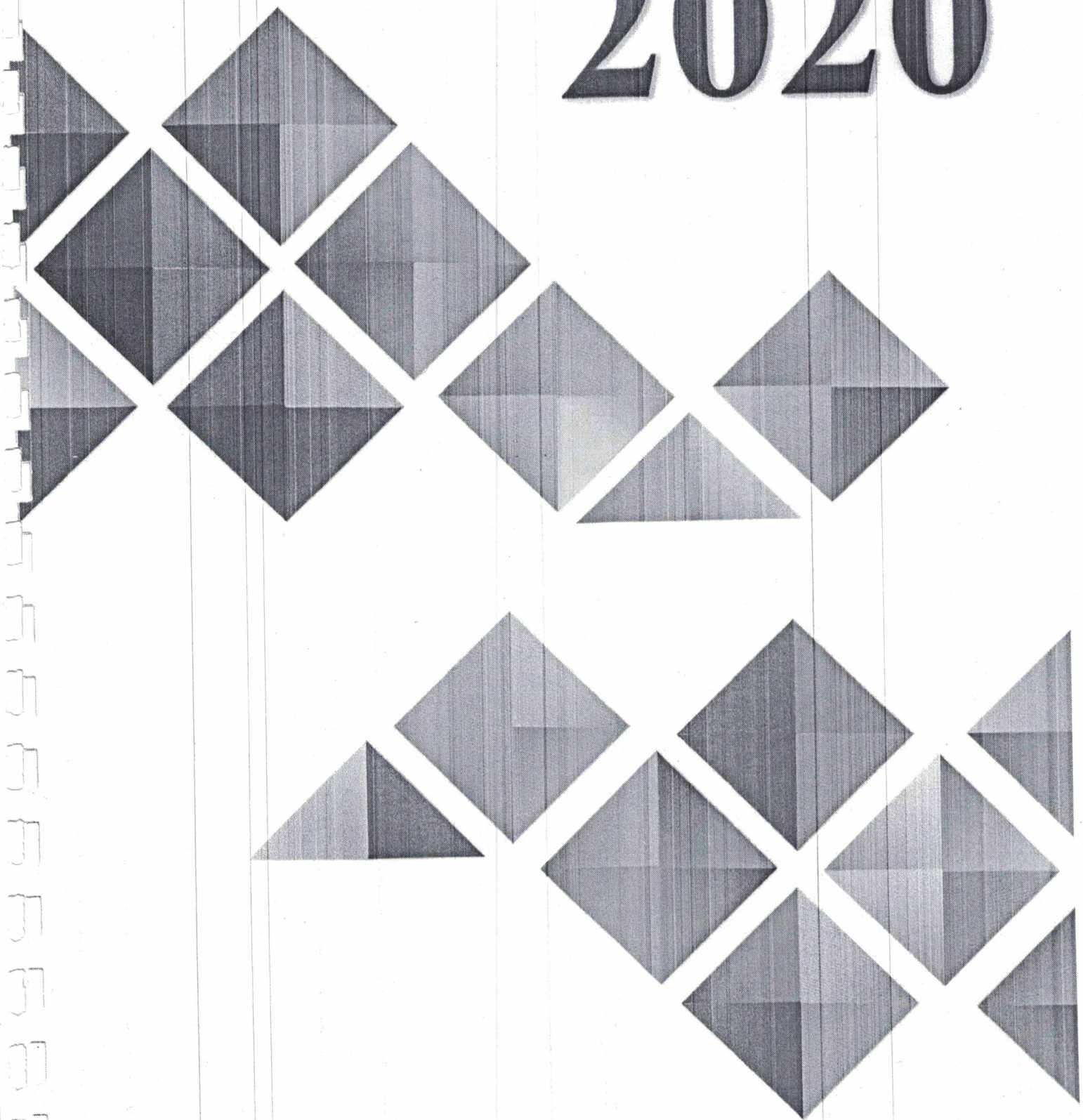


FINANCIAL STATEMENTS 2020



NATIONAL INSURANCE TRUST FUND BOARD
(MINISTRY OF FINANCE)



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NATIONAL INSURANCE TRUST FUND BOARD

STATEMENT OF COMPREHENSIVE INCOME

For the Period ended 31st December 2020

	Notes	2020 Rs.	2019 Rs.
Gross written premiums	1	9,818,040,011	12,693,194,645
Contribution Received for Agrahara	1	5,469,298,738	4,838,723,551
Crop Insurance Levy Collected		1,626,851,259	1,780,383,987
Reinsurance Premiums ceded		(1,101,890,156)	(1,191,875,662)
Ceded to SRCC & Tr Fund		-	-
Net written premiums		15,812,299,851	18,120,426,521
Net change in Reserve for unearned premium		867,768,751	(997,664,716)
Reinsurers share of change in UPR		794,959,214	(674,735,040)
Net earned premium		17,475,027,816	16,448,026,766
Revenue from other operations			
Fees and commission income	2	1,935,395	4,438,361
Investment & Other Income	3	1,385,087,715	1,264,778,325
Other revenue		1,387,023,110	1,269,216,686
Gross benefits and claims Incurred	4	(7,978,035,907)	(9,934,309,446)
Claims ceded to reinsurers	4	-	498,500,000
Gross change in contract liabilities	4	97,522,388	(2,522,543,002)
Change in contract liabilities ceded to reinsurers	4	-	(43,234,155)
Gross change in IBNR	4	(74,002,744)	(77,731,211)
Net benefits and claims		(7,954,516,263)	(12,079,317,814)
Underwriting and acquisition cost (including reinsurance)	5	(1,614,860,946)	(2,055,691,850)
Other operating and administrative expenses	6.1	(409,175,576)	(552,685,117)
Finance cost & other Related Cost	6.2	(17,571,769)	(21,062,606)
Total benefits, claims and other expenses		(9,996,124,555)	(14,708,757,386)
Profit/(Loss) before tax		8,865,926,371	3,008,486,066
Income Tax for the Year		(1,339,826,929)	105,600,661
Profit/(Loss) for the year		7,526,099,442	3,114,086,727
Other Comprehensive Income			
Net change in available for sale financial assets		134,541,150	517,879,752
Actual Gain/(Loss) on retirement benefit obligation		(7,943,165)	(574,033)
Other comprehensive income for the year, net of tax		126,597,985	(356,153)
Total Comprehensive Income		7,652,697,427	3,631,392,446

