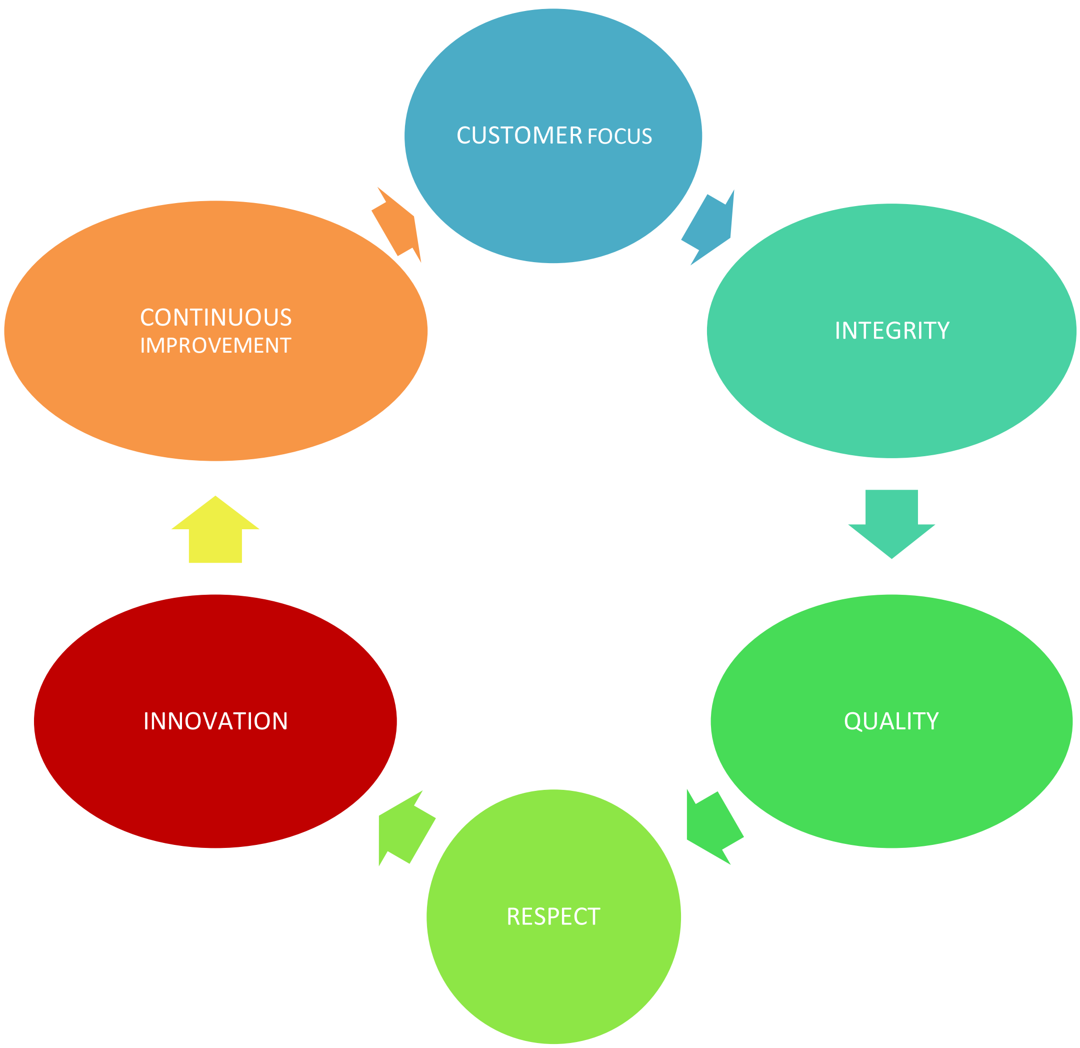
WHO WE ARE

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

Offering multiple benefits at lower premiums, a key competitive advantage, our turnaround time in relation to claim acceptance and payout is one of the best in the country. The adoption of new technologies has enhanced our internal and external efficiencies while contributing substantially towards the bottom-line.

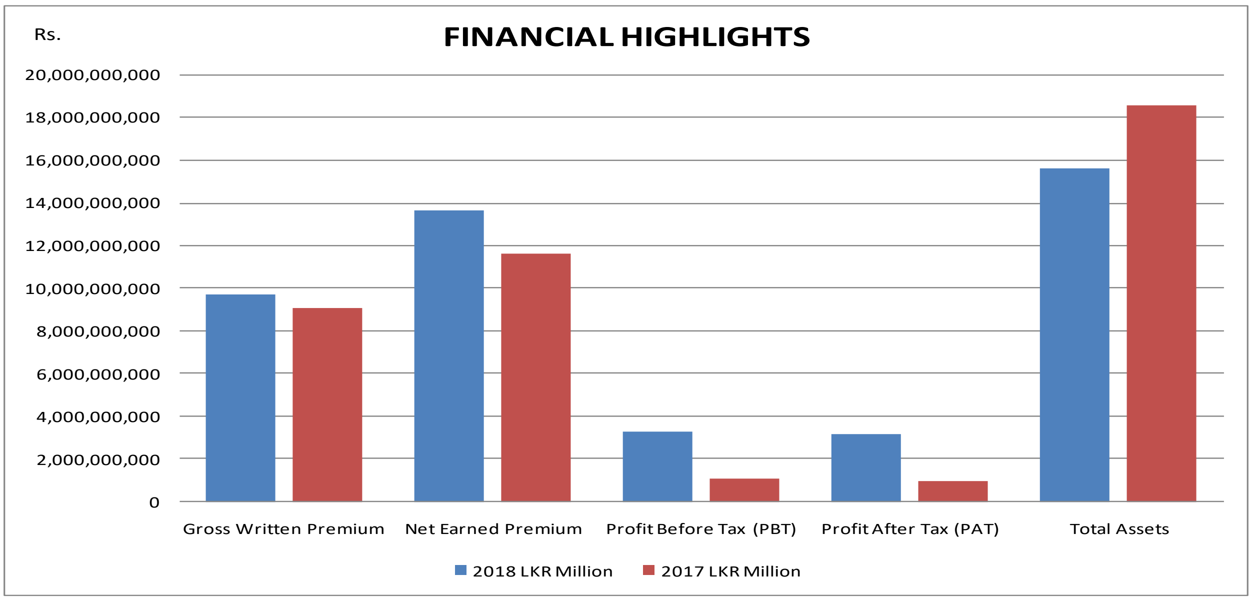
OUR CORPORATE VALUES

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



FINANCIAL HIGHLIGHTS -2018

(a) Profit After Tax	LKR 3.1 billion
(b) Total Assets	LKR 16 billion
(c) Contribution to Consolidated	LKR 2.75 billion
(c) Return On Assets	20.4%



	2018	2017
	LKR	**LKR**
Gross Written Premium	9,683,874,748	9,071,278,467
Net Earned Premium	13,653,431,467	11,613,828,982
Profit Before Tax (PBT)	3,288,839,528	1,077,185,612
Profit After Tax (PAT)	3,183,238,866	976,233,935
Total Assets	15,595,192,598	18,552,675,429
Return on Assets (%)	20.4%	5.2%

STRATEGIC OBJECTIVES

1. 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
2. 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.
3. To become the most preferred reinsurer in Sri Lanka by 2019 and the leading reinsurer in the Asian region by 2021 with a net worth of Rs. 50 Billion.
4. 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
5. 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.
6. To become the most efficient and effective health insurance provider and claim settler in the country serving both government servants and other needy groups.
7. To position NITF as the information hub and professional insurance knowledge center in Sri Lanka
8. To become the most preferred insurance provider for all government institutions by strengthening the relationship with government institutions to exploit general insurance business
9. To become socially responsible by becoming a green institution with a demonstrated commitment to environment protection
10. To establish a dynamic system which facilitate speedy claim settlement in both general insurance and reinsurance thereby providing customer satisfaction.
11. To obtain an international financial rating that portrays the financial strength and stability of NITF.
12. To establish a professional accounting and reporting system and audit function to uphold transparency.

13. To transform the restricted investment function into a dynamic operational function after obtaining authority to engage in diversified investment options
14. 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
15. To maximize the reach and visibility of NITF by using the government operational structures such as District Secretariats
16. To work in cohesion with the similar institutions existing under government sector
17. 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.

CHAIRMAN'S MESSAGE

Presentation of Annual Report 2018

I am pleased to present to you the Annual Report of National Insurance Trust Fund for its financial year ended 31st December 2018. With the nation's interest in the forefront, we have forged alliances and partnerships over the years that have served to create a significant value addition to our stakeholders. This has been instrumental in our growth from strength to strength.

Performance and Contribution of National Insurance Trust Fund

Despite operating in an insurance market which was experiencing a slowdown, NITF recorded a moderate growth in Gross Written Premium which was Rs. 9.7 billion in 2018 against Rs. 9.1 billion in 2017. Making this achievement an even more impressive one, NITF has also recorded an after tax profit of Rs 3.183 billion for the financial year 2018 against Rs. 0.976 billion in 2017. NITF also obtained a Fitch rating of AA-(lka), which confirms its financial soundness of the year 2018.

Appreciation

I would like to convey my gratitude to the Honorable Minister of Finance under whose purview this institution operates. I would also like to acknowledge the support received from the Secretary to the Treasury and all of the other Treasury officials with whom NITF interacts closely. My sincere appreciation extends to the Chairperson, Director General and officials of the Insurance Regulatory Commission of Sri Lanka (IRCSL), the regulators of the insurance industry. Finally, I would like thank my fellow Members of the Board, the Chief Executive Officer as well as the employees of NITF for their unwavering commitment and dedicated support throughout the year.

Mawahib Mowjood
Chairman
27.09.2020

CEO'S REVIEW

It is my great pleasure to announce that despite the prevailed unfavorable situation for insurance industry, National Insurance Trust Fund (NITF) has been able to record a satisfactory performance in 2018 in terms of premium growth, profit growth and customer service. The financial year 2018 was relatively commendable year from both operational and financial perspectives, when compared to the year 2017 during which the country faced large scale floods. It is also important to emphasis that NITF obtained a AA- credit rating from Fitch Rating Lanka, endorsing the resilience of NITF by reflecting the financial stability, even after payment of huge amount of claims particularly due to floods in last two years.

Financial Progress

NITF has managed its financial portfolio efficiently during the period of year 2018 to enhance its financial strength relative to 2017, while providing pleasing service to its customers. The Gross Written Premium in 2018 recorded as Rs. 9.683 billion compared to Rs. 9.071 billion in 2017, showing a growth of 6.8% in 2018 compared to 2017. 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 2018 has increased to Rs. 13.653 billion from Rs. 11.613 billion in 2017, reporting a 18% of growth.

On the other hand, the Gross Benefits and Claims incurred in 2018 has declined by 15% up to Rs. 9.763 billion which was Rs. 11.455 billion in 2017. The reason for this is due to less number of natural disasters in 2018 and occurrence of large scale flood in 2017 and subsequent increase in substantial amount of settlement for flood claims in 2017. As a result, the Total Comprehensive Income has increased to Rs. 3.303 billion in 2018 from Rs. 1.176 billion in 2017. It is a 180% increase compared to previous year.

When considering the financial position, during the year 2017 and 2018, Total Equity and Total Assets have moderately decreased from Rs. 7.146 billion to Rs. 6.956 billion and from Rs. 18.553 billion to Rs. 15.595 billion respectively. Furthermore, the Total Liabilities has also fallen down to Rs. 8.639 billion in 2018 with a 24% reduction from Rs. 11.406 billion in 2017.

The Financial Assets recorded a moderate increase of 31% from Rs. 8.161 billion in 2017 to Rs. 10.674 billion in 2018. The main reason for this increase is due to a large amount of reinsurance recoveries received from reinsurers in 2018. Further, the worth of Property, Plant and Equipment has also been reduced to Rs. 29.363 million in 2018 compare to the Rs. 39.471 million in 2017, which is a 26% reduction.

When considering the financial progress and grade of the Fitch Rating of AA-, National Insurance Trust Fund illustrated a sound financial position mainly due Total Comprehensive Income, Total Assets and AA- credit rating.

Operational Progress

In 2018, Gold and Silver membership cards have been issued to its members and Agrahara Gold and Silver schemes have been extended to semi government organizations. It has also been decided and initiated to shift the current office environment to a new premise in order to make a better working environment for employees and customer friendly institution.

Appreciation

I would like to convey my gratitude and appreciation to our Senior Management for their steady hand driving towards the achievements of 2018., and our employees for their continued dedication and loyalty to our business. 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 of Ministry of Finance and Officers of Insurance Regulatory Commission of Sri Lanka for their support during the year 2018 and look forward to serve the people contributing to the social security in a better manner, in future.

Manjula Hettiarachchi
Chief Executive Officer (Acting)
18.02.2021

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL REVIEW

The National Insurance Trust Fund is fully cognizant that NITF's operations are impacted by macroeconomic dynamics. This is because all the economic developments in Sri Lanka carry a risk of failure and this is mostly countered by obtaining insurance covers taken from insurance companies in Sri Lanka as well as from NITF. Consequently, the insurance companies transfer their risks by reinsuring 30% with NITF and the rest of the portion with the foreign reinsurer. Hence the NITF needs to review the economic and insurance industry developments in the country when it makes strategic decisions.

Sri Lankan Economy

The growth of Sri Lankan economy was unfavorable in 2018 similar to 2017. Real GDP growth was recorded at 3.2 per cent in 2018, compared to 3.4 per cent in the previous year. This growth was largely supported by services activities that expanded by 4.7 per cent and the recovery in agriculture activities, which recorded a growth of 4.8 per cent. Industry activities slowed down significantly to 0.9 per cent during the year, mainly as a result of the contraction in construction. According to the expenditure approach, both consumption and investment expenditure supported growth. Investment as a percentage of GDP stood at 28.6 per cent in 2018 compared to 28.8 per cent in the previous year, while the savings-investment gap widened during the year indicating increased dependence on external resources to fill the shortfall.

Sri Lankan Insurance Industry

Since it has been observed a downward trend of Gross Domestic Product growth rate during the year 2018 in Sri Lanka, the insurance industry too witnessed the growth rate in GWP declining from 15.3% in 2017 to 10.03% in 2018. The additional premium generated during the year was around LKR 16,546 million and recorded a GWP at year end of LKR 181,506 million. The reason for the decline could be the impact on business confidence due to economic and political uncertainties prevailed during the year. This is evident by the sharp decrease of growth rate recorded in the general insurance segment from 17.3% in 2017 to 8.3% in 2018.

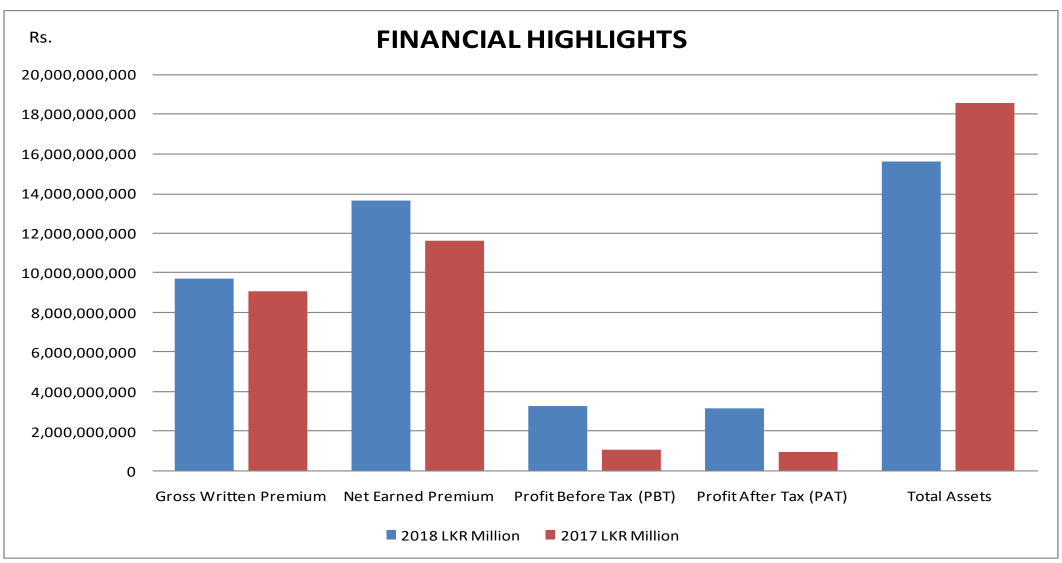
FINANCIAL REVIEW -2018

Financial highlights can be epitomized as follows.

Table: Financial Highlights

	2018	2017
	LKR	LKR
Gross Written Premium	9,683,874,748	9,071,278,467
Net Earned Premium	13,653,431,467	11,613,828,982
Profit Before Tax (PBT)	3,288,839,528	1,077,185,612
Profit After Tax (PAT)	3,183,238,866	976,233,935
Total Assets	15,595,192,598	18,552,675,429
Return on Assets (%)	20.4%	5.2%

Chart: Financial Highlights



During the year 2018, National Insurance Trust Fund recorded a Gross Written Premium of Rs. 9.68 billion against Rs. 9.07 billion in 2017. This is a moderate growth of 7.3%. Net Earned Premium recorded a substantial growth of 17.6% in 2018 by increasing to Rs. 13.65 billion in 2018 from Rs. 11.61 billion in 2017. This is mainly due to substantial increase in premium from Strike, Riot, Civil Commotion and Terrorism Fund and inward reinsurance. NITF recorded a Net Written Premium of LKR 13.35 Billion which is a moderate increase of 6.8% from LKR **12.50** Billion in **2017**.

Profit after tax increased to Rs. 3.18 billion in 2018 from Rs. 0.98 billion in 2017. Other Revenue of LKR **1.46** Billion during the period under review vis a vis LKR **1.15** Billion in **2017** was attributable to improved interest income that accrued as a result of increased liquidity which was channeled into investment coupled with a higher interest rates. The appreciation of the USD against the LKR proved beneficial to NITF in relation to the exchange gain earned on its USD denominated savings accounts as at financial year end.

Prior to the incorporation of NITF, a quantum of soft loans was disbursed out of the Strike Riot Civil Commotion and Terrorism Fund then under the purview of the Sri Lankan Government. These loans were provided at concessionary rates to large establishments who were affected by attacks during the terrorism period that prevailed. The interest income that accrued has now reduced in line with the repayment of these loans which were transferred to NITF in 2006. NITF's total assets declined to LKR **15.59** Billion, from LKR **18.55** Billion in **2017** while its total equity stood at LKR **6.96** Billion in 2018 versus LKR **7.15** Billion in **2017**.

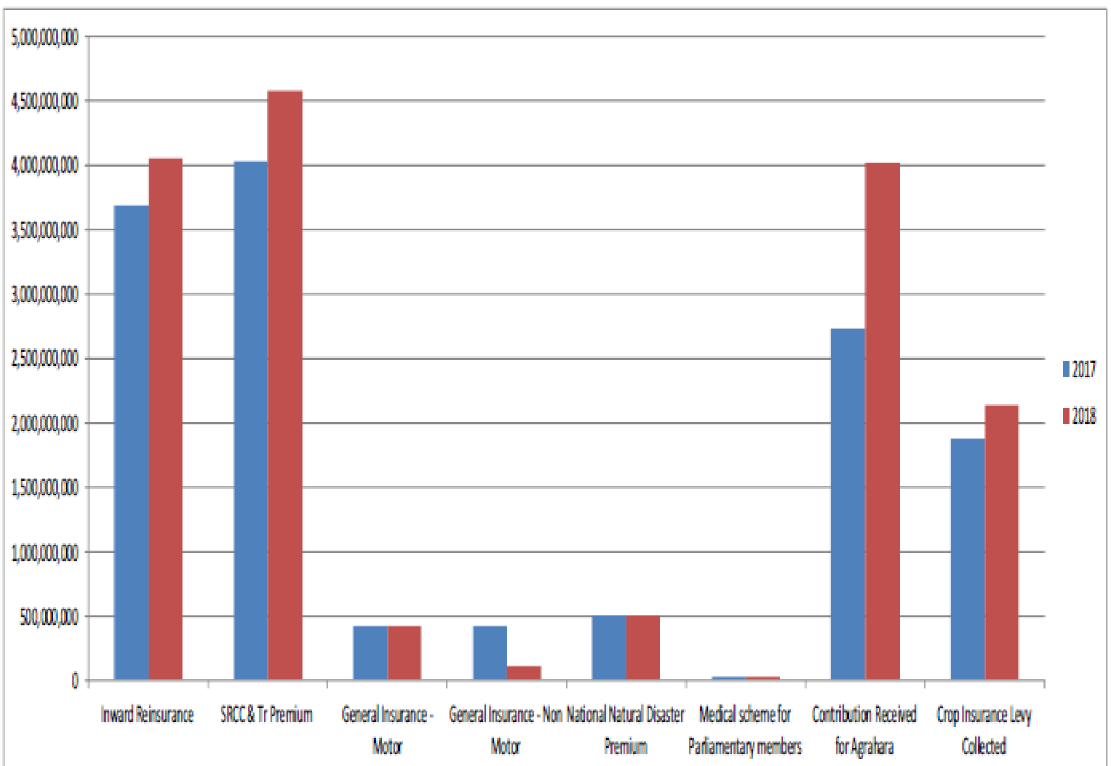
Review of Income

Income of the National Insurance Trust Fund can be dissected and illustrated as follows.

Table: NITF Income from Insurance Products 2017 Vs 2018

	2017	2018	Growth
	Rs.	Rs.	
Inward Reinsurance	3,683,389,120	4,056,395,150	10.13%
SRCC & Tr Premium	4,036,282,848	4,581,640,544	13.51%
General Insurance - Motor	417,885,956	422,117,039	1.01%
General Insurance - Non Motor	413,720,543	103,722,015	-74.93%
National Natural Disaster Premium	500,000,000	500,000,000	0.00%
Medical Scheme for Parliamentary Members	20,000,000	20,000,000	0.00%
Contribution Received for Agrahara	2,726,522,599	4,017,420,904	47.35%
Crop Insurance Levy Collected	1,878,361,459	2,138,167,676	13.83%

Chart: NITF Income from Insurance Products 2017 Vs 2018 (Rs.)



DIVISIONAL REVIEW

Agrahara Medical Insurance Scheme

'Agrahara' is Sri Lanka's largest medical insurance scheme with a membership of over 845,000. The scheme extends to families of members, which takes the coverage to nearly 2.3 million Sri Lankans. This is a contributory scheme where a nominal monthly contribution is deducted from salaries from all pensionable Government officers.

During the 2018 financial year Agrahara received a contribution of Rs. 750 million form the Treasury and collected Rs 3.28 billion through member contributions. A total payout of Rs 4.1 billion was made in medical insurance claims during the year.

Table: Classification of Revenue

	2018 LKR	2017 LKR
Contribution from members	2,979,518,379	2,154,586,499
Contribution from the Treasury	750,000,000	500,000,000
Agrahara Pension scheme	101,282,200	58,785,600
Semi Government scheme	206,620,325	13,150,500
Total contribution	4,037,420,000	2,726,522,599
Claim Expenditure	4,085,005,000	2,873,715,118
Deficit/Excess	(47,585,000)	(147,192,519)

Table: Classification of Claims

TYPE OF CLAIMS	NO OF CLAIMS RECEIVED - 2018	NO OF CLAIMS PAID -2018	OUTSTANDING CLAIMS -2018
DEATH	2,755	2,607	61
ACCIDENT	202	151	27
CHILD BIRTH	17,986	17,143	759
BRAIN SURGERY	29	29	-
CANCER	1,439	1,335	18

CARDIAC	1,074	1,060	2
PVT HOSPITAL	28,389	23,977	987
HIP REPLACEMENT	12	11	-
KIDNEY	77	68	-
KNEE REPLACEMENT	22	22	-
HEARING AID	3	3	-
PARALYSIS	8	8	-
GOV HOSPITAL	61,195	57,291	1,420
SPECTACLE	72,283	63,229	2,331
TOTAL	**185,474**	166,934	**5,605**

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 issued E-cards were to all members to enhance the efficiency of services render to Agrahara beneficiaries. In 2017 NITF started issuing separate gold and silver E-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.

Reinsurance

Reinsurance department was established in 2008 according to the gazette notification no. 1528/20 dated 19th December 2007 to accept 20% liability of reinsurance sum insured from each general insurance companies in Sri Lanka. It was continued up to 2012. In 2013, it was increased up to 30% and it has been continued up to date.

In 2018, NITF obtained back to back reinsurance cover (retrocession) to protect the NITF balance sheet in agreement of the Line Ministry and limit of reinsurance cover was 7.5 Bn. Lead reinsurer of the reinsurance panel is Renaissance Re.

In addition to retrocession cover, NITF has obtained Reinsurance covers for Natural Disaster insurance scheme to protect uninsured properties up to Rs. 15 Bn led by Renaissance Re and Reinsurance Cover for SRCC & T Fund to protect their liabilities up to 10Bn. Further NITF obtained another reinsurance cover for Agriculture Crop Insurance Scheme by AAIB.

Reinsurance	2018 Rs.	2017 Rs.
Gross Written Premium - Inward Reinsurance	4,056,395,150	3,683,389,120
Gross benefits and claims paid	(2,345,202,622)	(2,039,286,678)

Strike, Riot, Civil Commotion and Terrorism Fund

SRCC & T Fund is assigned to provide covers of Strike, Riot, Civil Commotion and Terrorism (SRCC & T) risk for those who obtain insurance covers for SRCC & T risks from the registered General Insurance companies in Sri Lanka, as per the Gazette Notification No. 1542/11 dated 25th March 2008.

In 2018, NITF obtained reinsurance cover for SRCC Fund to protect the NITF balance sheet in agreement of the Line Ministry and limit of reinsurance cover was 10 Bn. Lead reinsurer of the reinsurance panel is MS/ Chaucer Syndicate 1084.

SRCC and T Fund	2018 Rs.	2017 Rs.
Gross Written Premium - SRCCT Fund	4,581,640,544	4,036,282,848
Gross benefits and claims paid	(50,085,704)	(12,314,131)

Motor Insurance

Motor insurance scheme was introduced by the National Insurance Trust Fund for the vehicles owned by government institutions and semi government institutions since 2008. According to the government circular number PF 427 and thereafter PF 437, the motor and non-motor insurance in government owned institutions can only be placed with National Insurance Trust Fund or government owned insurance company.

National Insurance Trust Fund has expanded its service to the private customers also and from 2014 onwards premium contribution from private customers has drastically increased. National Insurance Trust Fund has introduced new insurance scheme to the Government officers including semi government officers and pensioners called “Agrahara Motor” in 2017 and it has been the major profit earning segment of the motor insurance section.

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

General Insurance - Motor	2018 Rs.	2017 Rs.
Gross Written Premium - Motor	422,117,039	417,885,956
Gross benefits and claims paid	(208,043,768)	(202,402,854)

Table: Classification of Motor Claims

Category	2018		2017		2016		2015	
	No of claims	Amount (LKR million)	No of claims	Amount (LKR million)	No of claims	Amount (LKR million)	No of Claims	Amount (LKR Million)
Private car	657	56.05	587	61.38	327	40.24	258	33.02
Motor cycle	2465	45.07	2176	35.8	1912	29.09	966	13.89
Motor coach	183	17.23	189	18.1	170	15.46	91	9.52
Lorry/land vehicle	131	9.99	116	11.28	69	3.3	51	4.34
Dual purpose vehicle	558	52.65	514	56.21	391	42.06	220	26.51
Total	**3994**	**180.99**	**3582**	**182.77**	**2869**	**130.14**	**1,586**	**87.27**

Non Motor Insurance

The General insurance business (Non- Motor) was initiated by National Insurance Trust Fund as per the gazette notification No. 1615/20 issued on 20.08.2009 and it grew steadily over the years.

NITF's General Insurance business is mainly sub divided into Fire & Engineering Insurance, Surgical Insurance, Marine Insurance and Miscellaneous Insurance.

Following table shows the number of policies issued in year 2018 and the GWP contribution of each class of business to the total GWP of the National Insurance Trust Fund.

Table: Classification of Revenue from Non Motor Insurance

Category	No of Policies	GWP (Rs. Million)
Fire & Engineering Insurance	84	23.6
Surgical Insurance	07	**36.3**
Marine Insurance	47	**1.6**
Miscellaneous Insurance	142	41.7
Total		**103**

General Insurance -Non Motor	**2018 Rs.**	**2017 Rs.**
Gross Written Premium - Non Motor	103,722,015	413,720,543
Gross benefits and claims paid-Medical & Other	(469,755,602)	(151,205,332)

National Natural Disaster Insurance Scheme

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

NITF had received LKR 500 million premium payment for 2018 of the above insurance scheme. This insurance scheme provides blanket coverage for lives and uninsured properties, specifically all households and small business establishments (any business of which annual turnover does not exceed Rs. 10 Mn against cyclone, storm, tempest, flood, landslide, hurricane, earthquake, tsunami, falling trees due to heavy winds, collapse of retaining walls and any other similar natural perils excluding drought and upto the aggregate limit of Rs. 10 billion per annum. Property damage for larger businesses and those having insured with an insurance company are excluded.

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

Natural Disaster	**2018 Rs.**	**2017 Rs.**
Gross Written Premium - Natural Disaster	500,000,000	500,000,000
Gross benefits and claims paid	(843,784,556)	(4,699,472,888)

Agricultural Loan Protection Insurance Scheme

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

GOVERNANCE AND INTERNAL CONTROL

ENTERPRISE GOVERNANCE

INTRODUCTION

Enterprise governance constitutes the entire accountability framework of the organization. There are two dimensions of enterprise governance – conformance and performance that need to be in balance.

Conformance is also called "corporate governance". It covers issues such as board structures and roles and executive remuneration. It had significant coverage in recent years following the various corporate governance scandals and there will be continuous developments in this area. Codes and/or standards can generally address this dimension with compliance being subject to audit. There are also well established oversight mechanisms for the board to use to ensure that good corporate governance processes are effective e.g., audit committees. The performance dimension focuses on strategy and value creation, helping the board to: provide strategic decisions; understand its appetite for risk and its key drivers for performance; and identify its key principles to decision-making.

Ever since the National Insurance Trust Fund was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006, its Corporate Governance practices have been carried out giving due consideration to the relevant areas of the Corporate Governance Code of Best Practices issued by Institute of Chartered Accountants of Sri Lanka and the Public Enterprises Guidelines for Good Governance and Corporate Governance practices.

THE BOARD OF NITF

According to the National Insurance Trust Fund Act No. 28 of 2006, the NITF is managed by a Board consisting of the following seven members appointed by the Minister in charge of the subject of Finance.

(a) An officer of the Ministry of the Minister to whom the subject of Finance is assigned:
(b) The Chief Accountant of the Ministry of the Minister to whom the subject of Finance is assigned:

(c) An officer of the Ministry of the Minister to whom the subject of Health is assigned:

(d) An officer from the Ministry of the Minister to whom the subject of Public Administration is assigned: and

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

The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. The names of the Board Members are given in the page of the profile of the Board Members page. The attendance details of Board meetings are given as follows.

Members of the Board	2018 Board Member's 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	✓	✓	✓		✓	✓	✓	✓		✓		✓	08/04/2015	-
Mr.Asendra Siriwardena	Ab	✓	✓		✓	✓	✓	Ab		✓		✓	02/04/2015	-
Mr.H.A.C.Kumarasinghe	✓	✓	✓		✓	✓	✓	✓		✓		✓	14/12/2015	-
Mr.P.P.S.Rohana De Silva	✓	✓	✓		✓	Ab	✓	✓		✓		✓	05/05/2016	-
Mr.N.M.D.Nawarathne	✓	✓	✓		✓	✓	✓	✓		✓		✓	31/07/2017	-
Mr.A.K.Senevirathne		Ab	Ab										22/02/2018	05/2018
Mr.K.A.Vimalenthirarajah								✓		Ab		Ab	29/08/2018	

SUPPLY OF INFORMATION

The Board Members are provided with monthly reports of performance and minutes of previous Board Meetings Board Papers, which are circulated a week prior to the Board meeting.

FINANCIAL STATEMENTS

The Financial Statements of National Insurance Trust Fund have been presented adopting the Sri Lanka Accounting Standards and other applicable laws and regulations. The NITF provide a detailed and transparent analysis of performance in it.

THE ANNUAL REPORT

The institution's Annual Report 2018 was designed to illustrate an overall view of NITF's affairs during the year 2018 in order to make informed decisions.

PROCUREMENT

The procurements of the National Insurance Trust Fund have been done using NPA guidelines and Department of Public Finance guidelines. The procurements are carried out using committees such as CAPC (Cabinet Appointed Procurement Committee), MPC (Ministry Procurement Committee), and DPC (Departmental Procurement Committee) based on the value.

THE INTERNAL CONTROL

During the year 2018, internal audit functions including the internal audit of departments of NITF and audit of the Strike, Riot, Civil Commotion and Terrorism Fund has been carried out by the Internal Audit Department.

AUDIT COMMITTEE

The year under review saw the establishment of the Audit Committee whose duties and responsibilities were formulated in line with the 'Code of Best Practice for Audit Committees' issued by the Institute of Chartered Accountants of Sri Lanka. The scope of the audit, as well as the responsibilities attached to the Audit Committee was established during 2018 as follows.

- ✓ Annual audit plans were reviewed and established.
- ✓ Internal control systems were reviewed and evaluated.
- ✓ Performance of the separate units was reviewed at intervals for the dual purpose of cost effectiveness and to minimize wasteful expenditure.

- ✓ Consistent follow up with the external auditor and Auditor General with regard to the latter's management letters.
- ✓ Checks to ensure that statutes, regulations, and circulars are complied with.
- ✓ Financial Statement checks to ensure that relevant accounting standards were complied with.
- ✓ External and internal audit reports as well as management letters were reviewed for lapses and remedial action.
- ✓ Implementation of recommendations/directives of the committee were reviewed.

The year under review was one of significant improvement in the internal controls. Internal audit reports were prepared monthly and follow up meetings held to identify all issues and concerns. Probable ways in which controls and operations could be improved to overcome identified weaknesses, and improve efficiencies and effectiveness of controls were also determined based on the risks identified. As an added measure, the internal audit team visited several insurance companies in an effort to monitor compliance with NITF rules and regulations within those establishments. During the year 2018 composition of the audit committee is as follows.

Members of the Audit Committee	
Mr.K.A.Vimalenthirarajah (Chairman)	
Mr. Trevine Fernandopulle	
Mr. Asendra Siriwardena	

External Audit

The Auditor General was appointed as the External Auditor in terms of the Constitution of the Democratic Socialist Republic of Sri Lanka and is also required to audit the accounts of Public Corporations, businesses or other undertakings vested in the Government under any written law. The Auditor General performed the annual audit of the financial statements of the company for the year ended 31st December 2018 in terms of the Constitution of the Democratic Socialist Republic of Sri Lanka

Investment Committee

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

MEMBERS OF THE BOARD OF NITF - 2018

Mr. Manjula de Silva
(Chairman)

Mr. Asendra Siriwardena
(Board Member)

Mr. Rohana de Silva
(Board Member)

Mr. K. A. Vimalenthirarajah
(Board Member)

Mr. Chandana Kumarasinghe
(Board Member)

Mr. Trevine Fernandopulle
(Board Member)

PROFILE OF THE BOARD MEMBERS

Mr. Manjula de Silva *(Chairman)*

Manjula de Silva was appointed as the Chairman on 06.04.2015. Prior to the appointment as the Chairman of NITF he was the Managing Director of HNB Assurance PLC. Manjula de Silva holds a BA Hons (First Class) degree in Economics from the University of Colombo and a MBA from London Business School, UK. He is also a FCMA (UK) and a CGMA.

He also served as a Consultant to the Ministry of Public Enterprise Development. Prior to 2015, he served as the Managing Director of HNB Assurance PLC for 9 years and as its CEO for 2 more years. He has also served as General Manager, Eagle NDB Fund Management Company Ltd (currently NDB Wealth Management) General Manager – Corporate Lines and Human Resources, Eagle Insurance Co. Ltd (currently AIA Insurance) and Director General, Public Enterprises Reform Commission (PERC). He also served as the Chairman of CIMA (Chartered Institute of Management Accountants) Sri Lanka Board in 2016 and subsequently served on its Regional Board for MESANA Region.

Mr. Rohana de Silva *(Board Member)*

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

Mr. Asendra Siriwardena *(Board Member)*

Mr. Asendra Siriwardena was appointed as a board member on 02.04.2015. He is functioning as a practicing Lawyer in 2018.

Mr. Chandana Kumarasinghe *(Board Member)*

Mr. Chandana Kumarasinghe was appointed as a board member on 14.12.2015. In 2018, he was serving as a very senior officer of the Ministry of Public Administration and Management.

Mr. Trevine Fernandopulle *(Board Member)*

Mr. Trevine Fernandopulle was appointed as a board member on 08.04.2015 and has been attending the Board meetings since 2015. He was the Deputy Chief Executive Officer of HSBC when he retired from HSBC.

Mr. N.M.D.Nawarathne *(Board Member)*

Mr. N.M.D.Nawarathne was appointed as a board member in 2017. In 2018 he served as the Chief Accountant of the Ministry of Finance.