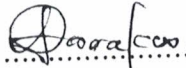
NATIONAL INSURANCE TRUST FUND BOARD


STATEMENT OF FINANCIAL POSITION

As At 31st December 2020

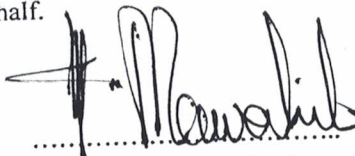
	Notes	2020 Rs.	2019 Rs.
Assets			
Intangible assets	7	5,998,484	8,147,706
Property, plant and equipment	8	42,225,902	40,497,303
Right of use lease Assets	9	94,511,709	130,651,150
Financial Assets	10	21,666,072,511	15,444,667,263
Reinsurance Receivable	11	1,102,142,174	1,599,620,442
Premium receivables	12	2,849,482,173	2,010,815,480
Soft Loans	13	2,726,557	3,754,982
Other non financial assets	14	112,092,419	109,855,613
Deferred Commission	15	713,547,137	758,831,301
Cash at bank and in hand	16	769,514,934	600,106,740
Total Assets		27,358,314,000	20,706,947,980
Equity and Liabilities			
Retained earnings		13,887,197,157	7,143,097,715
Other component of equity		177,448,911	50,850,926
Revaluation Reserve		(2,102,126)	(2,102,126)
Total Equity		14,062,543,942	7,191,846,515
Liabilities			
Insurance contract liabilities	19	9,825,591,002	11,803,879,609
Retirement benefit obligation	20	50,120,616	34,192,463
Lease Creditor	21	113,263,614	141,801,845
Other liabilities	17	3,306,794,823	1,535,227,547
Bank overdraft	16	-	-
Total Liabilities		13,295,770,055	13,515,101,463
Total Equity and Liabilities		27,358,314,000	20,706,947,980

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


 W.M.D.K. Weerakoon
 Chief Financial Officer (Acting)
 Assistant General Manager - Finance


 L.A.G.N. Liyanarachchi
 Chief Executive Officer

The Accounting policies and Notes on pages 5 to 45 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.


 Mawahib Mowjood
 Chairman


 Director

28-Sep-22
 Colombo

NATIONAL INSURANCE TRUST FUND BOARD

Statement Of Changes in Equity

As At 31st December 2020

	Retained earnings	Available for - Sale Financial Assets	Revaluation Reserve	Total
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)
Opening - AR Control RI	(38,856,406)			(38,856,406)
Opening - AR Control Non Motor	83,109,718			83,109,718
Cheque Return	(324,575)			(324,575)
ETF 3%	305,147			305,147
Motor bike Advance & Motor Receivable	(57,582,588)			(57,582,588)
ESC	(2,068,743)			(2,068,743)
Other Previous Year Adjustment	(493,887)			(493,887)
Acturial (gain)/loss on gratuity valuation		(8,699,331)		(8,699,331)
	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 Opening 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
Profit for the year	3,114,086,727			3,114,086,727
Other Previous Year Adjustment	(139,165,533)			(139,165,533)
Cash Transferred to the Consolidated Fund	(3,267,970,000)			(3,267,970,000)
Amortised discounts on Bonds	11,501,557			11,501,557
Net change in available for sale financial assets		517,879,752		517,879,752
Acturial (gain)/loss on gratuity valuation		(574,033)		(574,033)
Balance as at 31 st December 2019	7,143,097,716	50,850,927	(2,102,126)	7,191,846,517
Profit for the Period	7,526,099,442			7,526,099,442
Acturial (gain)/loss on gratuity valuation		(7,943,165)		(7,943,165)
Net change in available for sale financial assets		134,541,150		134,541,150
Cash Transferred to the Consolidated Fund	(782,000,000)			(782,000,000)
Balance as at 31st December 2020	13,887,197,157	177,448,912	(2,102,126)	14,062,543,942

Accounting policies and notes on pages 5 through 45 form an integral part of the Financial Statements.
Figures in bracket indicate deductions.

NATIONAL INSURANCE TRUST FUND BOARD
CASH FLOW STATEMENT
For the Period ended 31st December 2020

	2020 Rs.	2019 Rs.
Cash Flows from Operating Activities	8,865,926,371	3,008,486,066
Profit Before Tax		(1,215,544,996)
Adjustments for :	(1,334,565,453)	14,354,664
Interest Income	10,704,723	1,092,955
Depreciation	2,149,221	517,305,719
Amortisation	126,597,985	(139,165,533)
Net Fair Value Changes		756,279
Prior Year Adjustments		
Loss/ (Profit)on Disposal of Fixed Assets	7,670,812,847	2,187,285,153
Change in Operating Assets	(262,001,625)	(872,948,944)
Change in Operating Liabilities	(1,559,158,338)	4,985,210,310
Cash Flow from Operating Activities	5,849,652,884	6,299,546,518
Net Cash Generated from Operating Activities	5,849,652,884	6,299,546,518
Cash Flows from Investing Activities	(6,221,405,247)	(4,770,049,767)
Net Disposal/(Acquisition) of Financial Investments	1,334,565,453	1,215,544,996
Interest Received	-	11,501,557
Amortised discounts on Bonds	1,028,424	1,970,028
Recovery of Soft Loans		1,222,888
Disposal of Property Plant and Equipment		(6,433,851)
Acquisition of Intangible Assets	(12,433,322)	(27,468,606)
Acquisition of Property, Plant and Equipment	(4,898,244,692)	(3,573,712,754)
Net Cash Used from Investing Activities	(6,221,405,247)	(4,770,049,767)
Cash Flows from Financing Activities	(782,000,000)	(3,267,970,000)
Cash Transferred to the Consolidated Fund	(782,000,000)	(3,267,970,000)
Net Cash Used in Financing Activities	(782,000,000)	(3,267,970,000)
Net Increase / (Decrease) in Cash and Cash Equivalents	169,408,194	(542,136,236)
Net Cash and Cash Equivalents at the beginning of the Year	600,106,740	1,142,242,978
Cash and Cash Equivalents at the end of the Year	769,514,934	600,106,740

Notes to the Cash Flow Statement

A. Change in Operating Assets	45,284,164	(138,079,613)
(Increase)/ Decrease in Deferred Commission	497,478,268	(130,851,686)
(Increase)/ Decrease in reinsurance premium receivable	(838,666,693)	(461,990,747)
(Increase)/ Decrease in Premium Receivable	(2,236,806)	(11,375,748)
(Increase)/ Decrease in Other Non Financial Assets	36,139,441	(130,651,150)
(Increase)/ Decrease in Right of use lease Assets	(262,001,625)	(872,948,944)
B. Change in Operating Liabilities	(1,978,288,607)	4,272,673,969
Increase / (Decrease) in Insurance Contract Liabilities	15,928,153	5,682,422
Increase / (Decrease) in Retirement Benefit obligation	431,740,347	565,052,074
Increase / (Decrease) in Other liabilities	(28,538,231)	141,801,845
Increase / (Decrease) in Lease Creditor	(1,559,158,338)	4,985,210,310
C. Increase / (Decrease) in Cash and Cash Equivalents	769,514,934	600,106,740
Net Cash and Cash Equivalents at the end of the Year	600,106,740	1,142,242,978
Less: Net Cash and Cash Equivalents at the beginning of the Year	169,408,194	(542,136,238)
Net Increase / (Decrease) in Cash and Cash Equivalents	769,514,934	600,106,740

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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. 95, Sir Chittampalam A Gardiner Mawatha, Colombo 02 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 2020 was 365 (2019 – 306).