Mr. K. A. Vimalenthirarajah *(Board Member)*

Mr. K. A. Vimalenthirarajah was appointed as a board member on 29.08.2018. Mr. K. A. Vimalenthirarajah is an officer of Sri Lanka Administrative Service, counting over 24 years of experience in the public service. During this period, he worked as the Director General, Department of Fiscal Policy. He is also an Attorney-at-Law.

CORPORATE AND SENIOR MANAGEMENT TEAM


01

Mr. Sanath C. De Silva
Chief Executive Officer


02

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


03

Ms. Nimali Pathirana
Assistant General Manager – Insurance


04

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


05

Ms. Nimali Perera
Head of Branch Supervision Department


06

Ms. Dammika Weerakoon
Head of Finance Division


07

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


08

Mr. Kavindra Jayasinghe
Head of IT Department


09

Ms. Upeksha Ekanayake
Head of Motor Underwriting Department


10

Mr. Anura Samarakoon
Head of Agrahara Department


11

Ms. Deshani Nanayakkara
Head of Reinsurance & SRCC Department


12

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

13

Ms. Ninesha Sahabandu
Head of Micro Insurance Department

14

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

15

Mr. Sithara Asanka Jayalath
Head of Administration Division

16

Ms. Gayathri Soysa
Head of Internal Audit Department

17

Mr. Namal Kanchana
Head of Investment Division

18

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

19

Ms. Gayani Siyambalagoda
Executive Secretary

20

Mr. Shamal Sumudu Senarathna
Head of Anuradhapura Branch

21

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

22

Mr. Sisitha Chandrakumara
Head of Financial Reporting Division

ENTERPRISE RISK MANAGEMENT

Introduction

Enterprise Risk Management (ERM) can be defined as the process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The key underlying principles of Enterprise Risk Management adopted by National Insurance Trust Fund include:

• Consideration in the context of business strategy

• It is everyone's responsibility, with the tone set from the top

• A focused strategy, led by the board

• Active management of risk

• Creation of a risk awareness culture

• A comprehensive and holistic approach to risk management

• Consideration of a broad range of risks (strategic, financial, operational and compliance)

• Implementation through a risk management framework or system.

Risk management is a central part of National Insurance Trust Fund's strategic management. NITF's risk management process methodically addresses the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. NITF has recognized that the focus of good risk management is the identification and mitigation of these risks. NITF's objective is to add maximum sustainable value to all the activities of the organization by understanding the potential upside and downside of all those factors which can affect the organization. When adopting Enterprise Risk Management strategies, the following prominent risks have been identified evaluating the quantum of the impact / consequence and the likelihood / plausibility of occurrence.

R01 -STRATEGIC RISK

The strategic risk is the risk of not being able to achieve the National Insurance Trust Fund's strategic goals, objectives and business plan as expected due to internal and external environment factors. In order to ensure the accomplishment of strategic objectives, the management of the National Insurance Trust Fund has been vigilantly monitoring the political, technological, socio- cultural, economic developments in the general environment and competitor and customer dynamics in the task environment of Sri Lanka related to insurance sector which may impact the strategic intent of the National Insurance Trust Fund.

R02 -BUSINESS RISK

Business Risk refer to the risk of discontinuing or decreasing of various businesses activities. Business risk of NITF has been mitigated through diversifying into many strategic business units such as Reinsurance, Crop insurance, General insurance, Strike, Riot, Civil Commotion and Terrorism insurance, Motor insurance, Agrahara insurance, etc.

R03 -LIQUIDITY RISK

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

R04 -OPERATIONAL RISK

Operational Risk is mitigated by the computerization of operations and internal audit. Internal Audit function of Strike, Riot, Civil Commotion and Terrorism Fund and other departments of NITF has being carried out by the Internal Audit Department in order to minimize the errors and discrepancies of premium collection and claims payments. Furthermore, the office operations have been computerized in order to minimize errors and discrepancies.

R05 -INTERNATIONAL RISK

International political and socio-economic dynamics have been monitored by the National Insurance Trust Fund which has direct impact on the business of the National Insurance Trust Fund. This risk has been managed by specifically monitoring international business trends related to reinsurance of NITF.

R06 -NATURAL RISK

This refers to the risk arising due to natural calamities such as rain, floods, cyclones as well as pest attacks and insects' attacks which affects crop insurance, general insurance and motor insurance. This risk is mitigated by vigilantly monitoring weather forecasts and controlling the premium accordingly. This affects insurance schemes of NITF such as NNDIS, Crop Insurance.

R07 -CONCENTRATION RISK

Concentration risk is the overall spread of an institution's outstanding financial reserves over the number or variety of debtors or financiers to whom the institution has lent money or invested. Concentration risk is mitigated by investing primarily in risk-free government securities and by dealing only in government securities through several state banks.

R09 –REPUTATIONAL RISK

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

R10 – FRAUD RISK

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

R11 -FOREIGN EXCHANGE RISK

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

R12–REINSURANCE RISK

In 2018, NITF obtained reinsurance covers at a reasonable cost to cover its reinsurance portfolio with reinsurers who have excellent financial ratings and high global ranking. In 2018, Reinsurance covers were obtained for Strike, Riot, Civil Commotion and Terrorism Fund, Retrocession Program, National Agriculture Insurance Scheme and National Natural Disaster Insurance Scheme.

SUSTAINABILITY REPORTING

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. Sustainability reporting aims at providing information to an entity on social, environmental, cultural and economic performance, and its impact, as well as the initiatives taken to improve its performance of a reporting organization. Sustainability increasingly preoccupies governments as a result of their greater awareness of threats to their national sustainability. In part due to the resultant governmental regulatory ambitions and also due to threats to their own sustainability and opportunities for innovation and cost reduction, companies are increasingly adopting the rhetoric of concern with sustainability.

Corporate Sustainability of businesses is becoming a major concern as insurance industry moved into 2018. Accordingly, NITF strives to enhance its business performance through achieving the new performance dimensions of triple bottom line which is economic prosperity, environmental and social quality and strives to be a “Well Responsible Corporate Citizen”.

NITF has substantially by way of a levy increased its contribution to the consolidated fund of the Government by contributing Rs. 2,750 million to the consolidated fund in 2018, thereby with continuing the past tradition as shown in the table below.

Table: Contribution to Consolidated Fund

Year	Amount (LKR)
2018	2,750,000,000
2017	1,500,000,000
2016	3,200,000,000
2015	3,000,000,000
2014	4,000,000,000
2013	3,200,000,000

During the year under review, NITF signed many memorandums of understanding with well renowned hospitals to enhance the quality of health care service to all Government sector employees under Agrahara health insurance scheme.

In order to serve the customers better by minimizing insolvency and credit risk and enhancing of NITF brand image, NITF has being continuously updated its Fitch rating of AA-.

REPORT OF THE DIRECTORS

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

(a) An officer of the Ministry of the Minister to whom the subject of Finance is assigned:
(b) The Chief Accountant of the Ministry of the Minister to whom the subject of Finance is assigned:
(c) An officer of the Ministry of the Minister to whom the subject of Health is assigned:
(d) An officer from the Ministry of the Minister to whom the subject of Public Administration is assigned: and
(e) Three persons to be nominated by the Minister from among persons possessing qualifications or expertise in the fields of finance banking, insurance management or law.

The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. During the year 2018, 9 Board Meetings have been held and Members of the Board have maintained excellent records of attendance at the meetings. The attendance of the members of the Board at the Board Meetings is detailed as follows;

Members of the Board	2018 Board Member's 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	✓	✓	✓		✓	✓	✓	✓		✓		✓	08/04/2015	-
Mr.Asendra Siriwardena	Ab	✓	✓		✓	✓	✓	Ab		✓		✓	02/04/2015	-
Mr.H.A.C.Kumarasinghe	✓	✓	✓		✓	✓	✓	✓		✓		✓	14/12/2015	-
Mr.P.P.S.Rohana De Silva	✓	✓	✓		✓	Ab	✓	✓		✓		✓	05/05/2016	-
Mr.N.M.D.Nawarathne	✓	✓	✓		✓	✓	✓	✓		✓		✓	31/07/2017	-
Mr.A.K.Senevirathne		Ab	Ab										22/02/2018	05/2018
Mr.K.A.Vimalenthirarajah								✓		Ab		Ab	29/08/2018	

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.

Principal Activities and Business Reviews

Principal activities of NITF in 2018 were the implementation of Medical Insurance Scheme for Public Officers (Agrahara), Compulsory Reinsurance Scheme, Parliamentary Members Insurance scheme, Motor Vehicle Insurance Scheme, General Insurance Schemes, National Natural Disaster Insurance Scheme, Agricultural Loan Protection Insurance Scheme and Management of Strike, Riot, Civil Commotion & Terrorism Fund (SRCC&TF).

Financial Results

In 2018, NITF recorded a Gross Written Premium of LKR 9,684 Million. The GWP registered a marginal increase relative to 2017 GWP of LKR 9,071 Million mainly due to increase in premium received from reinsurance and Strike, Riot, Civil Commotion and Terrorism Fund in 2018. During 2018, NITF earned a Profit after Tax of LKR 3,183 Million.

Employees

The staff strength of NITF as at 31.12.2018 was 238.

Auditors

The financial statement for 2018 of the NITF was audited by the Auditor General in terms of Financial Act No. 38 of 1971.

Audit Committee

During 2018, the Audit committee (AC) comprised of three Non – Executive Directors; namely, Mr. K. A. Vimalenthirarajah (Chairman) – (Director General – Department of Fiscal Policy -2018), Mr. T. R. Fernandopulle and Mr. Asendra Siriwardena.

The Audit Superintendent appointed for NITF from Auditor General's Department too attended meetings as an observer on the invitation of the committee. The proceedings of the committee meetings are recorded with adequate details and are reported regularly to the Board of Directors.

The internal audit plan was presented and approved by the Audit Committee. During the year 2018, the internal audit of all departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund were carried out by the Internal Audit Department.

Corporate Governance

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

Mawahib Mowjood
Chairman

Gayathri Soysa
Secretary (Acting) to the Board

03rd October 2021
Colombo

FINANCIAL REPORTS

AUDITOR GENERAL'S REPORT

Report of the Auditor General on the affairs of the National Insurance Trust Fund including the Financial Statements for the year ended 31 December 2018 in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka

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1.1 Qualified Opinion

The audit of the financial statements of the of National Insurance Trust Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance , statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management

AUDITOR GENERAL'S REPORT

determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

1.4 Scope of Audit

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

AUDITOR GENERAL'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

AUDITOR GENERAL'S REPORT

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
(i.)	In terms of Section 20 of Sri Lanka Accounting Standard 07, the net cash flow generated through the operating activities should be shown by indicating the changes of the period relating to the items of income, and expense, and the receivable and payable values of stocks and operating activities, disclosed in the statement of comprehensive income. Nevertheless, the net cash flow generated through the operating activities had been shown in the cash flow statement of the Fund by making adjustments for 02 items worth Rs. 627,653,598 which had not been adjusted for the pre –tax profit through the statement of comprehensive income	This is an error occurred during the presentation of financial statements. This issue does not cause any effect whatsoever either on the financial result or financial position. Details are as follows. **Net Fair Value Changes – Rs. 399,633,151** Action will be taken in due course to adjust this item to the net cash flow generated through the investment activities instead of being adjusted to the net cash flow generated through the operating activities. **Prior Year Adjustment - Rs. 228,020,447.** Action will be taken in due course to make adjustments for this item as changes in the operating assets or operating liabilities instead of being adjusted to the pre-tax profit in the net cash flow generated through the operating activities.	Presentation should be made in accordance with the Standard.
(ii.)	According to Section 16 of the Sri Lanka Accounting Standard 16 relating to Property, Plant and Equipment, if an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease of Rs. 2,102,126 in the carrying amount of the assets	A profit had resulted in the revaluation process carried out in the year 2018. The net values, arisen out of the revaluation profit being brought to accounts in the wake of selling the vehicle on 2018/08/06 and the loss incurred when revaluing the other	Presentation should be made in accordance with the Standard.

AUDITOR GENERAL'S REPORT

	with respect to the revaluation carried out by the Fund for the year 2018, had not been recognized as an expense when computing the profit of the Fund without a revaluation excess relating to the preceding years; instead, the said decrease had been shown after being deducted from the other comprehensive income.	assets, had been adjusted in the comprehensive income.	
(iii.)	In terms of Section 114 (c) Of the LKAS 01 relating to the presentation of financial statements, supporting information for items presented in the statements of financial position, the statement of comprehensive income, statement of changes in equity, and cash flow statement in the order in which each statement and each line item is presented, should be provided in notes to assist users to understand the financial statements and to compare them with financial statements of other entities. Furthermore, disclosures should further be made on the computation of income tax in accordance with LKAS 12. However, due to failure of the Fund in disclosing income tax liability through a note in the financial statements, it was not verified that such requirements had been complied with.	Action will be taken in due course to make disclosures in terms of LKAS 12 relating to income tax.	The Standard should be adhered to.

AUDITOR GENERAL'S REPORT

1.5.2 Accounting Deficiencies

	Audit Observation	Comment of the Management	Recommendation
(i)	A sum of Rs. 1,813,322,777 had been granted in the year 2018 for paying compensation to the Agricultural and Agrarian Insurance Board. The Fund maintains an account with allocations for paying compensation whilst an account for changes in liabilities are also maintained for compensation on the insurance of crops. Only the transactions performed in the month of November had been shown in both of the accounts whereas allocations for December had not been included. As such, the allocations totaling Rs. 62,761,857 made on the compensation for insurance on cultivations relating to November that had been paid to the Board on 14 and 26 December, were shown as the closing balance of the account.	The AAIB had not informed on the necessity of paying additional compensations in December 2018. Hence, action had been taken to maintain the allocations made in November unchanged.	Accounts should be prepared based on accurate information.
(ii)	A credit balance of Rs. 20,444,071 relating to 03 Institutions had existed in the installment income receivable to the Reinsurance Division as at 31 December 2018, but no further action had been taken in that connection.	Such a credit balance could result in due to indemnity payments recoverable to them is higher than the receivable installment income. Action had been taken since 3rd quarter of the year 20019 to compare the balances and take action accordingly.	Accounts should be settled with comparisons made constantly.

AUDITOR GENERAL'S REPORT

(iii)	As for the recovery of premiums from the insurance companies in regard to the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC & TR) Fund (as pointed out by internal audit reports of the Fund), a difference of Rs. 8,490,385 was observed during the audit conducted on the premiums of a certain company between the premiums paid to the Fund and the actual amount payable .	A systematic methodology exists for the recovery of SRCC & TR premiums. Methods for paying premiums are clearly stated in the register named " Limits & Rates for SRCC & TR" issued annually. The internal audit also observes the necessity for the methodologies to be even accurate and efficient, and those observations are another methodology being used in the collection of premiums.	Premiums should be recovered by following a proper methodology.
(iv)	A difference of Rs. 9,072,974 was observed between the age analysis of debtors and the balance of the ledger account of the Reinsurance Division relating to the receivable premium income	The following reasons were attributable to the difference between the age analysis and the ledger balance of the reinsurance premium receivable. (a) This AAI balance continued to exist from the year 2012. Often, the requests for compensation and receipts of premiums are settled by setting off the receivable balances and payable balance. Action has been taken to obtain approval of the Board of Directors in order to write of the said balance. (b) The sum of Rs. 2,101,338.06 repayable to the companies, AAI and MBSL, had been corrected in February 2019. (c) The unidentified balance of Rs. 19,610.19 had also continued to exist over an extensive	Accounts should be settled with comparisons made constantly.

AUDITOR GENERAL'S REPORT

		period. Approval of the Board of Directors had been sought to write off.	
(v)	Due to the considerable differences between the dates of receipts of daily cash deposits at the District Secretariats and the dates on the receipts issued by the system, a value of Rs. 2,502,32 shown in the financial statements that should have been credited to the income of the year 2018, had been recognized as an income of the year 2019.	Action has already been taken to minimize such inefficiencies. The said weaknesses will be avoided in due course.	The correct income should be brought to accounts.
(vi)	According to the agreement entered into between the Fund and the reinsurance company with respect to the period from 2018.03.31 to 2019.03.31, annual premiums totaling Rs. 98,670,792 had been paid. Of that, the value of a premium per quarter amounted to Rs. 24,667,698, but a sum of Rs. 24,329,784 had been allocated as premiums not earned; as such, the unearned premiums had been understated by Rs. 337,914 in the cultivation reinsurance account and unearned premium reserve account.	This is an error in the basis of computation. The 365 day basis had been followed in accounting the unearned premium income. It is noted to take measures to minimize such errors in due course.	Accounts should be prepared based on accurate information.
(vii)	According to the confirmation of balances presented to the Audit by a certain reinsurance company, the amount payable to the Fund as at 31 December 2018 had been stated as nil. Nevertheless, a sum of Rs. 147,376,867 had been shown in the financial statements of the Fund as being receivable from that institution. Thus, a	In the backdrop of floods occurred in the year 2016, the reinsurance compensation receivable from SIB amounted to Rs. 1,147,376,867. It was certified by the foreign reinsurance broker that the said amount had been remitted to the SIB by the relevant reinsurance companies. It is hence verified that	Accounts should be prepared based on accurate information.

AUDITOR GENERAL'S REPORT

	difference of Rs. 147,376,867 had been observed between the confirmation of balances and the financial statements.	the said balance was correct. It is informed that a sum of Rs. 19,993,473 still remains payable to us by the SIB.	
(viii)	According to those confirmation of balances, the balance receivable from the Fund amounted to Rs. 309,562,947 as at 31 December 2018. Nevertheless, such an amount had not been shown as being payable in the financial statements of the Fund. As such, there existed a difference of Rs. 309,562,948 between the financial statements and the confirmation of balances.	It is informed that, as at 2018.12.31, a sum of Rs. 309,562,948 had not remained payable as per our books of account.	The issue should be resolved by making adjustments correctly.
(ix)	The gross income should be shown in the financial statements as the investment income of the Fund ,but the net income had been shown in the accounts. Due to failure in making adjustments at the end of the year in regard thereto, the investment income had been understated by a sum of Rs. 128,781,294 in the financial statements.	Not replied.	Accounts should be prepared based on accurate information.
(x)	The distress loan balance of Rs. 33,593,020 shown in the financial statements had been shown as Rs. 34,364,395 as per the schedules presented to the Audit. As such, a difference of Rs. 771,375 was observed.	The difference between the balances of financial statements and the registers continued to exist from the preceding year. Remedial action will be taken in due course.	The issue should be resolved by making adjustments correctly.
(xi)	The festival advance balance of Rs. 773,506 shown in the other non-financial assets had been shown as Rs. 616,702 as per the schedules presented	The difference between the balances of financial statements and the registers continued to exist over	The issue should be resolved by making adjustments correctly.

AUDITOR GENERAL'S REPORT

to the Audit. Thus, a difference of Rs. 156,804 had existed between the financial statements and the schedules.	several years. Remedial action will be taken in due course.

1.5.3 Lack of Documentary Evidence for Audit

	Item	Amount	Audit Evidence not Made Available	Comment of the Management	Recommendation
		Rs.			
(i)	Sum receivable to the reinsurance companies.	1,321,391,889	Letters of confirmation of balances.	After being queried by you in this connection, action has been taken to obtain confirmation of balances from the relevant parties.	Letters of confirmation of balances should be presented.
(ii)	Sums receivable – reinsurance.	9,053,364	Detailed schedules.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, a paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.
(iii)	Inter-department transactions – distress loan balance.	3,462,112	Evidence for the settlement.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.

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(iv)	Cheque return – Car ACC Motor.	585, 481	Source documents.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.
(v)	Payable deposits.	270,049	Detailed information.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions, etc.

	Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(a)	Public Administration Circular, No. 07/2015	The maximum amount that can be granted as festival advance is Rs. 10,000. However, the Fund had paid a sum totaling Rs. 3,229,139	The festival advance equivalent to the monthly basic salary had been given since the inception of the Institution. Likewise, festival advance had also been given in the year 2018 under	It is necessary to follow the instructions of the Circular.

AUDITOR GENERAL'S REPORT

		as festival advance to 117 employees based on the basic salary.	the approval of the Board of Directors.	
(b)	Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka.	The ad hoc Sub-Imprests obtained should be settled immediately after completion of the intended purpose. However, 13 Sub-Imprests issued in the year 2018 totaling Rs. 448,000 had been settled after a period of 01 – 4 ½ months.	Even though the ad hoc Sub-Imprests obtained should be settled immediately after completion of the intended purpose, the settlement of 13 Sub-Imprests obtained had been delayed. Action will be taken in due course to minimize delays.	Action should be taken in accordance with the Financial Regulations.
(c)	Financial Regulation 396.	The value of cheques that should have been paid in the year 2008 but not presented amounted to Rs. 60,752,249. That indicated an increase by Rs. 53,891,837 equivalent to 786 per cent as compared to the year 2017. That amount included Rs. 57,436,510 being the value of cheques not presented despite being issued in the year 2017 with respect to the National Natural Disaster Insurance Scheme. A period of one year elapsed since the date	In order to revalidate the non-presented and expired cheques issued to NNDIS, the Divisional Secretariats were informed that those chques be sent to us promptly. Accordingly, they are already taking measured in that connection. Furthermore, the cheques sent to the Institute for extending the period were promptly dispatched to the Divisional Secretariats after being extended. However, as those cheaques were not received by the insurees., the balance of this account increased.	The Financial Regulations should be followed.

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		of issuing those cheques.		
(d)	Financial Regulation 139 and 187.	When payments are made for the vouchers through cheques, the paying officer should ensure that the bank balance is sufficient for all the payments. However, as cheques had been issued without considering the bank balance in that manner, the value of cheques not presented despite being issued as at 31 December 2018, totaled Rs. 9,837,431 whereas the bank balance amounted to Rs. 6,224,696 as at that date. Had the chques been cleared as at that date, it was observed that an overdraft would have been resulted in .	As for the Current Account, No. 82727165 being maintained at the Bank of Ceylon, a difference in the balance existed between the cash book and the bank account as at 31 December 2018. Although this balance was unfavorable in accordance with the cash book, the actual bank balance was a favorable one. This is only a nominal bank overdraft.	Risk should be mitigated in accordance with the Financial Regulations.
(e)	Paragraph 04 of the Gazette Extraordinary, No. 1542/11 of the Democratic Socialist Republic of Sri Lanka, dated 25 March 2008.	The funds in the special account maintained on the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC) Fund could be utilized only for the expenses mentioned in	It is pointed out that the funds of SRCC had been used on : payment of compensation, payment of reinsurance premiums, salaries and wages of employees, administrative expenses, maintenance, other expenses, and building rents.	Action should be taken in accordance with instructions of the Gazette Extraordinary.

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		the Paragraph. However, without doing so, it was observed that a sum totaling Rs. 69,708,220 had been utilized in the years 2018 and 2019 on the expenses not relevant thereto.		
(f)	Guidelines for presenting applications to claim rights of NNDIS.	The following instances were observed in which the Guidelines on the National Natural Disaster Insurance Scheme implemented by the Fund to provide protection against natural disasters, had not been followed. (i) The applications to claim rights had been presented sans the signature and rubber stamp of the Divisional Secretariat.	Signature or the rubber stamp had not been placed on a very few number of applications. However, those applications were similar to the ones with signature and the rubber stamp, and it was necessary to efficiently make payments with respect to a large number of applications during that period. As such, only the signature and the rubber stamp were examined comparatively before making payments.	Payments should be made based on formal Guidelines.
		(ii) As for the applications to claim rights in excess of Rs. 500,000, the risks should be assessed by an	Assessments had been made by the relevant housing committee with respect to applications claiming rights in excess of Rs. 500,000. 00. So far, before making payments for the applications with higher	The Guidelines should be followed.

AUDITOR GENERAL'S REPORT

	engineer. However, the Fund had not done so.	values, a risk engineer has been referred.	
(iii)	The dully filled applications had been presented without providing sufficient documents.	When the ownership was ascertained in regard to the properties affected, it was not restricted only to the deeds. Instead, the documents approved by the officers of the housing committee and the Divisional Secretariat were taken into consideration, and the payments were made. Payments were also made for some of the applications of which photographs could not be obtained, with knowledge of the relevant officers on humanitarian grounds. However, as of now, all the documents are properly examined before making payments.	The Guidelines should be followed.
(iv)	No compensation had been paid under the National Natural Disaster Insurance Scheme for the temporary shelters, cottages, or other non-permanent constructions. However, the	Those payments had been made only for the residences with Assessment Numbers under the Assessment divisions. It is the main objective of this insurance scheme to protect the civilians living in areas with economical risks.	Payments should be made in accordance with Laws, and Rules.

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	Fund had not paid in that manner.	

2. Operating Review

2.1 Uneconomic Transactions

	Audit Observation	Comment of the Management	Recommendation
(i)	A sum of Rs. 290,000,000 had been requested by the Agricultural and Agrarian Insurance Board on 02 February 2018. A fixed deposit in which a sum of Rs. 780,000,000 had been invested at the interest rate of 7.15 per cent was credited to the Crop Levy Current Account by the Fund before reaching maturity. Of that a sum of Rs. 149,134,697 was withheld and only Rs. 140,865,303 was released.	As there were no short-term deposits, the said deposit was transferred before reaching maturity to the account, thus taking action to pay compensation promptly.	A formal methodology should be followed.
(ii)	Furthermore, the Agricultural and Agrarian Insurance Board had again requested a sum of Rs. 250,380,277 . A fixed deposit in which a sum of Rs. 97,000,000 had been invested at the interest rate of 8.55 per cent was credited to the Crop Levy Current Account by the Fu on 01 November 2018 by the Fund before reaching maturity. Of that a sum of Rs. 21,675,815 was withheld and only a sum of Rs. 75,324,185 was released to		A formal methodology should be followed.

AUDITOR GENERAL'S REPORT

	Audit Observation	Comment of the Management	Recommendation
	the Agricultural and Agrarian Insurance Board.		
(iii)	According to the Agreement entered into between the Union of Post and Telecommunication Officers and the National Insurance Trust Fund, the Fund retains a deposit valued at Rs. 39,600,000 for the Union. Thus, the Fund lost the opportunity to earn benefits by investing those monies.	As a building can not be retained without an initial deposit as per the Agreement, the deposit was released to the Union of Post and Telecommunication Officers under the approval of Cabinet.	The funds should be utilized optimally.

2.2 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(i)	The sum of Rs. 42,434,299 being the commission payable on the sales invoices of the Reinsurance Division of the Fund for the year 2015, had not been settled even by 06 May 2016.	As the premiums receivable for the invoices of the Reinsurance Division had not been received from the relevant institutions, the said commissions payable could not be settled. This has been forwarded to the Board of Directors in order to be written off.	Action should be taken to settle the balances.
(ii)	As revealed in the examination conducted on the receipts after the date of balance sheet relating to premium income receivable to the General Insurance - Non-motor Division as at 31 December 2018, outstanding balances totaling Rs. 5,730,959 existed even by March 2019.	A sum of Rs. 31,474,963.35 had been recovered by 2019.03.31. The relevant insurees are informed on the receivable balances with respect to the rest of the receivable income. Action will be taken further in due course to recover those balances.	Action should be taken to settle the balances.

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(iii)	It was observed that the payment of unsettled claims (non motor) totaling Rs. 18,509,275 relating to the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC) Fund during the period 2007 – 2015, had remained without being settled even by 31 July 2019.	A paper has been presented before the meeting of the Board of Directors in order to write off from books the payment of claims not settled so far. Action will be taken in due course accordingly.	Action should be taken to properly settle the balances.
(iv)	Due to reasons such as, failure of the Fund in maintaining a database containing information of the members of the Agrahara insurance, and deficiencies in the methodology used to settle the claims to the relevant applicants, balances totaling Rs. 8,319,124 existed without being settled even by May 2019.	A sum of about Rs. 5,500 million per year is directly credited to the accounts through inter-bank payments (SLIPS). Of that, 0.1 per cent is returned without being credited. Action will be taken in that connection following the approval of the Board of Directors.	A formal methodology should be followed.
(v)	The repayable premium balance of Rs. 3,843,488 continued to exist from the year 2007 with respect to the SRCC Division of the Fund, had not been settled even by 31 May 2019.	A paper has been presented to the Board of Directors for writing off this balance continuing over several years. Action will be taken in the future accordingly.	Action should be taken to settle the balances.
(vi)	As the cheques issued on the payment of compensation for Agrahara had been cancelled, the sum of Rs. 2,632,770 recognized as a balance receivable as at 31 December 2018, had remained unsettled even as at the date of audit on 08 May 2019.	It is informed that measures have been taken to recover the balances efficiently, and the state institutions have been apprised for the ensuing year.	The balances should be settled by following a proper methodology .
(vii)	The balance of Rs. 1,073,351 payable by the Fund to the insurees as at the end of the year	A paper has already been presented to the Board of Directors in regard of the future	Action should be taken to settle the balances.

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	2015, had remained unchanged reaching Rs. 1,513,897 by the end of the years 2016, 2017, and 2018. As such, the Fund had not taken action to settle that balance continued to exist over 04 years.	action to be taken on the balance of Slip Return Control Crop Insurance account. Action will be taken based on the decision of the Board of Directors.	
viii)	A balance of Rs. 1,640,828,796 should have existed in the crop insurance account of the Fund as at 31 December 2018. However, according to the report furnished to the Audit by the financial manager of the Fund, the remaining balance of the Fund amounted to Rs. 1,641,687,854 as at 31 December 2018. The Audit queried as to the assets on which those funds were utilized, and as per the information made available in that connection, it was observed that a net value of Rs. 1,462,969,344 therefrom were the monies issued to other insurance divisions. Nevertheless, instructions had been given in the Instructions, No. IBSL/DG/SUP/17/06/233 issued by the Insurance Regulatory Commission of Sri Lanka on 28 June 2017 that the funds of each division should be utilized on the objectives of their establishment.	The said value was included in the funds released to other insurance divisions. It is the generally accepted methodology for all the institutions to exchange funds between divisions in regard to temporary requirements of funds. Our institution too has granted funds to other divisions for the payment of indemnities from the Crop Levy Fund.	Payments should be made in accordance with Laws, and Rules.
(ix)	The Fund gives a Format on quarter an annual basis to the institutions liable to pay tax on crops whilst reminders are also sent informing on the penalties to	Although a separate account had not been maintained for the penalties recovered, the penalties received had been brought to accounts. Nevertheless, a separate	A proper methodology should be followed.

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	those delaying payments. However, apart from the penalties recovered being shown in the crop insurance-tax income account, no action had been taken with respect to account the recovered penalties in a separate account, compute and account the penalties receivable, and formulate a methodology as to the action to be taken on the institutions delaying / defaulting on the payment of tax.	ledger account has been opened since the year 2019 in order to account the penalties. Action will be taken in due course to properly account the penalties receivable.	
(x)	The facts that 06 institutions had not recovered the crop insurance tax amounting to Rs. 2,386,165 for the year 2017/18 along with the penalties thereon amounting to Rs. 270,313 even by the date of audit on 30 August 2019, and no further action had been taken by the Fund for the recovery of those penalties, were observed in the audit test check.	The institutions mentioned in the query had not recovered the crop insurance tax for the year 2017/2018 and the penalties thereon even by the date of audit on 30 August 2019. The Board had taken measures to send reminders to those institutions.	A methodology should be followed for the efficient recovery of income.
(xi)	As at 31 December 2018, there existed 189 unresolved cases relating to the Fund. The total value of consideration requested therefor amounted to Rs. 773,579,952. It was observed that certain cases were continuing over many years.	There are many steps to be followed from the date of filing a case until the verdict is returned by the court. Our Legal Division is not capable of concluding the cases by neglecting those steps.	Special attention should be drawn on the unresolved cases.
(xii)	Performance as per the Action Plan. The performance of each division in accordance with the Action Plan, is as follows.		

AUDITOR GENERAL'S REPORT

I. Reinsurance Division

(i)	It was planned in the Action Plan to obtain reinsurance coverage for the motor and non-motor general insurances in the year 2018. However, the Fund had failed to conclude that task even by the date of audit.	Procurement activities are taking place in order to obtain reinsurance coverage for the motor and non-motor general insurances for the year 2019/2020.	Tasks mentioned in the Action Plan should be executed properly.
(ii)	It had been planned to automate the process of reinsurance and payment of indemnities including the generation of system report. However, that task had not been commenced even by the date of audit.	The process of reinsurance and payment of indemnities has been automated up to 75 per cent. Due to diversity in paying indemnities and complexity, certain payments are made manually. It is confirmed that following the said manual system for those payments is easy and accurate as compared to the existing system.	Tasks mentioned in the Action Plan should be executed.
(iii)	It had been planned to conduct one awareness programme on reinsurance coverage at international level and 04 awareness programs (one for each quarter) locally for the year 2018. Nevertheless, it was observed that at least one such programme had not been conducted even up to the date of audit on 14 May 2019.	Four types of procurements had been made in the year 2018 with respect to reinsurance. Maximum contribution had to be made in that connection in a broader and practical manner with every possible expertise, and considering the necessity thereof, it was not possible to spend much time on such awareness programs.	Tasks mentioned in the Action Plan should be completed.

AUDITOR GENERAL'S REPORT

II.	General Insurance – Non-motor		
(i)	It had been planned to enhance the existing insurance policy to a consolidated foreign insurance policy within the year 2017. However, it had not been implemented even in the year 2018; instead, the timeframe had been extended up to the year 2019.	A reinsurance cover could not be obtained in the year 2017 to enhance the foreign insurance policy planned for the year 2017. Procurement activities are taking place in that connection.	Tasks mentioned in the Action Plan should be completed.
(ii)	It had been planned to establish a general health insurance scheme for every sector under the Agrahara insurance, but it had been implemented only in the semi-Government sector whereas contribution of the private sector had not been obtained.	Priority was given in the year 2018 to provide Agrahara insurance for the pensioners retired prior to 2016. At present, Cabinet approval is sought in that connection. This will be implemented once the funds are allocated in the budget.	Tasks mentioned in the Action Plan should be completed.
III.	Finance Division		
	It had been planned in the year 2017 to divide the Fund as reinsurance and general insurance. However, the activities in that regard had not been completed even by the year 2019.	As the restructuring of public finance is done with the cooperation of representatives of the World Bank, the plans could not be completed on time as expected since the plans of the World Bank representatives had to be adhered to.	Tasks mentioned in the Action Plan should be completed.
IV.	Natural Disasters		

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This division had planned to establish a disaster pool for the insurance industry thereby expecting to execute the activities such as, presenting the Chief Executive Officer with a report of information, apprising the insurance industry of the benefits gained through that pool, preparing ranks, preparation of a framework for disaster pool, and establishment of a Technical Evaluation Committee. Nevertheless, no activity whatsoever had been carried out in that connection even up to the date of audit, 14 May 2019.	Albeit proposed to maintain an insurance finance pool relating to the natural disasters, it could not be implemented in the wake of negative response from the insurance industry. Attempts are further made in this connection.	Tasks mentioned in the Action Plan should be completed.
V. Agrarian Insurance and Micro Insurance.		
It had been planned in line with one of the main objectives mentioned in the National Insurance Trust Fund Act, No. 28 of 2006 to introduce insurance policies through micro insurance covering migrant workers, persons employed in livestock , self-employed persons, estate workers, and farmers. However, no action had been taken in that connection even up to the date of audit.	As insurance policies are provided for the migrant works by the Sri Lanka Bureau of Foreign Employment, quotations should be called from that institution. The insurance policy named "*Govi Divi Aruna*" had been introduced for the farmers and this is implemented by the Anuradhapura Branch as a pilot project. Action will be taken in due course to implement this policy through the other branches as well.	Tasks mentioned in the Action Plan should be completed.

AUDITOR GENERAL'S REPORT

		By making use of the crop levy, Provision is granted to the Agrarian Insurance Board as well in order to make payments for the farmers on the damages to the crops.	
VI.	Information Technology Division.		
	It had been planned to establish a new system for the Information Technology Division in accordance with the annual Action Plan. It was scheduled to conduct a review , decide on the inefficiencies, and carry out an evaluation by using external resources in that connection. However, no further action was taken thereon.	The University of Moratuwa agreed to present a proposal to us to provide consultancy services. Accordingly, the proposals given by them will be forwarded to the Board of Directors thereby taking further action.	Tasks mentioned in the Action Plan should be completed.

2.3 Management of Procurement

	Audit Observation	Comment of the Management	Recommendation
(i.)	A reinsurance agreement had been entered into between the Fund and the reinsurance institution with effect from 2018.03.31 until 2019.03.31 and a sum of Rs. 98,670,792 had been paid during the year. Nevertheless, procurement information relating to the selection of reinsurer and the said reinsurance agreement, was not available with the Fund.	Having obtained a reinsurance under the Cabinet Paper, No. 18/0524/728/017/TBR following the Cabinet Decision, dated 27 March 2018, thirty per cent of the liability has been transferred to the National Insurance Trust Fund. The procurement files relating to the selection of said reinsurer and the reinsurance agreement are in the possession of Agricultural and Agrarian Insurance Board.	All of the important documents should be maintained.