1.6 Approval of financial statements by the Board of Directors

The financial statements of The Board for the year ended 31st December 2020 were approved and authorized to issue on 26 September 2022 in accordance with the resolution of the Board of Directors on 26 September 2022.

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 quarter-end, (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 45).

NATIONAL INSUARANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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	10.1
Available For Sale financial assets	At fair value	10.2
Defined benefit obligations	Actuarially valued and recognized at present value of the defined benefit obligations	20
Policyholders' liabilities	Actuarial determined values based on actuarial guidelines issued by IRCSL	19.1
Incurred But Not Reported / Incurred But Not Enough Reported	Actuarial determined values based on actuarial Methodologies	19.3

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 2020.

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

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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.

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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 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.

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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 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 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 discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is 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.

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

• Sri Lanka Financial Reporting Standard (SLFRS) 15 - Revenue from Contracts with Customers SLFRS 15 establishes a five step 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.

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.

• 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 realized 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 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).

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.

NATIONAL INSURANCE TRUST FUND BOARD
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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

NATIONAL INSURANCE TRUST FUND BOARD
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18 SEGMENT INFORMATION

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

	2020						Total	
	Motor Rs	Non Motor Rs	NNDIS Rs	Reinsurance Rs	SRCC Rs	Health Scheme Agrahara /Mp	Crop Insurance Scheme	Rs
PREMIUMS								
Gross written premiums	260,600,235	213,469,435	-	3,235,474,242	6,088,496,099	20,000,000		9,818,040,011
Contribution Received for Agrahara						5,469,298,738		5,469,298,738
Crop Insurance Levy Collected							1,626,851,259	1,626,851,259
Reinsurance Premiums ceded	(6,683,271)	(9,585,888)		(985,500,000)	(116,390,156)			(1,101,890,156)
Ceded to SRCC & Tr Fund	253,916,964	203,883,547		2,249,974,242	5,988,375,101	5,489,298,738	1,626,851,259	15,812,299,851
Net written premiums	62,708,125	19,407,473	369,863,014	328,384,234	87,405,906	-	-	867,768,751
Gross change in UPB				710,852,459	84,106,755			794,959,214
Reinsurers share of change in UPB				1,039,236,693	171,512,661			1,662,727,965
Net change in Reserve for unearned Premium	62,708,125	19,407,473	369,863,014	1,039,236,693	171,512,661			1,662,727,965
NET PREMIUMS EARNED (A)	316,625,089	223,291,020	369,863,014	3,289,210,934	6,159,887,762	5,489,298,738	1,626,851,259	17,475,027,816
Fee income (B)	1,669,869	265,526						1,935,395
TOTAL UNDERWRITING INCOME (A + B)	318,294,958	223,556,546	369,863,014	3,289,210,934	6,159,887,762	5,489,298,738	1,626,851,259	17,476,963,211
Acquisition costs	(114,503)	(2,006,500)		(703,022,439)	(982,741,457)			(1,687,884,899)
Profit Commission Expenses					118,308,118			118,308,118
Change in deferred acquisition costs		(1,508,879)		(29,521,684)	(14,253,601)			(45,284,164)
Net acquisition costs (C)	(114,503)	(3,515,380)	-	(732,544,123)	(878,686,940)	-	-	(1,614,860,946)
Gross claims Incurred	(226,899,864)	(206,946,636)	548,040,965	(1,604,293,185)	(2,036,000)	(4,989,938,897)	(1,398,439,902)	(7,880,513,519)
Reinsurance recoveries								-
Changing of IBNR	(8,618,552)	12,034,400	121,880,420	98,821,419	16,417,739	21,775,178	(336,313,348)	(74,002,744)
Net claims paid	(235,518,416)	(194,912,236)	669,921,385	(1,505,471,766)	14,381,739	(4,968,163,719)	(1,734,753,250)	(7,954,516,263)
Reinsurers share of change in outstanding claims								-
NET CLAIMS INCURRED (D)	(235,518,416)	(194,912,236)	669,921,385	(1,505,471,766)	14,381,739	(4,968,163,719)	(1,734,753,250)	(7,954,516,263)

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	82,662,038	25,128,930	1,039,784,399	1,051,195,045	5,295,582,561	521,135,020	(107,901,991)	7,907,586,001
UNDERWRITING RESULT(A+B+C+D)								
Administrative expenses (E)	(57,835,269)	(16,065,353)	(32,130,705)	(32,130,705)	(105,440,294)	(176,718,878)	(6,426,141)	(426,747,346)
TOTAL EXPENSES (C+D+E)	(293,468,189)	(214,492,969)	637,790,680	(2,270,146,595)	(969,745,496)	(5,144,882,597)	(1,741,179,391)	(9,996,124,555)
Investment & Other Income for the year	24,826,769	9,063,577	1,007,653,694	1,019,064,340	5,190,142,267	344,416,141	(114,328,133)	7,480,838,656
Profit before tax	3,609,098	328,160	10,233	211,344,417	1,125,424,167	15,796,882	28,574,758	1,385,087,715
Income tax expense	28,435,867	9,391,738	1,007,663,927	1,230,408,756	6,315,566,434	360,213,024	(85,753,375)	8,865,926,371
Profit after tax	28,435,867	9,391,738	1,007,663,927	1,230,408,756	4,975,739,505	360,213,024	(85,753,375)	7,526,099,442

NATIONAL INSURANCE TRUST FUND BOARD

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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 recognized on the date on which the policy commences. However GWP of Agraphara and crop insurance levy are considered on cash basis. Rebates that form part of the premium rate, such as no claim rebates, are deducted from the GWP.

Reinsurance gross premiums include premium income in relation to inwards facultative business, Inwards proportional treaty and inwards non-proportional treaty reinsurance.

Inwards facultative reinsurance premiums are recognized in the financial year in respect of the facultative risks assumed during the particular financial period after receiving the leader confirmation. Inward proportional treaty reinsurance premiums are recognized on the basis of periodic advices received from cedants with the leader confirmation.

Premium income on non-proportional treaties, which covers losses occurring during a specified treaty period, are recognized base on the contractual premium already established at the start of the treaty period under the terms and conditions of each contract.