AUDITOR GENERAL'S REPORT

		Accordingly, such information could be obtained from that institution.	
(ii.)	A physical inspection and a revaluation had been done on the fixed assets in the year 2018 by incurring a cost of Rs. 1,838,208, but this had not been mentioned in the Procurement Plans for the years 2017 and 2018. According to the information in the bid document, letters had been sent to 05 institution calling for quotations. However, the basis for selecting those institutions, was not certain in audit. Quotations had been called for this procurement on 10 July 2017, but it was observed that a bidder had been selected after 06 months on 23 January 2018.	It is vital to revalue the assets and update the Register of Fixed Assets. As such, this was done albeit not mentioned in the Procurement Plan. Proposals had been called from 05 auditors well-known in Sri Lanka. Due to bids not received on time, the period for accepting bids had to be extended. It was informed to submit bids again in regard to preparing a "Coding System" and a Register of Fixed Assets that had been recommended by the Technical Evaluation Committee. As such, action was taken accordingly.	Laws, and Rules should be followed.

2.4 Human Resource Management

	Audit Observation	Comment of the Management	Recommendation
(i.)	Five posts in the senior level had remained vacant as at 31 December 2018, and that included a post of Assistant General Manager, 03 posts of Management Assistant, and a post of Internal Auditor. It was pointed out in the audit queries for the years 2016 and 2017 that action had not been taken to	All of those officers have met the educational qualifications and subject experience required for the managers. They have been positioned in the post of Acting Manager solely due to lack of 15 year experience mentioned in the Scheme of Recruitment. However, action will be taken to refer to the Department of Management	Action should be taken to appoint permanent officers.

AUDITOR GENERAL'S REPORT

	appoint permanent officers to the said posts including the approved post of Internal Auditor. However, without doing so, the Fund had taken action to fill those vacancies on acting basis from September 2018 up to the present day.	Services, and Salaries and Cadre Commission in order to revise the period of service required for the appointment of a manger in the insurance sector.	
(ii.)	According to 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. If the post continues to require the services of a full-time officer, the substantive appointment should be made without delay. However, acting appointments had been made to 04 posts since September 2018 up to the present day thus, contradicting the requirements of Establishments Code.		Action should be taken to appoint permanent officers.
(iii.)	Thirty one posts in the secondary and tertiary levels remained vacant. Action was not taken to fill those vacancies even up to the date of audit on 31 July 2019.	Appointment was made to the post of Assistant Manager with effect from 2019.09.02. Interviews have been held for the post of Risk Management Engineer. Newspaper advertisements have been published calling applications for the post of Actuarial Manager. Action will be taken to make appointments to the rest of the posts with qualified officers based on the institutional requirements.	Action should be taken to appoint permanent officers.

AUDITOR GENERAL'S REPORT

(iv.)	As for the 04 vacant posts in the tertiary level, the post of Actuarial Manager, and the post of Engineer in the Risk Division that had been approved in the Scheme of Recruitment in the year 2017, were essentially necessary for the functions of the Fund. The Fund involved in the insurance sector since the year 2006, has not taken action so far to fill those vacancies.	We have published newspaper advertisements for the post of Risk Management Engineer, and a qualified applicant has been selected. Furthermore, newspaper advertisements have been published calling applications for the post of Actuarial Manager.	Prompt action should be taken to fill the vacancies of approved posts.

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2018

	Notes	2018 Rs.	2017 Rs.
Gross written premiums	1	9,683,874,748	9,071,278,467
Contribution Received for Agrahara	1	4,017,420,904	2,726,522,599
Crop Insurance Levy Collected		2,138,167,676	1,878,361,459
Reinsurance Premiums ceded		(2,460,537,699)	(1,146,635,715)
Ceded to SRCC & Tr Fund		(25,439,340)	(28,647,172)
Net written premiums		**13,353,486,289**	**12,500,879,639**
Net change in Reserve for unearned premium		299,945,178	(887,050,657)
Net earned premium		**13,653,431,467**	**11,613,828,982**
Revenue from other operations			
Fees and commission income	2	6,467,415	6,350,874
Investment & Other Income	3	1,343,399,914	1,143,209,930
Other revenue		**1,349,867,329**	**1,149,560,805**
Gross benefits and claims Incured	4	(9,763,499,280)	(11,455,239,706)
Claims ceded to reinsurers	4		
Gross change in contract liabilities	4	1,554,911,720	2,077,748,294
Change in contract liabilities ceded to reinsurers	4	(1,016,766,143)	(239,679,294)
Gross change in IBNR	4	(465,294,517)	(283,528,663)
Net benefits and claims		**(9,690,648,221)**	**(9,900,699,368)**
Underwriting and acquisition cost (including reinsu	5	(1,608,994,211)	(1,440,826,507)
Other operating and administrative expenses	6	(414,816,836)	(344,678,298)
Total benefits, claims and other expenses		**(11,714,459,268)**	**(11,686,204,174)**
Profit/(Loss) before tax		**3,288,839,528**	**1,077,185,612**
Income tax expense		(105,600,662)	(100,951,677)
Profit/(Loss)for the year		**3,183,238,866**	**976,233,935**
Other Comprehensive Income			
Net change in available for sale financial assets		131,176,710	208,755,171
Actual Gain/(Loss) on retirement benefit obligation		(9,075,505)	(8,699,331)
Revaluation Deficit on Property Plant & Equipment		(2,102,126)	-
Other comprehensive income for the year, net of tax			
Total Comprehensive Income	-	**3,303,237,946**	**1,176,289,775**

STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION

As At 31st December 2018

	Notes	2018 Rs.	2017 Rs.
Assets			
Intangible assets	7	2,806,809	1,377,708
Property, plant and equipment	8	29,362,528	39,470,985
Financial Assets	9	10,674,617,497	8,161,427,792
Reinsurance Receivable	10.1	1,468,768,756	4,574,100,921
Premium receivables	10.2	1,548,824,733	2,109,164,970
Soft Loans	11	5,725,010	14,069,897
Other non financial assets	12	98,479,866	1,922,337,050
Deferred Commission	13	620,751,687	597,083,610
Cash at bank and in hand	14	1,145,855,712	1,133,642,497
Total assets		**15,595,192,598**	**18,552,675,429**
Equity and Liabilities			
Retained earnings		7,424,644,966	7,213,150,131
Other component of equity		(466,454,792)	(66,791,641)
Revaluation Reserve		(2,102,126)	-
Total equity		**6,956,088,047**	**7,146,358,490**
Liabilities			
Insurance contract liabilities	17	7,531,205,639	8,879,856,741
Retirement benefit obligation	18	28,510,041	29,660,364
Other liabilities	15	1,075,776,134	2,496,799,835
Bank overdraft	14	3,612,734	-
Total liabilities		**8,639,104,548**	**11,406,316,939**
Total equity and liabilities		**15,595,192,598**	**18,552,675,429**

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

J.A.D. Siriwardene
Chief Financial Officer
Assistant General Manager - Finance

Sanath C De Silva
Chief Executive Officer

The Accounting policies and Notes on pages 5 to 42 form an integral parts of these Financial Statements. The Board of Directors are responsible for the Preparation and Presentation of Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.

Manjula De Silva
Chairman

Director
P.P.S. R. De Silva

27-Feb-19
Colombo

STATEMENT OF CHANGES IN EQUITY

As At 31st December 2018

	Retained earnings Rs.	Available-for-sale financial assets Rs.	Non-controlling interests Rs.	Total equity Rs.
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)
Acturial 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
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)
Operning - AR Control RI	(38,856,406)			(38,856,406)
Operning - 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)
	7,213,150,131	**(66,791,641)**	**-**	**7,146,358,490**
Profit for the year	3,183,238,866			3,183,238,866
				-
Net change in available for sale financial assets		(390,587,646)		(390,587,646)
Cash Transferred to the Consolidated Fund	(2,750,000,000)			(2,750,000,000)
Revaluation of Assets			(2,102,126)	(2,102,126)
Revaluation on Diposed Motor Vehicle	6,276,415			6,276,415
Amortised discounts on Bonds	25,070,657			25,070,657
NNDIS Reinstatement & Ajustment Fee	(291,472,452)			(291,472,452)
RETRO RI Receivable Exchange loss	(3,888,779)			(3,888,779)
Settle Invoice & CN Cancelation	41,810,528			41,810,528
Missed Invoice in Openning Balance RI	10,980,047			10,980,047
NNDIS Cancel Cheque	12,682,341			12,682,341
Cheque Cancelation	2,080,928			2,080,928
Bond Coupon Interest	(8,856,250)			(8,856,250)
Salaries correction	(1,037,300)			(1,037,300)
Leave Encashment	(2,764,983)			(2,764,983)
Duplicate CN Cancelation RI	(7,458,551)			(7,458,551)
Euro USD Exchange Gain Reverse	(5,082,679)			(5,082,679)
Other Previous Year Adjustment	(83,955)			(83,955)
Acturial (gain)/loss on gratuity valuation		(9,075,505)		(9,075,505)
Balance as at 31 st December 2018	7,424,644,965	(466,454,792)	(2,102,126)	6,956,088,048

Accounting policies and notes on pages 5 through 33 form an integral part of the Financial Statements.
Figures in bracket indicate deductions.

CASH FLOW STATEMENT

For the year ended 31st December 2018

		2018	2017
		Rs.	Rs.
Cash Flows from Operating Activities			
Profit Before Tax		3,288,839,528	1,077,185,612
Adjustments for :			
Interest Income		(1,168,986,729)	(1,138,264,819)
Depreciation		12,452,639	7,316,750
Amortisation		273,100	
Net Fair Value Changes		(399,663,151)	200,055,840
Prior Year Adjustments		(228,020,447)	(94,789,413)
Loss/ (Profit)on Disposal of Fixed Assets		(2,352,313)	(4,945,111)
		1,502,542,627	**46,558,859**
Change in Operating Assets	**A**	5,465,861,509	(1,690,242,910)
Change in Operating Liabilities	**B**	(2,876,425,787)	(370,495,553)
Cash Flow from Operating Activities		4,091,978,349	(2,014,179,604)
Gratuity Paid		-	-
Net Cash Generated from Operating Activities		4,091,978,349	(2,014,179,604)
Cash Flows from Investing Activities			
Net Disposal/(Acquisition) of Financial Investments		(2,513,189,705)	3,026,416,582
Interest Received		1,168,986,729	1,138,264,819
Recovery of Soft Loans		8,344,887	53,011,374
Disposal of Property Plant and Equipment		9,018,980	6,029,880
Acquisition of Intangible Assets		(1,702,201)	(1,377,708)
Acquisition of Property, Plant and Equipment		(4,836,560)	(4,813,960)
Net Cash Used from Investing Activities		(1,333,377,870)	4,217,530,986
Cash Flows from Financing Activities			
Cash Transferred to the Consolidated Fund		(2,750,000,000)	(1,500,000,000)
Net Cash Used in Financing Activities		(2,750,000,000)	(1,500,000,000)
Net Increase / (Decrease) in Cash and Cash Equivalents	**C**	8,600,480	703,351,381
Net Cash and Cash Equivalents at the beginning of the Year		1,133,642,497	430,291,116
Cash and Cash Equivalents at the end of the Year		1,142,242,978	1,133,642,497

Notes to the Cash Flow Statement

	2018	2017
A. Change in Operating Assets		
(Increase)/ Decrease in Deferred Commission	(23,668,078)	(114,174,700)
(Increase)/ Decrease in reinsurance premium receivable	3,105,332,165	954,701,929
(Increase)/ Decrease in Premium Receivable	560,340,237	(768,324,524)
(Increase)/ Decrease in Other Non Financial Assets	1,823,857,184	(1,762,445,615)
	5,465,861,509	(1,690,242,910)
B. Change in Operating Liabilities		
Increase / (Decrease) in Insurance Contract Liabilities	(1,348,651,101)	(915,379,769)
Increase / (Decrease) in Retirement Benefit obligation	(1,150,323)	14,569,494
Increase / (Decrease) in Other liabilities	(1,526,624,363)	530,314,722
	(2,876,425,787)	(370,495,553)
C. Increase / (Decrease) in Cash and Cash Equivalents		
Net Cash and Cash Equivalents at the end of the Year	1,142,242,978	1,133,642,497
Less: Net Cash and Cash Equivalents at the beginning of the Year	1,133,642,497	430,291,116
Net Increase / (Decrease) in Cash and Cash Equivalents	8,600,481	703,351,381

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

1. 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 Parent Entity and Ultimate Parent Entity

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

1.3 Principal Activities and Nature of Operations

The principal activities of The Board are carrying out non-life (General) insurance businesses and re-insurance businesses.
Further The Board maintains SRCC & T Fund. Crop Levy of 1% of the profit after tax from banks, finance companies and insurance companies operating in Sri Lanka are collected by The Board and agricultural Insurance schemes are provided from the Crop Levy. There were no significant changes in the nature of the principal activities of the Board during the year under review.

1.4 Responsibility for Financial Statements

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

1.5 Number of Employees

The staff strength of The Board as at 31st December 2018 was 238 (2017 – 211).

1.6 Approval of financial statements by the Board of Directors

The financial statements of The Board for the year ended 31st December 2018 were approved and authorized to issue on 27th February 2019 in accordance with the resolution of the Board of Directors on 27th February 2019.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The financial statements have been prepared, unless otherwise stated, in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA- Sri Lanka) and comply with the requirements of the Regulation of Insurance Industry Act No. 43 of 2000.
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, (page 02).
- A Statement of Comprehensive Income providing the information on the financial performance of the Board for the year under review. (page 01)
- A Statement of Changes in Equity depicting all changes in equity. (page 03)
- 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 those cash flows (page 04) and
- Notes to the financial statements comprising accounting policies and other explanatory information (page 05 to 42).

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for following material items in the financial statements.

Item	Basis of Measurement	Note No.
Loans and receivables financial assets	At fair value	9.1
Available For Sale financial assets	At fair value	9.2
Defined benefit obligations	Actuarially valued and recognized at present value of the defined benefit obligations	18
Policyholders' liabilities	Actuarial determined values based on actuarial guidelines issued by IRCSL	17.1
Incurred But Not Reported / Incurred But Not Enough Reported	Actuarial determined values based on actuarial Methodologies	17.3

2.3 Presentation of Financial Statements

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

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

2.4 Functional and presentation currency

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

2.5 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.

2.6 Reporting Period

The reporting period is from January to December 2018.
Where appropriate, the accounting policies have been explained in the succeeding notes.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

2.7 Significant Accounting Judgments, Estimates and Assumptions

The preparation of financial statements in conformity with Sri Lanka Accounting Standards / SLFRSs 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.

Accounting judgments, 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.

The key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related notes.:

2.7.1 Going concern

The 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, the 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.

2.7.1 Fair value of financial instruments

Determination of fair values of financial assets and financial liabilities recorded on the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical techniques. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

2.7.2 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 or more frequently, if events or changes in circumstances necessitate to do so. 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.

2.7.3 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.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

2.8 Summary of significant accounting policies

2.8.1 Foreign currency translation

The Board's financial statements are presented in Sri Lankan Rupees which is also the The Board functional currency. 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 re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss.

2.8.2 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.

2.8.3 Impairment of financial assets

The Board assesses at each reporting date whether a financial asset or group of financial assets is impaired. The Board assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

• Impairment of financial assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the statement of comprehensive income.

The Board first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

• Impairment of available for-sale financial investments.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its costs (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in of other comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of comprehensive income.

Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the statement of comprehensive income, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the statement of comprehensive income.

• Impairment of financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2.8.4 Provisions and contingencies

General Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain. Expense relating to any provision is presented in the statement of profit or loss, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounting 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 recognised as a finance cost.

In the opinion of The Board, litigations which are currently against the entity, in the normal course of business will not have significant impact on the reported financial results or future operation of The Board.

2.8.5 Statement of cash flows

The statement of cash flows has been prepared using the indirect method of preparing cash flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7 - Cash Flow Statements. Interest received are classified as investing cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash in hand and balances with banks. For cash flow statement purposes, cash and cash equivalents are presented, net of bank overdrafts.

2.8.6 New standards and interpretation not yet adopted

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those SLFRSs will have an effect on the accounting policies currently adopted by The Board and may have an impact on the future financial statements.

• Sri Lanka Financial Reporting Standard (SLFRS) 15 - Revenue from Contracts with Customers SLFRS 15 establishes a fivestep model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It replaces existing revenue recognition guidance, including LKAS 18 - Revenue, LKAS 11-Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

Either a full retrospective application or a modified retrospective application is required for 1 January 2018. Contracts within the scope of SLFRS 4 - Insurance Contracts are scope out, according to scope (paragraph 5 (b)) of SLFRS 15. The Board is evaluating the impact of other revenue contracts currently.

• Sri Lanka Financial Reporting Standard (SLFRS) 16 - Leases SLFRS 16 will replace Sri Lanka Accounting Standard (LKAS 17) - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC 15 - Operating Leases-Incentives and SIC 27- Evaluating the Substance of Transactions Involving the Legal Form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases. SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, Lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Pending a detailed impact analysis, possible impact from SLFRS 16 is not reasonably estimable as of the reporting date.

• SLFRS 9 - Financial Instruments SLFRS 9 - Financial Instruments, will replace LKAS 39 - Financial Instruments: Recognition and Measurement, for annual periods on or after 1 January 2018 with early adoption permitted.
In 2017, The Board set up a team to implement SLFRS 9 within The Board .
The Board performed the diagnostic phase (preliminary impact assessment exercise) and implementation phase (solution development) on SLFRS 9. The Board has undertaken a significant analysis of how SLFRS 9 should be implemented and has taken tentative accounting policy decisions.
Classification Measurement From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.
Business Model Assessment The Board determines its business model at the level that best reflects how it manages financial assets to achieve its objectives. The Board 's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

• How the performance of the business model and the financial asset held within that business model are evaluated and reported to the entity's key management personnel
• Risks that affect the performance of the business model (and the financial asset held within that business model) and, in particular, the way those risks are managed
• The expected frequency, value and timing of sales are also important aspect of The Board 's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios in to account. If cash flows after initial recognition are realised in a way that is different from The Board 's original expectation, The Board does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.
Contractual Cash flow Characteristic Test As the second test of the As the second test of the classification process, The Board assesses contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle and Interest (SPPI) criteria.
'Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortization of the premium/discount).

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, The Board applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than demonisms exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVPL.

3 OPERATING SEGMENTS

Operating segment is a component of an entity:

a) That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity).

b) Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

c) For which discrete financial information is available.

For management purposes, The Board has organized the main business into four business segments based on products and services and has four reportable segments.

The segmental information reported below is used by the chief operating decision maker for the allocation of resources and assessment of performance.