GWP for the year by major classes of business are as follows;

NATIONAL INSURANCE TRUST FUND BOARD
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	2020 Rs.	2019 Rs.
Inward Reinsurance	3,235,474,242	4,173,714,909
SRCC & Tr Premium	6,088,496,099	6,307,350,365
General Insurance - Motor	260,600,235	390,150,125
General Insurance - Non Motor	213,469,435	301,979,246
National Natural Disaster Scheme (NNDIS)	-	1,500,000,000
Medical scheme for Parliamentary members	20,000,000	20,000,000
	9,818,040,011	12,693,194,645

Contribution collected for Agrahara medical Insurance Scheme	2020 Rs.	2019 Rs.
Contribution from Members	4,090,359,038	3,617,114,527
Contribution from the Treasury	782,000,000	767,970,000
Pensioners Insurance Scheme	166,837,400	142,321,400
Semi Government Scheme	430,102,300	311,317,625
	5,469,298,738	4,838,723,551

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.

NATIONAL INSURANCE TRUST FUND BOARD

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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)

NATIONAL INSURANCE TRUST FUND BOARD

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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 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 income tax. Current income 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.

INCOME TAX REVERSAL/(EXPENSE)

The major components of income tax expense for the years ended 31st December are as follows:

Tax Recognized in Profit & Loss
For the Year Ended 31st December,

	2020 Rs.	2019 Rs.
Current Income Tax	-	-
Income Tax on current year's profit	1,339,826,929	(105,600,662)
(Over)/Under Provision of Current Taxes in Respect of Prior Years	-	
Total Income Tax (Reversal)/Expense	1,339,826,929	(105,600,662)

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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.

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.

17.1 Fully amortised intangible assets in use was Rs. 7,067,073 fully amortised intangible assets which are still in use or idle intangible assets as at the reporting date (2019 - 6,542,073).

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

17.3 No Acquisition of intangible assets during the year 2020 (2019 - 6,433,851).

17.4 Assessment of impairment of intangible assets The Board of Directors has assessed the potential impairment indicators of intangible assets as at 31 December 2020. 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.

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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 recognized 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.

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
Name Board	Over the lease period of the building

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-recognized.

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-recognized. 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:

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- 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. 12,433,322 (2019 - Rs. 27,468,606). 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 2020 (2019 - Nil).
- 18.5 Temporarily idle property, plant and equipment There were no temporarily idle property, plant and equipment as at 31 December 2020 (2019 - Nil).
- 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 2020. 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. Revaluations are performed once in every 05 years by internally appointed committee or external valuers where necessary. 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 (2019- 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

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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.

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

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secured against the assigned government securities with ISIN numbers. REPO rates for the outstanding balances were in the range of 5.3% - 8.45%, depending on different maturities.

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

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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.

21 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 (IRC SL), 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

REINSURANCE

Age	2020	2019
Up to 30 days	41,598,382	72,195,682
31 to 60 days	19,169,527	172,692,828
61 to 365 days	755,909,721	409,991,631
Over 365 days	451,128,820	302,332,943
	1,267,806,450	957,213,084

MOTOR

Age	2020	2019
Up to 30 days	3,304,755	9,700,788
31 to 60 days	2,181,646	9,064,058
61 to 365 days	4,652,398	16,321,752
Over 365 days	467,366	1,121,030
	10,606,165	36,207,628

NON MOTOR

Age	2020	2019
Up to 30 days	45,532,523	49,136,967
31 to 60 days	535,425	2,227,274
61 to 365 days	11,830,708	7,278,411
Over 365 days	12,514,249	3,563,364
	70,412,904	62,206,015

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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.

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

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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.

25 RETAINED EARNINGS

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 OTHER RESERVES

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

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.

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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 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.

28.1 Insurance contract liabilities

28.2 Provision for net unearned premium

28.3 Provision for gross outstanding claims

28.4 Provision for gross IBNR claims

28.5 Reconciliation between insurance provision and technical reserves

28.6 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 2019 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 2020 (2019 - Nil).

28.7 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 2019.

28.8 Changes in assumptions There were no material estimation changes from the previous valuation done for the balance as at 31 December 2020.

29 EMPLOYEE DEFINED BENEFIT OBLIGATIONS

A defined benefit plan is a post - employment benefit other than a defined contribution plan. The liability recognized in the financial statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The 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. The actuarial valuation involves making assumptions about the 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.

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The re- measurement 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.

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 Fund.

Principal actuarial assumptions used.

<u>Actuarial information</u>	2020	2019
a) Discount Rate	9.09%	10.77%
b) Salary increase	9.00%	9.80%
d) Mortality rates	Permanent Assurances, males, combined - A1967-70	
e) Disability rates	No disability rates we assumed	
c) Withdrawal rate		
<i>Age band</i>		
0 - 20	0.0%	0.0%
20 - 25	0.0%	0.0%
25 - 30	2.9%	1.6%
30 - 35	1.8%	1.8%
35 - 40	1.9%	1.4%
40 - 45	0.0%	0.0%
45 - 50	0.0%	0.0%
50 - 55	0.0%	0.0%
55 - 100	0.0%	0.0%
<u>Employee Information</u>		
a) Average age	35.3	34.3
b) Average service period(years)	7.6	6.5
c) Expected future lifetime (years)	15.58	15.99
d) Number of Employees	234	239

Under the revised LKAS 19 framework, Sensitivity Analysis for each significant actuarial assumption as at the end of the reporting period is disclosed in order to show the impact of changes in the relevant assumptions on the defined benefit obligation.

Sensitivity Analysis has been performed on the following factors:

1. Salary Inflation: The salary inflation assumption is stressed by +/- 100 basis points.
2. Discount Rate: The discount rate assumption is stressed by +/- 100 basis points.

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3. **Withdrawal Rate:** The withdrawal assumptions have been stressed by increasing the base withdrawal rate assumptions by 100% (doubling) at all ages and decreasing the base withdrawal rate assumptions by 50% (halving) at all ages.

4. **Mortality:** The mortality assumptions have been stressed by increasing and decreasing the base mortality assumptions by 10% at all ages.

The analysis has been prepared by changing one target assumption while holding all other assumptions constant. We note the limitation of this method where there may be some assumptions which are interdependent but it will be difficult to analyse and interpret such interdependencies on a consistent basis.

The methods and assumptions used in preparing the Sensitivity Analysis did not change as compared to the valuation.

The impact on the defined benefit obligation as at 31 December 2020 are presented below for the respective companies in the Investment sector.

Table 6-1: Sensitivity Analysis on Salary Inflation

Scenario	Assumption	DBO as at 31-Dec-20 (LKR)	Difference %
Base Scenario	9.00%	50,120,616	
Increase 100 b.p.	10.00%	57,575,287	14.87%
Decrease 100 b.p.	8.00%	43,748,522	-12.71%

Table 6-2: Sensitivity Analysis on Discount Rate

Scenario	Assumption	DBO as at 31-Dec-20 (LKR)	Difference %
Base Scenario	9.09%	50,120,616	
Increase 100 b.p.	10.09%	43,636,667	-12.94%
Decrease 100 b.p.	8.09%	57,872,011	15.47%

Table 6-3: Sensitivity Analysis on Withdrawal Rate

Scenario	DBO as at 31-Dec-20 (LKR)	Difference %
Base Scenario	50,120,616	
100% increase in all ages	49,578,521	-1.08%
50% decrease in all ages	50,429,425	0.62%

Table 6-4: Sensitivity Analysis on Mortality Rate

Scenario	DBO as at 31-Dec-20 (LKR)	Difference %
Base Scenario	50,120,616	
10% increase in all ages	50,142,483	0.04%
10% decrease in all ages	50,098,570	-0.04%

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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.

Derecognition 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.

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.

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2020

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

36 LEASES - SLFRS 16

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right of use the asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement of date, discounted using the interest rate implicit of the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

The Fund as Lessee has applied SLFRS 16 -Leases with effect from 01st January 2019 using modified retrospective approach and therefore, comparative information has not been restated.

37. CONTINGENT LIABILITIES

A contingent liability is,

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) Present obligation that arises from past events but is not recognized because:
 - i) It is not probable that an out flow of resources embodying economic benefits will be required to settle the obligation or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

The contingent liabilities of the board as at 31st December 2020, relates to the following;

A provision for outward reinsurance payment from the reinsurance agreements resulted due to adjusted premium of National Natural Disaster Insurance scheme (NNDIS) for the years 2017/2018 amounting to Rs. 123,387,679/-, adjusted premium of retrocession reinsurance for the year 2018/2019 amounting to Rs. 466,292,684/- and balance reinstatement premium payable of Rs. 142,816,645 had not been recognized in the financial statement due to its uncertainty involving in its authorization and procedural difficulties in terms of the timing and exact value in the settlement of the said balances

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

For the Period ended 31st December 2020

1 Gross Written Premium

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

	2020	2019
	Rs.	Rs.
Inward Reinsurance	3,235,474,242	4,173,714,909
SRCC & Tr Premium	6,088,496,099	6,307,350,365
General Insurance - Motor	260,600,235	390,150,125
General Insurance - Non Motor	213,469,435	301,979,246
National Natural Disaster Scheme (NNDIS)	-	1,500,000,000
Medical scheme for Parliamentary members	20,000,000	20,000,000
	9,818,040,011	12,693,194,645

1.2 Contribution collected for Agrahara medical Insurance Scheme

	2020	2019
	Rs.	Rs.
Contribution from Members	4,090,359,038	3,617,114,527
Contribution from the Treasury	782,000,000	767,970,000
Pensioners Insurance Scheme	166,837,400	142,321,400
Semi Government Scheme	430,102,300	311,317,625
	5,469,298,738	4,838,723,551

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

For the Period ended 31st December 2020

	2020 Rs.	2019 Rs.
2. FEES AND COMMISSION INCOME		
Policyholder administration fees	1,935,395	4,438,361
Total fees and commission income	<u>1,935,395</u>	<u>4,438,361</u>
3. INVESTMENT & OTHER INCOME		
3.1 Loans and receivables interest income		
Interest income from Repurchase Agreements	389,025,674	368,704,680
Interest income from Debentures		
	<u>389,025,674</u>	<u>368,704,680</u>
3.2 Available for sales interest income		
Interest income from Treasury Bills	308,025,889	224,718,954
Interest income from Treasury Bonds	604,225,897	585,152,006
	<u>912,251,786</u>	<u>809,870,961</u>
3.3 Held to maturity interest income		
Interest income from SLBD	33,287,993	36,969,356
	<u>33,287,993</u>	<u>36,969,356</u>
Total Investment Income	<u>1,334,565,453</u>	<u>1,215,544,996</u>
3.4 Other Income		
Interest on Savings Account	8,882,278	7,826,740
Interest on Soft Loans	20,576	49,172
Interest on Staff Distress Loans	1,785,186	1,690,019
Disposal of Fixed Assets	-	(756,279)
Exchange Gain / loss	33,162,446	17,057,402
Other	6,671,775	23,366,275
Total Other Income	<u>50,522,262</u>	<u>49,233,328</u>
Total Income	<u>1,385,087,715</u>	<u>1,264,778,325</u>

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

For the Period ended 31st December 2020

4	NET BENEFITS AND CLAIMS	2020 Rs.	2019 Rs.
	(a) Gross benefits and claims paid		
	Reinsurance	(1,690,493,892)	(2,476,072,216)
	SRCC & Tr	(2,036,000)	(417,783,502)
	General Insurance - Motor	(169,250,954)	(257,432,249)
	General Insurance - Medical & Other	(156,059,649)	(307,223,184)
	Crop Insurance	(1,692,380,813)	(608,307,885)
	National Natural Disaster Scheme (NNDIS)	(94,403,615)	(610,466,501)
	Agrahara medical Insurance Scheme	(4,173,410,985)	(5,257,023,909)
		<u>(7,978,035,907)</u>	<u>(9,934,309,446)</u>
	(a.1) Agrahara medical Insurance Scheme		
	Paid Claims		
	Pension	(159,173,816)	(144,451,177)
	Semi Government	(319,522,769)	(393,835,342)
	Agrahara Parliament	(8,948,637)	(17,183,409)
	Agrahara Normal	(800,856,874)	(1,421,747,649)
	Agrahara Silver	(143,045,092)	(241,547,334)
	Agrahara Gold	(2,741,863,797)	(3,038,258,998)
		<u>(4,173,410,985)</u>	<u>(5,257,023,909)</u>
	(b) Claims ceded to reinsurers		
	Reinsurance Retro	-	498,500,000
	National Natural Disaster Scheme (NNDIS)	-	498,500,000
		<u>-</u>	<u>498,500,000</u>
	(C) Gross change in contract liabilities		
	Reinsurance	86,200,706	(1,445,435,956)
	SRCC & Tr	-	(289,929,932)
	General Insurance - Motor	(57,648,910)	(37,710,610)
	General Insurance - Medical & Other	(50,886,987)	28,513,890
	Crop Insurance	293,940,911	(376,550,113)
	National Natural Disaster Scheme (NNDIS)	642,444,580	(307,102,476)
	Agrahara medical Insurance Scheme	(816,527,912)	(94,327,805)
		<u>97,522,388</u>	<u>(2,522,543,002)</u>
	(d) Change in contract liabilities ceded to reinsurers		
	Reinsurance	-	(43,234,155)
	National Natural Disaster Scheme (NNDIS)	-	-
		<u>-</u>	<u>(43,234,155)</u>
	(e) Gross change in IBNR		
	Reinsurance	98,821,419	(93,472,428)
	SRCC & Tr	16,417,739	14,787,908
	General Insurance - Motor	(8,618,552)	(15,537,220)
	General Insurance - Medical & Other	12,034,400	36,466,717
	Crop Insurance	(336,313,348)	3,138,094
	National Natural Disaster Scheme (NNDIS)	121,880,420	25,018,135
	Agrahara medical Insurance Scheme	21,775,178	(48,132,416)
		<u>(74,002,744)</u>	<u>(77,731,211)</u>
	Net benefits and claims	<u>(7,954,516,263)</u>	<u>(12,079,317,814)</u>