- General - Motor insurance
- General – Non Motor insurance
- Agrahara
- NNDIS
- Re Insurance
- SRCC & T
- Crop

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

16. SEGMENT INFORMATION

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

	2018							
PREMIUMS	Motor Rs.	Non Motor Rs.	Disaster Mgt Rs.	Reinsurance Rs.	SRCC Rs.	Health Scheme Agrahara/ MP	Crop Insurance Scheme	Total Rs.
Gross written premiums	422,117,039	103,722,015	500,000,000	4,056,395,150	4,581,640,544		-	9,663,874,748
Contribution Received for Agrahara	-	-		-	-	4,037,420,904		4,037,420,904
Crop Insurance Levy Collected	-	-		-	-		2,138,167,676	2,138,167,676
Reinsurance Premiums ceded		(10,851,496)	(1,433,623,973)	(577,911,555)	(81,656,250)		(356,494,425)	(2,460,537,699)
Ceded to SRCC & Tr Fund	(8,726,229)	(16,713,110)						(25,439,340)
Net written premiums	**413,390,810**	**76,157,409**	**(933,623,973)**	**3,478,483,595**	**4,499,984,294**	**4,037,420,904**	**1,781,673,252**	**13,353,486,289**
Gross change in UPR	(30,071,427)	253,971,616	-	(130,552,110)	(468,137,941)			(374,789,862)
Reinsurers share of change in UPR			555,846,575	94,558,680			24,329,784	674,735,040
Net change in Reserve for unearned Premium	(30,071,427)	253,971,616	555,846,575	(35,993,430)	(468,137,941)	-	24,329,784	299,945,178
NET PREMIUMS EARNED (A)	**383,319,383**	**330,129,025**	**(377,777,397)**	**3,442,490,164**	**4,031,846,353**	**4,037,420,904**	**1,806,003,036**	**13,653,431,467**
Fee income (B)	6,362,815	104,600		-	-	-	-	6,467,415
TOTAL UNDERWRITING INCOME (A + B)	**389,682,198**	**330,233,625**	**(377,777,397)**	**3,442,490,164**	**4,031,846,353**	**4,037,420,904**	**1,806,003,036**	**13,659,898,882**
Acquisition costs	-	(804,112)		(807,579,402)	(800,610,698)	-	-	(1,608,994,211)
Change in deferred acquisition costs					-			-
Net acquisition costs (C)	-	**(804,112)**		**(807,579,402)**	**(800,610,698)**	-		**(1,608,994,211)**
Gross claims Incurred	(227,620,873)	(513,876,501)	(514,717,638)	(1,226,287,407)	(54,995,687)	(4,085,005,020)	(1,586,084,635)	(8,208,597,561)
Reinsurance recoveries	-	-	(681,171,372)	(335,594,771)	-	-	-	(1,016,766,143)
Changing of IBNR	(85,714,746)	(34,513,168)	(162,533,506)	57,379,737	(21,072,197)	(230,202,544)	11,361,907	(465,294,517)
Net claims paid	(313,335,619)	(548,389,669)	(1,358,422,316)	(1,504,502,441)	(76,067,885)	(4,315,207,564)	(1,574,722,728)	(9,690,648,221)
Reinsurers share of change in outstanding claims							-	-
NET CLAIMS INCURRED (D)	(313,335,619)	(548,389,669)	(1,358,422,316)	(1,504,502,441)	(76,067,885)	(4,315,207,564)	(1,574,722,728)	(9,690,648,221)

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

UNDERWRITING RESULT(A+B+C+D)	76,346,580	(218,960,156)	(1,736,199,713)	1,130,408,322	3,155,167,770	(277,786,661)	231,280,308	2,360,256,450
Administrative expenses (E)	(67,124,281)	(18,645,634)	(37,291,267)	(37,291,267)	(41,904,162)	(205,101,971)	(7,458,253)	(414,816,836)
TOTAL EXPENSES (C+D+E)	(380,459,900)	(567,839,414)	(1,395,713,584)	(2,349,373,110)	(918,582,748)	(4,520,309,535)	(1,582,180,981)	(11,714,459,268)
	9,222,298	(237,605,790)	(1,773,490,981)	1,093,117,054	3,113,263,608	(482,888,631)	223,822,055	1,945,439,614
Investment & Other Income for the year	8,724,966	1,907,024	904,767	249,363,438	1,073,813,679	3,432,899	5,253,142	1,343,399,914
Profit before tax	17,947,264	(235,698,766)	(1,772,586,214)	1,342,480,492	4,187,077,287	(479,455,732)	229,075,197	3,288,839,529
Income tax expense								(105,600,662)
Profit after tax	17,947,264	(235,698,766)	(1,772,586,214)	1,342,480,492	4,187,077,287	(479,455,732)	229,075,197	3,183,238,867

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

4 REVENUE

5 GROSS WRITTEN PREMIUM

Accounting policy - Product classification of insurance and investment contracts SLFRS 4 - Insurance Contracts, requires contracts written by insurer to be classified as either 'Insurance contracts' or 'Investment contracts' depending in the level of insurance risk transferred.

Insurance contracts are those contracts when The Board (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, The Board determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk, and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variables, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by The Board are insurance contracts and therefore classified as insurance contracts under SLFRS 4 - Insurance Contracts. Thus, The Board does not have any investment contracts within its product portfolio as at the reporting date.

Accounting policy - Recognition of gross written premium Gross Written Premium (GWP) represents the premium charged by The Board to underwrite risks. GWP is accounted on an accrual basis.

Non-life insurance GWP comprises the total premiums received/ receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

Rebates that form part of the premium rate, such as no claim rebates, are deducted from the GWP.
GWP for the year by major classes of business are as follows;

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

Gross Written Premium

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

	2018 Rs.	2017 Rs.
Inward Reinsurance	4,056,395,150	3,683,389,120
SRCC & Tr Premium	4,581,640,544	4,036,282,848
General Insurance - Motor	422,117,039	417,885,956
General Insurance - Non Motor	103,722,015	413,720,543
National Natural Disaster Premium	500,000,000	500,000,000
Medical scheme for Parliamentory members	20,000,000	20,000,000
	9,683,874,748	**9,071,278,467**

Contribution collected for Agrahara medical Insurance Scheme	2018 Rs.	2017 Rs.
Contribution from Members	2,959,518,379	2,154,586,499
Contribution from the Treasury	750,000,000	500,000,000
Pensioners Insurance Scheme	101,282,200	58,785,600
Semi Government Scheme	206,620,325	13,150,500
	4,017,420,904	**2,726,522,599**

6 **CHANGE IN RESERVE FOR UNEARNED PREMIUM**

Accounting policy - Change in reserve for unearned premium Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. 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. Change in reserve for unearned insurance premium represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

7 **PREMIUM CEDED TO REINSURERS**

Accounting policy - Recognition of premium ceded to reinsurers Non-life gross reinsurance premium written comprises the total premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy commences. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts commencing in prior accounting periods.

8 **CHANGE IN RESERVE FOR UNEARNED REINSURANCE PREMIUM**

Accounting policy - Change in reserve for unearned reinsurance premium Unearned reinsurance premium is the proportion of premium written in a year that relates to periods of risk after the reporting date. unearned reinsurance premium is deferred over the term of the underlying direct insurance policies. Change in reserve for unearned reinsurance premium represents the net portion of the reinsurance premium transferred to the unearned reinsurance premium reserve during the year to cover the unexpired period of the policies.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

9 NET CLAIMS

Accounting policy - Recognition of gross claims Gross claims for non-life insurance include all claims occurring during the year, whether reported or not, related 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. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.
Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported (IBNR) claims and the anticipated direct and indirect costs of settling those claims. The provision in respect of IBNR is actuarially valued on a quarterly basis to ensure a more realistic estimation of the future liability based on past experience and trends.
While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.
Accounting policy - Recognition of reinsurance claims Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.
Claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

10 UNDERWRITING AND NET ACQUISITION COSTS

Accounting policy - Recognition of underwriting and deferred acquisition costs Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.
Reinsurance commission is also treated in the same manner within deferred acquisition costs.

11 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

Accounting policy - Recognition of other operating and administrative expenses Other operating and administrative expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment are charged to the statement of profit or loss.
Staff expenses
Accounting policy - Short-term employee benefits Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans, if The Board has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Accounting policy - Defined benefit plans A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Board recognises the changes in the defined benefit obligations under staff expenses in the statement of profit or loss.

(a) current service cost
(b) interest cost

For more details, please refer Note 34 on defined benefit obligations.
Accounting policy - Defined contribution plans A defined contribution plan is a post- employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to the Employees' Provident Fund (EPF) under the Employees' Provident Fund Act No. 15 of 1958 as amended and Employees' Trust Fund under the Employees' Trust Fund Act No. 46 of 1980, covering all employees are recognised as an employee benefit

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

expense in the statement of profit or loss when they are due. The Board contributes 12% and 3% of gross emoluments of employees' as employees' provident fund and trust fund contributions respectively.

12 FEE INCOME

Accounting policy - Recognition of fees Policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

13 NET FAIR VALUE GAINS

Recognition of fair value gains and losses Net fair value gains recorded in the statement of profit or loss on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

14 OTHER INCOME

Other income includes disposal gains/(losses) on salvages, property, plant and equipment and miscellaneous income. Profit or loss on sale of property, plant and equipment is recognized in the period in which the sale occurs and is classified under other income.

15 PROFIT BEFORE TAX

The profit before tax for the year is stated after charging following expenses;

16 INCOME TAX EXPENSE

Recognition of income tax expense Income tax expense comprises current and deferred tax. Current and deferred taxes are recognized in the statement of profit or loss except to the extent that it relates to items recognized directly in equity, when it is recognized in equity.
Major components of income tax expense are as follows;

16.2 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 utilize 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.

17 INTANGIBLE ASSETS

The Board 's intangible assets include the value of acquired computer software.

Basis of recognition an intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to The Board and the cost of the asset can be measured reliably.
Software acquired by The Board is initially measured at cost and subsequently stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation Intangible assets are amortised on a straight line basis over the period of four years. Amortisation is recorded in the statement of profit or loss.
Intangible assets with finite lives are amortised over the useful economic life. Amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates.
Amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.
Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows;

De-recognition of intangible asset An intangible asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the derecognition of such intangible assets is included in the statement of profit or loss when the item is de-recognised.
Accounting policy - Impairment of intangible asset An impairment review is performed whenever there is an indication of impairment. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the statement of profit or loss. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

17.7 Fully amortised intangible assets in use was Rs. 6,542,073 fully amortised intangible assets which are still in use or idle intangible assets as at the reporting date (2017 – 6,542,073).

17.8 Title restriction on intangible assets No restrictions exist on the title of the intangible assets and no items pledged as securities for liabilities.

17.9 Acquisition of intangible assets during the year was Rs.1,702,201 during the year 2018 (2017 - 1,490,000).

17.10 Assessment of impairment of intangible assets The Board of Directors has assessed the potential impairment indicators of intangible assets as at 31 December 2018. Based on the assessment, no impairment indicators were identified and therefore no impairment provision is required to be made in the financial statements as at the reporting date with respect of intangible assets.

18 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. Property, plant and equipment includes office equipment, furniture and fittings, Miscellaneous assets and motor vehicles.

Basis of recognition Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to The Board and cost of the asset can be measured reliably.

Measurement An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it the cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

The Board applies the cost model to plant and equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred. Cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to The Board and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Depreciation charge begins when an assets is available for use. The estimated useful lives are as follows;

Plant & Machinery	Over 10 years
Furniture & Fitting	Over 13.33 years
Office Equipments	Over 13.33 Years
Motor Vehicles	Over 10 years

De-recognition of property, plant and equipment
Carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from it. Gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the statement of profit or loss when the item is de-recognised.
When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is de-recognised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

18.1 Fully depreciated property, plant and equipment in use Property, plant and equipment also includes fully depreciated assets which are in the use of normal business activities. Initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date, is as follows:

18.2 Title restriction on property, plant and equipment There are no restrictions that existed on the title of property, plant and equipment of The Board as at the reporting date.

18.3 Acquisition of property, plant and equipment during the year During the financial year, The Board acquired property, plant and equipment amounting to Rs. 4,836,560 (2017 - Rs. 4,813,960). Cash payments amounting to Rs. 4,836,560 (2017 - Rs. 4,813,960) were made during the year to purchase property plant and equipment.

18.4 Property, plant and equipment pledged as security for liabilities There were no items of property, plant and equipment pledged as securities for liabilities as at 31 December 2018 (2017 - Nil).

18.5 Temporarily idle property, plant and equipment There were no temporarily idle property, plant and equipment as at 31 December 2018 (2017 - Nil).

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

18.6 Assessment of impairment of Property, plant and equipment The Board of Directors has assessed the potential impairment indicators of property, plant and equipment as at 31 December 2018. Based on the assessment, no impairment indicators were identified and therefore no impairment provision is required to be made in the financial statements as at the reporting date in respect of property plant and equipment.

18.7 Amount of contractual commitments for the acquisition of property, plant and equipment There are no contractual commitments for the acquisition of property, plant and equipment as at the reporting date

18.8 Subsequent Measurement of PPE

Revaluation is performed by professionally qualified valuers using the open market value. Assets are revalued periodically and revaluation have been done in 2018. The revaluation surplus is recognized on the net carrying value of the asset and is transferred to a revaluation reserve after restating the asset at the revalued amount. The revaluation reserve is transferred to retained earnings at the point of derecognition.

19 FINANCIAL INVESTMENTS

Accounting policy - Classification of financial investments The Board initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which The Board becomes a party to the contractual provisions of the instrument. In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.
Depending on the intention and ability to hold the invested assets, The Board classifies its non-derivative financial assets into following categories:
• Fair Value Through Profit or Loss (FVTPL); • Loans and receivables (L&R); • Available-For-Sale (AFS) financial assets; and • Held to Maturity (HTM), as appropriate
However, The Board did not have any investment classified as held to maturity investments and investment classified as Fair Value Through Profit or Loss investments as at the reporting date (2017-Nil).

Accounting policy - De-recognition of financial investments The Board de-recognises financial assets when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by The Board is recognised as a separate asset or liability.
Accounting policy - Offsetting of financial instruments Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when and only when The Board has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Board 's financial investments are summarised below by measurement category.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

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

The following table consists of the fair values of financial investments together with their carrying values.
Fair value through profit or loss investments and available-for-sale investments have been valued at fair value. Loans and receivable investments have been valued at amortised cost.
Analysis of financial investments based on characteristics Following notes provide disclosures of the financial investments based on characteristics of the each class of instrument.

19.1 Fair value through profit or loss Accounting policy - Recognition of fair value through profit or loss investments 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. Attributable transaction costs are recognised in the statement of profit or loss as incurred. These investments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value.
Changes in fair value are recorded under 'Fair value gains and losses' in the statement of profit or loss. The Board evaluates its financial assets at fair value through profit or loss (held for trading) by considering whether the intent to sell them in the near term is still appropriate.

19.2 Loans and receivables Recognition of loans and receivables investments Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised 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 amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. EIR amortisation is included in the statement of profit or loss arising from impairment are recognised as an expense in the statement of profit or loss.
Gains and losses are recognised in the statement of profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process. Loans and receivables comprise investments in repurchase agreements.

19.2.1 Repurchase agreements The Board has invested in reverse repurchase agreements (REPO) with People's Bank, Bank of Ceylon and NSB Fund Management (Pvt) Ltd which are fully secured against the assigned government securities with ISIN numbers. REPO rates for the outstanding balances were in the range of 7% - 9.25%, depending on different maturities.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

19.3 Available-for-sale

Accounting policy - Recognition of available-for-sale investments Available-for-sale financial investments may include Treasury Bills and Bonds.

After the initial measurement, available-for-sale financial assets are subsequently measured at fair value, with unrealised gains or losses recognised in other comprehensive under available-for-sale reserve. Interest earned whilst holding available-for sale investments is reported as 'Interest income' using the EIR. When the asset is de-recognised, cumulative gain or loss in the statement of profit or loss and other comprehensive income is transferred to the statement of profit or loss. If the asset is determined to be impaired, the cumulative loss is recognised in the statement of profit or loss and removed from the available-for-sale reserve.

The Board evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, The Board is unable to trade these financial assets due to inactive markets, The Board may elect to reclassify these financial assets, if management has the ability and intention to hold the assets for the foreseeable future or until maturity. 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 investments is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset reclassified out of the available-for-sale category, the fair value at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to the statement of profit or loss over the remaining life of the investment using EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

19.3.1 Impairment of available-for-sale financial investments At the reporting date, there were no available-for-sale financial investments that were overdue and impaired.

20 REINSURANCE RECEIVABLES

Accounting policy - Reinsurance receivables The Board cedes insurance risk in the normal course of business for all of its businesses. Reinsurance receivables 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.

Ceded reinsurance arrangements do not relieve The Board from its obligations to policyholders.

Reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable.

Reinsurance assets are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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 statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

21 INSURANCE RECEIVABLES

Insurance receivables Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Subsequent to the initial recognition, insurance receivables are measured at amortised cost. 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 statement of profit or loss.
Insurance receivables are de-recognised, when the de-recognition criteria for financial assets have been met.
According to the Premium Payment warranty (PPW) directive issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), all General Insurance policies are issued subject to PPW and cancellable upon the expiry of 60 days if not settled. However, premium receivables from the government institutions and for compulsory insurance schemes such as RI and SRCC will not be cancelled/provided after expiry of 60 days as the recovery is certain from these parties.
Since the Board has adopted PPW for other private parties other than the government institutions and for compulsory insurance schemes such as RI and SRCC, no long outstanding balances are left in premium receivable. Thus, there is no need for an additional impairment loss provision other than the amounts provided for General Insurance Motor and Non Motor Insurance as follows:

50% will be provided - > 60 Days < 90 Days
100% will be provided - > 90 Days

22. DEFERRED EXPENSES

Acquisition expenses Costs of acquiring new businesses, including commission, underwriting, marketing and policy issuance expenses, which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, Deferred Acquisition Costs (DAC) are amortized over the period on the basis unearned premium is amortized.
Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

DAC is de-recognized when the related contracts are either expired or cancelled.
An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of profit or loss. DAC is also considered in the liability adequacy test for each reporting period.

Reinsurance commissions Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

23. OTHER ASSETS

Recognition of other assets Other assets which consist of non-financial assets are recognised at cost less any impairment losses.

Staff loans
This contains distress loans loans and festival advances given to the staff members of the board. There is no any loans or advances given to the directors of the board.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

Soft loans
These loans were granted to the institutes/hotels affected by terrorist attacks by Bank of Ceylon for which funds given from SRCC & T fund.

Tax recoverables Tax recoverables of The Board consist of With Holding Tax (WHT) receivable and Economic Service Charge (ESC) receivables.

ESC receivables As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed receivable ESC amount can be carried forward and set-off against the income tax payable as per the relevant provisions in the Act.

Recognition of inventories Inventories include all consumable items which are stated at lower of cost and net realizable value.

24. CASH AND BANK BALANCES

Cash and bank balances Cash and bank balances in the statement of financial position comprise cash at bank and cash in hand which are subject to an insignificant risk of changes in value.
Cash and Cash equivalents
Bank overdrafts, which form an integral part of cash management and savings accounts are included as a component of cash and cash equivalents for the purposes of the statement of cash flo ws. In the statement of financial position, bank overdrafts are included under liabilities. The board has no any bank overdraft facilities obtained from the banks. However, a book overdraft balance is shown in balance sheet.

25. RETAINED EARNINGS

Retained earnings represents the accumulated earnings held by the board to be used for the operations.

26. AVAILABLE-FOR-SALE RESERVES

Available-for-sale Available for-sale-reserves comprise the cumulative net change in the fair value of available-for-sale financial assets and is carried forward until the respective assets are de-recognised or impaired.

27. Revalution reserves

Other reserves comprise of the actuarial gains/(losses) arising from valuation of gratuity liability as required by LKAS 19 - Employee Benefits.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

28. INSURANCE CONTRACT LIABILITIES

Accounting policy - Provision for net unearned premium Provision for unearned premiums represent premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, The Board reviews its unexpired risk and a liability adequacy test is performed 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 non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the statement of profit or loss by setting up a provision for liability adequacy.

As required by SLFRS 4 - Insurance Contracts, The Board performs a Liability Adequacy Test (LAT) in respect of non-life contract liabilities with the assistance of an external actuary.
Accounting policy - Provision for gross outstanding claims Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries.
The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised when the contract expires, is discharged or is cancelled.
Accounting policy - Provision for gross incurred but not reported claims Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.
For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of Claims Incurred But not Reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.
The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method, Bornheutter-Ferguson method and Frequency/Severity method.
The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. 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.
Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

Claims development tables and sensitivity analysis relating to the insurance contract liabilities are included in the risk management note.

a. Insurance contract liabilities
b. Provision for net unearned premium
c. Provision for gross outstanding claims
d. Provision for gross IBNR claims
e. Reconciliation between insurance provision and technical reserves
f. Liability adequacy test A Liability Adequacy Test (LAT) was performed by NMG Financial Services Consulting Pte Limited, a firm of professional actuaries as at 31 December 2018 as required by SLFRS 4 - Insurance Contracts in order to assess the adequacy of the carrying amount of the provision for unearned premiums. The valuation is based on internationally accepted actuarial methods and is performed on a quarterly basis. According to the report issued by NMG Financial Services Consulting Pte Limited, the liability carried forward by The Board was adequate. Hence, no provision was made for premium deficiency for the year ended 31 December 2018 (2016 - Nil).
g. Valuation of IBNR and IBNER The incurred but not reported claims reserve has been actuarially computed by NMG Financial Services Consulting Pte Limited as at 31 December 2018.
h. Changes in assumptions There were no material estimation changes from the previous valuation done for the balance as at 31 December 2017.

29. EMPLOYEE DEFINED BENEFIT OBLIGATIONS

Accounting policy - Recognition and measurement of employee defined benefit obligations A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The value of 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. An 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 remeasurement of the net defined benefit liability which comprises actuarial gains and losses are charged or credited to the statement of comprehensive income in the period in which they arise. The assumptions based on which the results of the actuarial valuation was determined, are included in Note 34.2.4 to the financial statements.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Board.

The provision of the Board is not externally funded.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

a. Valuation of employee benefit obligations Gratuity liability as at 31 December 2018 was actuarially valued under the Projected Unit Credit method by NMG Financial Services Consulting Pte Limited, a firm with actuarial expertise as required by LKAS 19 - Employee Benefits
b. Principal actuarial assumptions used

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

c. Sensitivity analysis The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment liability measurement.

30. OTHER FINANCIAL LIABILITIES

Recognition of financial liabilities The Board initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument. Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities consist of amount due to related parties, other creditors including accruals and outstanding commission payable.

Derecogntion of other financial liabilities A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

31. OTHER LIABILITIES

Accounting policy - Other liabilities Other liabilities include government levies payable other than income tax payable and these liabilities are not financial liabilities as per LKAS 39 - Financial Instruments: Recognition and Measurement. These liabilities are recorded at amounts expected to be payable as at the reporting date.

32. REINSURANCE PAYABLES

Accounting policy - Recognition and measurement of reinsurance payables Reinsurance liabilities represent balances due to insurance companies. Reinsurance assets or liabilities are de-recognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

33. INCOME TAX PAYABLE

Accounting policy - Income tax payable Current income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authorities. Tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where The Board operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the statement of profit or loss. The management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31st December 2018

34. BANK OVERDRAFTS

Bank overdrafts, which form an integral part of cash management and savings accounts are included as a component of cash and cash equivalents for the purposes of the statement of cash flows. In the statement of financial position, bank overdrafts are included under liabilities. The board has no any bank overdraft facilities obtained from the banks. However, a book overdraft balance is shown in balance sheet.

35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Accounting policy - Events occurring after the reporting period Events occurring after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.
All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

All pending litigation for claims has been evaluated and adequate provisions have been made in the financial statements where necessary.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31st December 2018

1. NET PREMIUMS

1.1 **Gross Written Premium**
The premium income for the year by major classes of business is as follows.

	2018 Rs.	2017 Rs.
Inward Reinsurance	4,056,395,150	3,683,389,120
SRCC & Tr Premium	4,581,640,544	4,036,282,848
General Insurance - Motor	422,117,039	417,885,956
General Insurance - Non Motor	103,722,015	413,720,543
National Natural Disaster Premium	500,000,000	500,000,000
Medical scheme for Parliamentory members	20,000,000	20,000,000
	9,683,874,748	**9,071,278,467**

1.2 Contribution collected for Agrahara medical Insurance Scheme	2018 Rs.	2017 Rs.
Contribution from Members	2,959,518,379	2,154,586,499
Contribution from the Treasury	750,000,000	500,000,000
Pensioners Insurance Scheme	101,282,200	58,785,600
Semi Government Scheme	206,620,325	13,150,500
	4,017,420,904	**2,726,522,599**

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31st December 2018

2. FEES AND COMMISSION INCOME	2018 Rs.	2017 Rs.
Policyholder administration fees	6,467,415	6,350,874
Total fees and commission income	**6,467,415**	**6,350,874**

3. INVESTMENT & OTHER INCOME	2018 Rs.	2017 Rs.
3.1 Loans and receivables interest income		
Interest income from Repurchase Agreements	359,001,887	160,720,267
Interest income from Debentures	-	-
	359,001,887	160,720,267
3.2 Available for sales interest income		
Interest income from Treasury Bills	146,519,438	203,450,756
Interest income from Treasury Bonds	653,510,330	743,835,183
	800,029,767	**947,285,939**
3.3 Held to maturity interest income		
Interest income from SLBD		
Total investment income	**1,159,031,654**	**1,108,006,205**
3.4 Other Income		
Interest on Savings Account - USD	8,241,076	898,532
Interest on Soft Loans	318,346	807,908
Interest on Staff Distress Loans	1,395,653	1,085,081
Disposal of Fixed Assets	2,352,313	4,945,111
Exchange Gain / loss	168,765,990	26,899,206
Other	3,294,882	567,887
	184,368,260	**35,203,725**
	1,343,399,914	**1,143,209,930**

4. NET BENEFITS AND CLAIMS	2018 Rs.	2017 Rs.
(a) Gross benefits and claims paid		
Reinsurance	(2,345,202,622)	(2,039,286,678)
SRCC & Tr	(50,085,704)	(12,314,131)
General Insurance - Motor	(208,043,768)	(202,402,854)
General Insurance - Medical & Other	(469,755,602)	(151,205,332)
Crop Insurance	(1,813,322,777)	(1,593,396,750)
Disaster	(843,784,556)	(4,699,472,888)
Agrahara medical Insurance Scheme	(4,033,304,251)	(2,757,161,073)
	(9,763,499,280)	**(11,455,239,706)**
(b) Claims ceded to reinsurers		
Reinsurance		
General Insurance - NNDIS		
(C) Gross change in contract liabilities		
Reinsurance	1,118,915,215	137,254,896
SRCC & Terrorism	(4,909,984)	-
General Insurance - Motor	(19,577,104)	(7,003,676)
General Insurance - Medical & Other	(44,120,899)	(11,331,084)
Crop Insurance	227,238,143	(289,394,804)
Disaster	329,067,118	2,379,827,068
Agrahara medical Insurance Scheme	(51,700,769)	(131,604,106)
	1,554,911,720	**2,077,748,294**
(d) Change in contract liabilities ceded to reinsurers		
Reinsurance	(335,594,771)	(191,629,545)
General Insurance - NNDIS	(681,171,372)	(48,049,749)
	(1,016,766,143)	**(239,679,294)**
(e) Gross change in IBNR		
Reinsurance	57,379,737	(232,748,969)
SRCC & Terrorism	(21,072,197)	22,833,384
General Insurance - Motor	(85,714,746)	(57,045,536)
General Insurance - Medical & Other	(34,513,168)	(32,365,340)
Crop Insurance	11,361,907	133,625,924
Disaster	(162,533,506)	(0)
Agrahara medical Insurance Scheme	(230,202,544)	(117,828,127)
	(465,294,517)	**(283,528,663)**
Net benefits and claims	**(9,690,648,221)**	**(9,900,699,368)**

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31st December 2018

5. UNDERWRITING AND ACQUISITION COST

	2018 Rs.	2017 Rs.
Acquisition Cost	(1,518,080,365)	(1,452,274,432)
Profit Commission Expenses	(114,581,924)	(102,726,775)
Change unearned commission reserve - SRCC	31,900,594	29,656,526
Change unearned commission reserve - General	(804,112)	(2,923,900)
Change unearned commission reserve - Reinsurance	(7,428,404)	87,442,074
	(1,608,994,211)	**(1,440,826,507)**

6. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2018 Rs.	2017 Rs.
Auditors Remuneration	1,000,000	886,200
Employee Benefit Expenses	218,637,288	201,433,256
Administration and establishment Expenses	174,516,012	128,114,613
Selling Expenses	4,747,107	4,021,842
Depreciation of Property Plant and Equipment	12,452,639	7,316,750
Amortisation of Intangible Assets	273,100	112,292
Legal Fees	1,214,940	623,345
Sponsership	1,975,750	2,170,000
Total other operating and administrative expenses	**414,816,836**	**344,678,298**

6.1 Employee Benefit Expenses

	2018 Rs.	2017 Rs.
Wages and salaries including bonus & incentives	139,453,031	128,427,751
Contributions to defined contributions plans		
Employees' Provident Fund	16,864,127	16,660,178
Employees' Trust Fund	4,210,826	3,961,613
Other personal cost	50,184,122	46,513,552
Retirement benefit cost	7,925,182	5,870,163
Total employee benefits expense	218,637,288	201,433,256

6.2 Administration and establishment Expenses

	2018	2017
Professional fees	9,114,800	5,212,934
Electricity	8,943,806	7,934,750
Telephone	6,249,270	4,291,367
Printing & Stationary	13,347,492	14,429,664
Postage	4,712,447	2,376,429
Office Rent	32,437,174	22,701,988
Nation building tax expense	1,889	13,772
Inspection & Assessing	14,180,405	10,987,007
Annual Fee & Cess To IBSL	23,373,046	20,074,632
Operating Lease Rental Expences	5,730,000	4,330,000
Travelling	8,594,211	4,318,213
Provision For Impairment	14,933,849	
Other administration & establishment expenses	32,897,622	31,443,857
	-	
Total administration and establishment expenses	174,516,012	128,114,613

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

		2018	2017
7.	**INTANGIBLE ASSETS**	**Rs.**	**Rs.**
	Cost		
	At 1 January 2018	8,032,073	6,542,073
	Additions	1,702,201	1,490,000
	At 31st December 2018	**9,734,274**	**8,032,073**
	Accumulated amortisation and impairment		
	At 1 January 2018	6,654,365	6,542,073
	Amortisation	273,100	112,292
	At 31st December 2018	**6,927,465**	**6,654,365**
	Carrying amount		
	At 31st December 2018		
		2,806,809	**1,377,708**

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

At 31st December 2018	**2018**	**2017**
Software	6,542,073	6,542,073

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

8. PROPERTY, PLANT & EQUIPMENT

Company	Motor Vehicles	Office Equipment	Furniture & Fittings	Misc. Assets	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Cost/Valuation					
At 1 January 2018	30,008,003	49,713,886	11,686,827	16,088	91,424,804
Additions		4,292,055	544,504	-	4,836,560
Revalued Cost	19,225,000	17,128,550	7,412,200	-	43,765,750
Disposals					-
Transfers - Cost For Revaluation	(30,008,003)	(51,367,810)	(11,760,849)	(16,088)	(93,152,750)
Disposals	(7,500,000)	-	-	-	(7,500,000)
31st December 2018	11,725,000	19,766,681	7,882,682	-	39,374,363
					-
					-
Accumulated Depreciation					-
At 1 January 2018	27,343,638	19,780,608	4,813,485	16,088	51,953,820
Depreciation	4,041,887	6,802,331	1,608,421		12,452,639
Disposals	(833,333)				(833,333)
Revaluation Acc. Depreciation	(27,777,190)	(20,741,268)	(5,026,743)	(16,088)	(53,561,289)
Previous Month adjustment	-		-	-	-
31st December 2018	2,775,003	5,841,671	1,395,163	-	10,011,837
					-
Carrying amount					-
Carrying amount					-
At 31 December 2017	2,664,365	29,933,278	6,873,342	-	39,470,984
					-
31st December 2018	8,949,997	13,925,010	6,487,519	-	29,362,527

8.1 Revaluation of Proprty, Plant & Equipment

The Fixed Assets/ PPE were revalued during the financial year 2018 by a professionally qualified indipendant valuer,Messes Prathap Chartered Valuation & Consultancy (Pvt.) Ltd.

the results of such revaluation was incorporated in these financial statements from its effective date which was 31st March ,2018. Such assets were valued on an open market for an exsisting use basis.
The surplus arising from the revaluation was transferred to revaluation reserve.

8.2 Fully depriciated PPE in use

PPE includes fully depriciated assets which are in the use of normal business activities.
The initial cost of fully depriciated PPE which are still in use as at reporting date, is as follows.

	2018	2017
		Rs.
Motor Vehicles	-	3,416,550
Misc. Assets	-	16,088
	-	3,432,638

8.3 PPE pledge as security for liabilities

There were no items of Property, Plant and Equipment in the Board, pleadge as securities for liabilities during the year as well as last year.

8.4 Title restrictions on PPE

There are no restrictions that exsisted on the title of the PPE of the Board as at the reporting date.

8.5 Capitalization of Borrowing Cost

There were no capitalised borrowing costs relating to the acqustion of Property, Plant and equipment during financial year 2018 and last financial year 2017.

8.6 Temporarily idle property, plant and equipment

There were no Temporarily idle property, plant and equipment as at the year ended 31st December 2018. 2017 -Nil)

8.7 Compensation from third parties for items of property, Plant and Equipment

There were no compensation recieived/ receivable from third parties for items of property, plant and equpment that were imparied , loss or given up.

8.8 Capital commitments

There are no significant capital commitments which have been approved or contracted for by the Board as at 31st December 2018.

The carrying amount of the freehold properties, if they were carried at cost less accumulated depreciation would have been as follows:

Cost and accumulated depreciation of the revalued assets

	2018			2017		
Item	Cost	Accumulated Depriciation	Carrying Amonut	Cost	Accumulated Depriciation	Carrying Amonut
Motor Vehicle	11,725,000	10,298,514	1,426,486	30,008,003	27,343,638	2,664,365
Office Equipment	54,005,942	23,804,082	30,201,860	49,713,886	19,780,608	29,933,278
Furniture & Fittings	12,231,332	5,706,542	6,524,790	11,686,827	4,813,485	6,873,342
Total	77,962,274	39,809,138	38,153,137	91,408,716	51,937,732	39,470,984

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

9.	FINANCIAL ASSETS	Notes	2018 Rs.	2017 Rs.
	Loans And Receivables	9.1	2,345,377,459	1,898,174,131
	Available For Sale Financial Assets	9.2	8,329,240,037	6,263,253,661
	Held to Maturity Financial Assets	9.3	-	-
			10,674,617,497	8,161,427,792

9.1	Loans And Receivables	2018 Rs.	2017 Rs.
	Held to maturity financial assets		
	Loans and receivables	2,345,377,459	1,898,174,131
	Available-for-sale financial assets		
	Financial assets at fair value through profit or loss		
	Total financial instruments	2,345,377,459	1,898,174,131
	Loans and receivables		
	Government Securities - Repo Investment	2,345,377,459	1,898,174,131
	Debentures - Unquoted		
	Debentures - Unquoted		
	Refundable Deposits		
	Promissory notes		
	Total loans and receivables at amortised cost	2,345,377,459	1,898,174,131

9.2	Available For Sale Financial Assets	2018 Rs.	2017 Rs.
	Government Securities - Treasury Bonds	5,440,453,783	5,504,936,441
	Government Securities - Treasury Bills	2,888,786,255	758,317,220
		8,329,240,037	6,263,253,661

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

10. PREMIUM RECEIVABLES

			2018	2017
10.1	**Reinsurance Receivable**		**Rs.**	**Rs.**
	Reinsurance Receivable Retro		1,321,391,889	2,157,672,249
	Reinsurance Receivable NNIDS		147,376,867	2,416,428,672
			1,468,768,756	4,574,100,921

			2018	2017
			Rs.	**Rs.**
10.2	**Premium Receivable from :**			
	Parliamentary Members insurance		17,500,000	15,000,000
	Pension Agrahara		1,041,800	
	Primary Insurance to SRCC		794,290,501	750,578,963
	Inward Reinsurance		658,816,744	988456262
	General Insurance Motor	10.2.1	25,325,457	31,418,209
	General Insurance Non motor	10.2.1	51,850,232	323,711,536
			-	
			1,548,824,733	2,109,164,970

10.2.1	**Premium Receivable Impairment**		
	General Insurance Motor	29,903,987	31,418,209
	Impairment Provision - Motor	(4,578,530)	
		25,325,457	31,418,209
	General Insurance Non motor	62,205,551	323,711,536
	Impairment Provision - Non Motor	(10,355,319)	
		51,850,232	323,711,536
			-
		77,175,689	355,129,745

11.	**SOFT LOANS**	5,725,010	14,069,897

		2018	2017
12.	**OTHER NON-FINANCIAL ASSETS**	**Rs.**	**Rs.**
	Interest Receivables		
	Advances & Prepayments	4,632,720	7,286,308
	Refundable Deposits	44,345,250	4,670,250
	Prepayment Reinsurance Premium	-	10,466,315
	Staff Distress Loans	33,593,020	27,578,377
	other receivable	1,736,405	195,140
	Economic Service Charge	7,492,108	-
	Cheque Return Receivable	3,218,251	585,481
	Temporary Advance(from SRCC to NITF)	-	1,868,093,066
	General Insurance Motor	973,009	973,009
	Agrahara Department - NITF	2,489,102	2,489,103
		98,479,866	1,922,337,050