NATIONAL INSURANCE TRUST FUND BOARD
STATEMENT OF COMPREHENSIVE INCOME

For the Period ended 31st December 2020

5	UNDERWRITING AND ACQUISITION COST	2020 Rs.	2019 Rs.
	Acquisition Cost - Insurance Companies	(1,685,763,896)	(1,805,395,884)
	Profit Commission Expenses	118,308,118	(381,209,260)
	Broker Commission Fee	(2,121,003)	(7,166,319)
	Change unearned commission reserve - SRCC	(14,253,601)	141,100,251
	Change unearned commission reserve - General	(1,508,879)	1,452,674
	Change unearned commission reserve - Reinsurance	(29,521,684)	(4,473,312)
		<u>(1,614,860,946)</u>	<u>(2,055,691,850)</u>
6.1	OTHER OPERATING AND ADMINISTRATIVE EXPENSES	2020 Rs.	2019 Rs.
	Auditors Remuneration	686,800	4,518,478
	Employee Benefit Expenses	225,797,476	240,189,765
	Administration and establishment Expenses	132,492,191	240,220,820
	Advertisement & Promotion Expenses	786,124	11,003,377
	Depreciation of Property Plant and Equipment	10,704,723	14,354,664
	Depreciation of Right of Use Assets	36,139,441	35459981.24
	Amortisation of Intangible Assets	2,149,221	1,092,955
	Legal Fees	419,600	3,977,897
	Sponsorship	-	1,867,180
	Total other operating and administrative expenses	<u>409,175,576</u>	<u>552,685,117</u>
6.1.1	Employee Benefit Expenses		
	Wages and salaries including bonus & incentives	160,092,813	165,633,480
	Contributions to defined contributions plans	-	-
	Employees' Provident Fund	18,412,121	19,788,894
	Employees' Trust Fund	4,580,361	4,702,648
	Other personal cost	34,497,637	44,734,198
	Retirement benefit cost	8,214,544	5,330,544
	Total employee benefits expense	<u>225,797,476</u>	<u>240,189,765</u>
6.1.2	Administration and establishment Expenses		
	Professional fees	2,619,072	11,464,284
	Electricity	4,679,008	6,583,288
	Telephone	3,431,633	4,965,417
	Printing & Stationary	6,444,326	18,101,085
	Postage	1,691,532	4,673,732
	Office Rent	2,737,262	17,805,229
	Nation building tax expense	35,967,319	60,344,055
	Inspection & Assessing	8,100,593	12,275,156
	Annual Fee & Cess To IBSL	19,552,385	29,078,335
	Travelling	1,939,434	10,799,263
	Soft ware Maintenance	1,586,722	2,672,316
	Internet & E -Mail Chargers	5,829,552	3,764,717
	Fuel	1,743,370	1,696,873
	Office Repaires and Maintenance	21,017,837	19,541,168
	Other administration & establishment expenses	15,152,146	36,560,953
		-	-
	Total administration and establishment expenses	<u>132,492,191</u>	<u>240,325,870</u>
6.2	FINANCE COST & OTHER RELATED COST	2020 Rs.	2019 Rs.
	Lease Expenses	17,571,769	21,062,606
	Total Finance Cost & Other Related Cost	<u>17,571,769</u>	<u>21,062,606</u>

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

	2020	2019
	Rs.	Rs.
7 INTANGIBLE ASSETS		
Cost		
As at 1st January 2020	16,168,125	9,734,274
Additions	-	6,433,851
As at 31th December 2020	<u>16,168,125</u>	<u>16,168,125</u>
Accumulated amortisation and impairment		
As at 1st January 2020	8,020,420	6,927,465
Amortisation	2,149,221	1,092,955
As at 31th December 2020	<u>10,169,641</u>	<u>8,020,420</u>
Carrying amount		
As at 31th December 2020	<u>5,998,484</u>	<u>8,147,706</u>

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

	2020	2019
	Rs.	Rs.
As at 31th December 2020		
Software	7,067,073	6,542,073

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS
As At 31st December 2020

8 PROPERTY, PLANT & EQUIPMENT

Company	Motor Vehicles Rs.	Office Equipment Rs.	Furniture & Fittings Rs.	Name Board	Machinery	Total Rs.
Cost/Valuation						
As at 1st January 2020	11,725,000	21,873,559	22,408,097	965,940	7,370,373	64,342,969
Additions		11,741,133	371,738		320,451	12,433,322
Revalued Cost						-
Disposals						-
Revaluation Acc- Cost						-
Disposals						-
As at 31th December 2020	11,725,000	33,614,692	22,779,835	965,940	7,690,824	76,776,291
Accumulated Depreciation						
As at 1st January 2020	6,156,253	12,503,217	4,644,805	111,455	429,938	23,845,668
Depreciation	2,150,000	2,896,005	4,669,396	222,909	766,412	10,704,722
Disposals						-
Revaluation Acc. Depreciation						-
Previous Month adjustment						-
As at 31th December 2020	8,306,253	15,399,221	9,314,202	334,364	1,196,350	34,550,390
Carrying amount						
At 31 December 2019	5,568,747	9,370,342	17,763,292	854,485	6,940,435	40,497,302
As at 31th December 2020	3,418,747	18,215,471	13,465,633	631,576	6,494,474	42,225,902

Fully depreciated Property, Plant & Equipments in Use

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

	2020 Rs.	2019 Rs.
Motor Vehicles	425,000	425,000
Office Equipment	11,985,500	776,900
Furniture & Fittings	776,900	
	13,187,400	1,201,900

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

Item	2020			2019		
	Cost	Accumulated Depreciation	Carrying Amonut	Cost	Accumulated Depreciation	Carrying Amonut
Motor Vehicle	30,008,003	29,857,570	150,432	30,008,003	29,837,287	170,715
Office Equipment	67,358,898	31,052,151	36,306,747	55,617,765	28,138,751	27,479,015
Furniture & Fittings	27,128,485	4,893,978	22,234,506	26,756,747	7,507,175	19,249,572
Name Board	965,940	334,364	631,576	965,940	111,455	854,485
Machinery	7,370,373	1,196,350	6,174,023	7,370,373	429,938	6,940,435
Total	132,831,699	67,334,415	65,497,284	120,718,828	66,024,607	54,694,222

Lease Hold Asset Building

9 RIGHT OF USE LEASE ASSETS

	Motor Vehicles Rs.	SRCC	NITF Rs.	Total Rs.
Cost/Valuation Motor Vehicles				
As at 1st January 2020	13,798,021	151,237,301	1,358,917	166,394,239
Additions				
As at 31th December 2020	13,798,021	151,237,301	1,358,917	166,394,239
Accumulated Depreciation Motor Vehicles				
As at 1st January 2020	4,699,852	30,760,129	283,108	35,743,089
Depreciation on Lease Vehicle	4,699,848	30,760,129	679,464	36,139,441
As at 31th December 2020	9,399,700	61,520,258	962,572	71,882,530
Carrying amount	4,398,321	89,717,043	396,345	94,511,709

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

10	FINANCIAL ASSETS	Notes	2020 Rs.	2019 Rs.
	Loans And Receivables	10.1	5,646,778,131	5,290,443,608
	Available For Sale Financial Assets	10.2	15,244,888,356	9,482,235,142
	Held to Maturity Financial Assets	10.3	774,406,024	671,988,513
	Total financial instruments		21,666,072,511	15,444,667,263
10.1	Loans And Receivables			
	Government Securities - Repo Investment		5,646,778,131	5,290,443,608
	Debentures - Unquoted		-	-
	Debentures - Unquoted		-	-
	Refundable Deposits		-	-
	Promissory notes		-	-
	Total loans and receivables at amortised cost		5,646,778,131	5,290,443,608
10.2	Available For Sale Financial Assets			
	Government Securities - Treasury Bonds		5,681,721,630	6,120,032,797
	Government Securities - Treasury Bills		9,563,166,725	3,362,202,345
			15,244,888,356	9,482,235,142
10.3	Held to Maturity Financial Assets			
	Sri Lanka Development Bonds		774,406,024	671,988,513
			774,406,024	671,988,513

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

		2020	2019
	Notes	Rs.	Rs.
11	REINSURANCE RECEIVABLES		
11.1	Reinsurance Receivable		
	Reinsurance Receivable Retro	1,082,148,701	1,579,626,969
	Reinsurance Receivable NNIDS	19,993,473	19,993,473
		<u>1,102,142,174</u>	<u>1,599,620,442</u>
12	PREMIUM RECEIVABLES		
12.1	Premium Receivable from :		
	Parliamentary Members insurance	15,000,000	15,000,000
	National Natural Disaster Scheme (NNDIS)	-	-
	Pension Agrahara	19,111,800	807,000
	Semi Agrahara	24,620,800	
	Primary Insurance SRCC	1,469,955,271	957,146,064
	Inward Reinsurance	1,267,806,451	957,213,084
	General Insurance Motor	12.1.1 6,541,063	20,776,977
	General Insurance Non motor	12.1.1 46,446,787	59,872,355
		<u>2,849,482,173</u>	<u>2,010,815,480</u>
12.1.1	Premium Receivable Impairment		
	General Insurance Motor	10,606,165	36,207,628
	Impairment Provision - Motor	(4,065,102)	(15,430,651)
		<u>6,541,063</u>	<u>20,776,977</u>
	General Insurance Non motor	70,468,558	71,484,166
	Impairment Provision - Non Motor	(24,021,771)	(11,611,812)
		<u>46,446,787</u>	<u>59,872,355</u>
		<u>52,987,850</u>	<u>80,649,332</u>
13	SOFT LOANS	<u>2,726,557</u>	<u>3,754,982</u>
14	OTHER NON-FINANCIAL ASSETS	2020	2019
		Rs.	Rs.
	Advances & Prepayments	3,161,603	2,341,900
	Refundable Deposits	44,137,724	44,352,724
	Staff Distress Loans	54,274,121	44,033,410
	other receivable	6,462,631	1,115,142
	Economic Service Charge	-	9,555,528
	Cheque Return Receivable	594,229	4,994,799
	General Insurance Motor	973,009	973,009
	Agrahara Department - NITF	2,489,102	2,489,102
	Receivable from Treasury	-	
		<u>112,092,419</u>	<u>109,855,613</u>
15	DEFERRED COMMISSION		
	As at 1st January 2020	758,831,301	620,751,687
	Provision made /(released) during the year	(45,284,164)	138,079,613
	As at 31th December 2020	<u>713,547,137</u>	<u>758,831,301</u>
16	CASH AND CASH EQUIVALENTS		
	Petty Cash	329,532	329,532
	Cash at bank	769,185,402	599,777,207
	Cash in hand and at bank	<u>769,514,934</u>	<u>600,106,740</u>
	Bank overdraft	-	-
	Total cash and cash equivalents	<u>769,514,934</u>	<u>600,106,740</u>

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

		2020	2019
17	OTHER LIABILITIES	Notes	Rs.
		Rs.	Rs.
	Other financial liabilities	1,986,839,830	1,634,321,341
	Other non financial liabilities	1,319,954,993	(99,093,794)
		<u>3,306,794,823</u>	<u>1,535,227,547</u>
		1,648,285,080	493,751,801
17.1	Other financial liabilities		
	Claim cheques/SLIPS returned payable	13,015,761	8,919,593
	Unpresanted Cheque Payable	68,214,058	56,571,281
	Motor premium Collected	0	530,070
	Commission payable - Reinsurance	42,434,299	42,434,299
	Reinsurance Premium payable	1,658,509,743	1,041,475,746
	Annual fee and Cess payable	2,249,574	2,243,592
	Refund Payable	5,376,420	6,766,420
	Accrued expenses	14,910,084	20,122,442
	Profit Commission Payable	142,787,719	438,298,892
	Other payables	39,342,172	16,959,007
		<u>1,986,839,830</u>	<u>1,634,321,341</u>
17.2	Other non financial liabilities		
	Government Levies	99,512,241	6,506,867
	Income Tax Payable	1,220,442,752	(105,600,661)
		<u>1,319,954,993</u>	<u>(99,093,794)</u>

NATIONAL INSURANCE TRUST FUND BOARD
STATEMENT OF COMPREHENSIVE INCOME
For the Period ended 31st December 2020