		2018	2017
13.	**DEFERRED COMMISSION**	**Rs.**	**Rs.**
	As at 1 January	597,083,610	503,962,390
	Provision made /(released) during the year	(40,133,110)	93,121,220
	At 31st December 2018	620,751,687	597,083,610

		2018	2017
14.	**CASH AND CASH EQUIVALENTS**	**Rs.**	**Rs.**
	Petty Cash	314,013	233,577
	Cash at bank	1,145,541,699	1,133,408,921
	Cash in hand and at bank	1,145,855,712	1,133,642,497
	Bank overdraft	(3,612,734)	-
	Total cash and cash equivalents	1,142,242,978	1,133,642,497

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

15. OTHER LIABILITIES

	Notes	2018 Rs.	2017 Rs.
Other financial liabilities	15.1	915,102,369	2,288,633,737
Other non financial liabilities	15.2	160,673,765	208,166,097
		1,075,776,134	2,496,799,835

15.1 Other financial liabilities

	2018 Rs.	2017 Rs.
Claim cheques/SLIPS returned payable	8,319,124	12,263,329
Unpresanted Cheque Payable	60,752,249	6,860,412
Motor premium Collected	698,185	17,568,213
Commission payable - Reinsurance	42,434,299	42,434,299
Restatement Premium payable	630,548,467	170,718,808
Annual fee and Cess payable	2,355,486	16,769,587
Refund Payable	4,174,728	4,063,728
Accrued expenses	14,700,957	11,086,404
Profit Commission Payable	134,356,471	120,403,318
Other payables	16,762,402	18,372,572
Temporary Advance(from SRCC to NITF)	-	1,868,093,066
	915,102,369	2,288,633,737

15.2 Other non financial liabilities

	2018 Rs.	2017 Rs.
Government Levies	160,673,765	208,166,097
	160,673,765	208,166,097

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31st December 2018

16. SEGMENT INFORMATION

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

	2018							
	Motor	**Non Motor**	**Disaster Mgt**	**Reinsurance**	**SRCC**	**Health Scheme**	**Crop Insurance**	**Total**
PREMIUMS	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Agrahara/ MP**	**Scheme**	**Rs.**
Gross written premiums	422,117,039	103,722,015	500,000,000	4,056,395,150	4,581,640,544		-	9,663,874,748
Contribution Received for Agrahara	-	-		-	-	4,037,420,904		4,037,420,904
Crop Insurance Levy Collected	-	-		-	-		2,138,167,676	2,138,167,676
Reinsurance Premiums ceded		(10,851,496)	(1,433,623,973)	(577,911,555)	(81,656,250)		(356,494,425)	(2,460,537,699)
Ceded to SRCC & Tr Fund	(8,726,229)	(16,713,110)						(25,439,340)
Net written premiums	**413,390,810**	**76,157,409**	**(933,623,973)**	**3,478,483,595**	**4,499,984,294**	**4,037,420,904**	**1,781,673,252**	**13,353,486,289**
Gross change in UPR	**(30,071,427)**	**253,971,616**	-	**(130,552,110)**	(468,137,941)			**(374,789,862)**
Reinsurers share of change in UPR			**555,846,575**	**94,558,680**			**24,329,784**	**674,735,040**
Net change in Reserve for unearned Premium	(30,071,427)	253,971,616	555,846,575	(35,993,430)	(468,137,941)	-	24,329,784	299,945,178
NET PREMIUMS EARNED (A)	**383,319,383**	**330,129,025**	**(377,777,397)**	**3,442,490,164**	**4,031,846,353**	**4,037,420,904**	**1,806,003,036**	**13,653,431,467**
Fee income (B)	6,362,815	104,600		-	-	-	-	6,467,415
TOTAL UNDERWRITING INCOME (A + B)	**389,682,198**	**330,233,625**	**(377,777,397)**	**3,442,490,164**	**4,031,846,353**	**4,037,420,904**	**1,806,003,036**	**13,659,898,882**
Acquisition costs	-	(804,112)		(807,579,402)	(800,610,698)	-	-	(1,608,994,211)
Change in deferred acquisition costs					-			-
Net acquisition costs (C)	**-**	**(804,112)**		**(807,579,402)**	**(800,610,698)**	**-**		**(1,608,994,211)**
Gross claims Incurred	(227,620,873)	(513,876,501)	(514,717,438)	(1,226,287,407)	(54,995,687)	(4,085,005,020)	(1,586,084,635)	(8,208,587,561)
Reinsurance recoveries	-	-	(681,171,372)	(335,594,771)	-	-	-	(1,016,766,143)
Changing of IBNR	(85,714,746)	(34,513,168)	(162,533,506)	57,379,737	(21,072,197)	(230,202,544)	11,361,907	(465,294,517)
Net claims paid	(313,335,619)	(548,389,669)	(1,358,422,316)	(1,504,502,441)	(76,067,885)	(4,315,207,564)	(1,574,722,728)	(9,690,648,221)
Reinsurers share of change in outstanding claims							-	-
NET CLAIMS INCURRED (D)	**(313,335,619)**	**(548,389,669)**	**(1,358,422,316)**	**(1,504,502,441)**	**(76,067,885)**	**(4,315,207,564)**	**(1,574,722,728)**	**(9,690,648,221)**
UNDERWRITING RESULT(A+B+C+D)	**76,346,580**	**(218,960,156)**	**(1,736,199,713)**	**1,130,408,322**	**3,155,167,770**	**(277,786,661)**	**231,280,308**	**2,360,256,450**
Administrative expenses (E)	(67,124,281)	(18,645,634)	(37,291,267)	(37,291,267)	(41,904,162)	(205,101,971)	(7,458,253)	(414,816,836)
					-			
TOTAL EXPENSES (C+D+E)	(380,459,900)	(567,839,414)	(1,395,713,584)	(2,349,373,110)	(918,582,744)	(4,520,309,535)	(1,582,180,981)	(11,714,459,268)
	9,222,298	**(237,605,790)**	**(1,773,490,981)**	**1,093,117,054**	**3,113,263,608**	**(482,888,631)**	**223,822,055**	**1,945,439,614**
Investment & Other Income for the year	8,724,966	1,907,024	904,767	249,363,438	1,073,813,679	3,432,899	5,253,142	1,343,399,914
Profit before tax	**17,947,264**	**(235,698,766)**	**(1,772,586,214)**	**1,342,480,492**	**4,187,077,287**	**(479,455,732)**	**229,075,197**	**3,288,839,529**
Income tax expense								(105,600,662)
Profit after tax	**17,947,264**	**(235,698,766)**	**(1,772,586,214)**	**1,342,480,492**	**4,187,077,287**	**(479,455,732)**	**229,075,197**	**3,183,238,867**

NOTES TO THE FINANCIAL STATEMENT

As At 31st December 2018

17. INSURANCE CONTRACT LIABILITIES

(a) Insurance Provision — 31st December 2018

	Notes	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Disaster Management Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Crop Contract Liabilities Rs.	Agrahara Contract Liabilities Rs.	Total Rs.
Provision for reported claims by policyhol		-					-		-
Outstanding claims provision	18.1	**178,327,712**	**57,512,211**	335,902,104	**2,070,666,023**	**32,633,849**	**62,761,858**	**289,144,283**	3,026,948,039
Provision for unearned premiums	18.2	168,520,523	47,620,414	(432,558,904)	1,325,179,622	2,363,340,065	(24,329,784)	13,315,068	3,461,087,005
Provision for claims IBNR	18.3	87,052,064	68,778,245	162,533,506	259,437,073	33,202,236	3,138,094	429,029,379	1,043,170,596
Total insurance contract liabilities		**433,900,299**	**173,910,869**	**65,876,706**	**3,655,282,718**	**2,429,176,150**	**41,570,167**	**731,488,730**	**7,531,205,639**

17.1 Outstanding claims provision — 31st December 2018

	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Disaster Management Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Crop Contract Liabilities Rs.	Agrahara Contract Liabilities Rs.	Total Rs.
As at 1 January	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
Increase / Decrease in Provision	(19,577,104)	(44,120,899)	288,155,839	1,118,915,215	(4,909,984)	227,238,143	(51,700,769)	1,514,000,441
								-
31st December 2018	**178,327,712**	**57,512,211**	**335,902,104**	**2,070,666,023**	**32,633,849**	**62,761,858**	**289,144,283**	**3,026,948,039**

17.2 Provision for unearned premiums — 31st December 2018

	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Disaster Management Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Crop Contract Liabilities Rs.	Parliamentary Members Contract Liabilities Rs.	Total Rs.
As at 1 January	138,449,097	301,592,030.14	123,287,671.23	1,289,186,192	1,895,202,124	13315068.49	13,315,068	3,774,347,251
	-						-	-
Premiums unearned during the period	30,071,427	253,971,616	(0)	(130,552,110)	(468,137,941)		0	(314,647,008)
31st December 2018	**168,520,523**	**47,620,414**	**123,287,671**	**1,419,738,302**	**2,363,340,065**	**-**	**13,315,068**	**4,135,822,044**
Reinsurance UPR								
As at 1 January								
Premiums unearned during the period			**(555,846,575)**	**(94,558,680)**	**-**	**(24,329,784)**		**(674,735,040)**
31st December 2018			**555,846,575**	**94,558,680**	**-**	**24,329,784**		**674,735,040**
Provision for Unearned Changers	**168,520,523**	**47,620,414**	**(432,558,904)**	**1,325,179,622**	**2,363,340,065**	**(24,329,784)**	**13,315,068**	**3,461,087,005**

17.3 Provision for claims IBNR — 31st December 2018

	Motor Insurance Contract Liabilities Rs.	Non Motor Contract Liabilities Rs.	Disaster Management Rs.	Reinsurance Contract Liabilities Rs.	SRCC Contract Liabilities Rs.	Crop Contract Liabilities Rs.	Agrahara Contract Liabilities Rs.	Total Rs.
As at 1 January	1,337,318	34,265,077	0	316,816,811	12,130,039	14,500,001	198,826,834	577,876,079
Increase / Decrease in Provision	85,714,746	34,513,168	162,533,506	(57,379,738)	21,072,197	(11,361,907)	230,202,545	465,294,517
31st December 2018	87,052,064	68,778,245	162,533,506.04	259,437,073	33,202,236	3,138,094	429,029,379	1,043,170,596
								-

NOTES TO THE FINANCIAL STATEMENT

18. RETIRING BENEFIT OBLIGATION

Movements in present value of the retirement benefit obligation are as follows		**2018** **Rs.**	**2017** **Rs.**
Balance at the beginning of the year		29,660,364	15,090,870
Add: Retiring gratuity expenses	18.1	(1,150,323)	14,569,494
Less: Benefits paid during the year		-	-
Balance at the end of the year		**28,510,041**	**29,660,364**

18.1 **Retiring Gratuity Expense**

Current service cost	4,802,206	4,042,659
Interest cost	3,122,976	1,827,504
Acturial (gain)/loss	(9,075,505)	8,699,331
	(1,150,323)	**14,569,494**

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2018

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

The purpose of these underwriting 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.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2018

Engineering

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

Motor

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

Miscellaneous Accident

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

INSURANCE AND FINANCIAL RISK (Contd...)

Premium receivables

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

	Notes	2018 Rs.	2017 Rs.
Loans and receivables	9.1	2,345,377,459	1,898,174,131
Available for sale financial assets	9.2	8,329,240,037	6,263,253,661
Premium Receivables	10	1,548,824,733	2,109,164,970
Soft Loans	11	5,725,010	14,069,897
Cash in hand and at bank	14	1,145,855,712	1,133,642,497
		13,375,022,952	11,418,305,156

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.

NOTES TO THE FINANCIAL STATEMENT

Year ended 31 December 2018

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.

SUPPLEMENTARY INFORMATION

DECADE AT A GLANCE

FINANCIAL PERFORMANCE
(in Sri Lankan Rupees)

for the year ended December 31,

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenue										
Net Earned Premium Income	13,653,431,466.78	**11,613,828,982**	**8,850,506,451**	**7,931,485,679**	**8,015,628,345**	**5,452,318,662**	**3,886,183,341**	**3,606,365,031**	**3,926,469,856**	**4,019,486,220**
Benefits, Losses and Expenses										
Insurance claims and acquisition cost	(11,299,642,432.00)	(11,341,525,875)	(6,611,475,579)	(4,172,209,800)	(3,899,969,969)	(1,763,476,689)	(2,281,470,751)	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)
	2,353,789,034.78	272,303,106	2,239,030,872	3,759,275,879	4,115,658,376	3,688,841,974	1,604,712,590	1,726,878,335	1,634,396,873	1,943,549,415
Other Revenue										
Investment Income	1,159,031,653.94	**1,108,006,205**	**967,301,878**	**801,608,493**	**624,075,269**	**691,492,020**	**615,813,544**	**723,412,241**	**798,117,037**	**1,364,459,074**
Interest on Soft Loans	318,346.09	807,908	2,078,808	3,110,618	11,937,931	5,915,955	7,278,316	10,163,846	16,982,331	15,125,027
Other Income	190,517,529.00	40,746,691	19,308,494	51,664,458	3,902,584	4,165,001	18,886,182	743,614	1,006,353	471,787
	1,349,867,529.03	1,149,560,805	988,689,180	856,383,568	639,915,785	701,572,977	641,978,043	734,319,701	816,105,721	1,380,055,889
Expenditure										
Staff Related Costs	218637288.2	201,433,256	164,253,318	132,494,516	84,790,542	76,487,490	72,006,709	56,000,854	42,326,032	33,124,615
Administration Expenses	174516012.1	143,245,042	223,714,879	93,018,399	88,128,033	64,621,143	74,402,484	68,915,550	45,136,006	49,246,381
Finance &Other Expenses	21,663,536	-	-	-	-	8,459,075	17,258,273	21,581,925	32,425,697	38,401,103
Total Expenditure	414,816,836	**344,678,298**	**387,968,196**	**225,512,915**	**172,918,575**	**149,567,708**	**163,667,466**	**146,498,329**	**119,887,735**	**120,772,099**
Taxation	**(105,600,661.80)**	**(100,951,677)**		**(86,822,200)**						
Income Over Expenditure after tax	**3,183,238,866.44**	***976,233,935***	***2,839,751,856***	***4,303,324,332***	***4,582,655,585***	***4,240,847,242***	***2,083,023,167***	***2,314,699,707***	***2,330,614,859***	***3,202,833,205***

FINANCIAL POSITION
(in Sri Lankan Rupees)

As at 31 December

Assets	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Property Plant and Equipment	32,169,337.10	40,848,693	43,058,543	34,125,797	26,251,881	19,317,968	24,739,202	29,606,877	36,096,011	43,603,504
Financial Investments	10,674,617,496.64	8,161,427,792	11,187,844,373	10,388,972,726	9,105,573,879	6,667,518,021	5,375,914,672	4,444,546,262	5,574,107,463	8,550,206,721
	10,706,786,833.74	8,202,276,484	11,230,902,916	10,423,098,523	9,131,825,761	6,686,855,988	5,400,653,874	4,474,153,140	5,610,203,474	8,593,810,225
Current Assets										
Receivable	3,121,798,364.60	8,619,672,838	7,096,616,002	1,222,450,075	1,416,831,322	1,686,049,990	1,664,647,836	1,927,814,565	1,945,815,895	2,079,570,419
Cash and Cash Equivalents	1,142,242,977.96	1,133,642,497	705,205,727	166,785,332	278,096,913	305,495,813	103,641,397	3,542,969,945	3,594,104,553	110,173,003
Current Assets	4,264,041,342.56	9,753,315,335	7,801,821,729	1,389,235,407	1,694,928,235	1,991,545,803	1,768,289,233	5,470,784,510	5,539,920,448	2,189,743,421
Total Assets	14,970,828,176.30	17,955,591,819	19,032,724,645	11,812,333,930	10,826,753,995	8,678,381,792	7,168,943,107	9,944,937,649	11,150,123,923	10,783,553,646
	(624,364,421.64)									
Equity & Liability Equity										
Accumulated Fund	6,956,088,048.34	7,146,358,490	7,564,858,128	8,655,511,761	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783
	6,956,088,048.34	7,146,358,490	7,564,858,128	8,655,511,761	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783
Technical Reserve										
Unearned Premium	3,461,087,004.67	3,761,032,182	2,873,981,524.97	2,155,544,260	2,128,642,612	1,622,656,295	1,059,398,308	963,443,837	821,564,804	1,046,825,276
Deferred Commission	(620,751,687.46)	(597,083,610)	(482,908,910)	(421,132,953)	(366,621,700)	(199,173,169)	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)
	2,840,335,317.21	3,163,948,573	2,391,072,615	1,734,411,307	1,762,020,912	1,423,483,126	882,865,620	801,957,122	681,819,505	846,685,740
Liability										
Non-Current Liabilities										
Government grant		-	-	-	-	66,960	66,960	142,150	284,330	719,190
Profit Commision paybale	134,356,470.86	120,403,318	89,809,561	-	-	12,287,375	12,287,375	12,287,375	12,287,375	63,762,150
	134,356,470.86	120,403,318	89,809,561			12,354,336	12,354,336	12,429,525	12,571,705	64,481,340
Current Liabilities										
Claim payable	4,070,118,634.82	5,118,824,558	6,921,254,984	1,102,369,856	1,111,616,732	273,060,335	286,078,050	392,410,772	518,000,207	329,499,921
Other payable	969,929,704.78	2,406,056,880	2,065,729,357	320,041,006	230,081,405	18,819,722	74,726,585	240,690,522	242,265,350	178,033,863
	5,040,048,339.60	7,524,881,438	8,986,984,341	1,422,410,862	1,341,698,137	291,880,056	360,804,635	633,101,294	760,265,557	507,483,784
Total Equity and Liabilities	**14,970,828,176.30**	17,955,591,819	19,032,724,645	11,812,333,930	10,826,753,995	8,678,381,792	7,168,943,108	9,944,937,649	11,150,123,921	10,783,553,647

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. Gardinar Mawatha,
Colombo 02,
Sri Lanka

Contact Details
Telephone Numbers: +94 11 2026600
Fax Numbers: +94 112338778
Email: mail@nitf.lk
Corporate Website: http:// www.nitf.lk

Members of the Board -2018
Mr. Manjula De Silva (Chairman)
Mr. N. M. D. Nawarathne
Mr. Trevine Fernandopulle
Mr. Asendra Siriwardena
Mr. P. P. S. Rohana De Silva
Mr. Chandana Kumarasinghe
Mr.K.A.Vimalenthirarajah

Secretary to the Board -2018
Mrs. Udari Ranhotigamage

External Auditors
The Auditor General
No.306/72, Polduwa Road
Battaramulla

Bankers
Peoples Bank
Bank of Ceylon
National Savings Bank