18 SEGMENT INFORMATION

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

	2020						Total	
	Motor Rs	Non Motor Rs	NNDIS Rs	Reinsurance Rs	SRCC Rs	Health Scheme Agrahara /Mp	Crop Insurance Scheme	Rs
PREMIUMS								
Gross written premiums	260,600,235	213,469,435	-	3,235,474,242	6,088,496,099	20,000,000		9,818,040,011
Contribution Received for Agrahara						5,469,298,738		5,469,298,738
Crop Insurance Levy Collected				(985,500,000)	(116,390,156)			(1,101,890,156)
Reinsurance Premiums ceded	(6,683,271)	(9,585,888)			16,269,158			
Ceded to SRCC & Tr Fund	253,916,964	203,883,547	-	2,249,974,242	5,988,375,101	5,489,298,738	1,626,851,259	15,812,299,851
Net written premiums	62,708,125	19,407,473	369,863,014	328,384,234	87,405,906	-		867,768,751
Gross change in UPB				710,852,459	84,106,755			794,959,214
Reinsurers share of change in UPB	62,708,125	19,407,473	369,863,014	1,039,236,693	171,512,661			1,662,727,965
Net change in Reserve for unearned Premium	316,625,089	223,291,020	369,863,014	3,289,210,934	6,159,887,762	5,489,298,738	1,626,851,259	17,475,027,816
NET PREMIUMS EARNED (A)								
	1,669,869	265,526						1,935,395
Fee income (B)								
TOTAL UNDERWRITING INCOME (A + B)	318,294,958	223,556,546	369,863,014	3,289,210,934	6,159,887,762	5,489,298,738	1,626,851,259	17,476,963,211
Acquisition costs	(114,503)	(2,006,500)		(703,022,439)	(982,741,457)			(1,687,884,899)
Profit Commission Expenses					118,308,118			118,308,118
Change in deferred acquisition costs		(1,508,879)		(29,521,684)	(14,253,601)			(45,284,164)
Net acquisition costs (C)	(114,503)	(3,515,380)		(732,544,123)	(878,686,940)			(1,614,860,946)
Gross claims Incurred	(226,899,864)	(206,946,636)	548,040,965	(1,604,293,185)	(2,036,000)	(4,989,938,897)	(1,398,439,902)	(7,880,513,519)
Reinsurance recoveries								
Changing of IBNR	(8,618,552)	12,034,400	121,880,420	98,821,419	16,417,739	21,775,178	(336,313,348)	(74,002,744)
Net claims paid	(235,518,416)	(194,912,236)	669,921,385	(1,505,471,766)	14,381,739	(4,968,163,719)	(1,734,753,250)	(7,954,516,263)
Reinsurers share of change in outstanding claims								
NET CLAIMS INCURRED (D)	(235,518,416)	(194,912,236)	669,921,385	(1,505,471,766)	14,381,739	(4,968,163,719)	(1,734,753,250)	(7,954,516,263)
UNDERWRITING RESULT(A+B+C+D)	82,662,038	25,128,930	1,039,784,399	1,051,195,045	5,295,582,561	521,135,020	(107,901,991)	7,907,586,001
Administrative expenses (E)	(57,835,269)	(16,065,353)	(32,130,705)	(32,130,705)	(105,440,294)	(176,718,878)	(6,426,141)	(426,747,346)
TOTAL EXPENSES (C+D+E)	(293,468,189)	(214,492,969)	637,790,680	(2,270,146,595)	(969,745,496)	(5,144,882,597)	(1,741,179,391)	(9,996,124,555)
Investment & Other Income for the year	24,826,769	9,063,577	1,007,653,694	1,019,064,340	5,190,142,267	344,416,141	(114,328,133)	7,480,838,656
Profit before tax	3,609,098	328,160	10,233	211,344,417	1,125,424,167	15,796,882	28,574,758	1,385,087,715
Income tax expense	28,435,867	9,391,738	1,007,663,927	1,230,408,756	6,315,566,434	360,213,024	(85,753,375)	8,865,926,371
Profit after tax	28,435,867	9,391,738	1,007,663,927	1,230,408,756	4,975,739,505	360,213,024	(85,753,375)	7,526,099,442

NATIONAL INSURANCE TRUST FUND BOARD
NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

19 INSURANCE CONTRACT LIABILITIES

As at 31th December 2020

(a) Insurance contract liabilities	Note	Motor Rs.	Non Motor Rs.	NNDIS Rs.	Reinsurance Rs.	SRCC Rs.	Health Insurance		Total Rs.
							Agrahara /MP Rs.	Crop Insurance Rs.	
Outstanding claims provision	19.1	273,687,232	79,885,308	560,000	3,429,901,272	30,522,784	1,200,000,000	145,371,060	5,159,927,656
Provision for unearned premiums	19.2	102,148,118	58,857,395	-	421,563,526	2,874,874,688	13,315,068	-	3,470,758,796
Provision for claims IBNR	19.3	111,207,837	20,277,128	15,634,949	254,088,083	1,996,589	455,386,617	336,313,348	1,194,904,550
Total Insurance contract liabilities		487,043,187	159,019,831	16,194,949	4,105,552,881	2,907,394,062	1,668,701,685	481,684,407	9,825,591,002
19.1 Outstanding claims provision									
As at 1st January 2020		216,038,321	28,998,321	643,004,580	3,516,101,979	322,563,781	383,472,088	439,311,970	5,549,491,041
Increase / Decrease in Provision		57,648,910	50,886,987	(642,444,580)	(86,200,706)	(292,040,997)	816,527,912	(293,940,911)	(389,563,385)
As at 31th December 2020		273,687,232	79,885,308	560,000	3,429,901,272	30,522,784	1,200,000,000	145,371,060	5,159,927,656
19.2 Provision for unearned premiums									
As at 1st January 2020		164,856,243	78,264,868	369,863,014	1,460,800,218	3,046,387,349	13,315,068	-	5,133,486,760
Increase / Decrease in Provision		(62,708,125)	(19,407,473)	(369,863,014)	(328,384,234)	(87,405,906)	0	-	(867,768,751)
As at 31th December 2020		102,148,118	58,857,395	-	1,132,415,985	2,958,981,443	13,315,068	-	4,265,718,010
Reinsurance UPR									
As at 1st January 2020		-	-	-	710,852,459	84,106,755	-	-	794,959,214
Increase / Decrease in Provision		-	-	-	710,852,459	84,106,755	-	-	794,959,214
As at 31th December 2020		-	-	-	710,852,459	84,106,755	-	-	794,959,214
Provision for Unearned Changers									
As at 1st January 2020		102,148,118	58,857,395	-	421,563,526	2,874,874,688	13,315,068	-	3,470,758,796
Increase / Decrease in Provision		8,618,552	(12,034,400)	(121,880,420)	(98,821,419)	(16,417,739)	(21,775,179)	336,313,348	74,002,743
As at 31th December 2020		111,207,837	20,277,128	15,634,949	254,088,083	1,996,589	455,386,617	336,313,348	1,194,904,550
19.3 Provision for claims IBNR									
As at 1st January 2020		102,589,285	32,311,528	137,515,369	352,909,502	18,414,328	477,161,796	-	1,120,901,808
Increase / Decrease in Provision		8,618,552	(12,034,400)	(121,880,420)	(98,821,419)	(16,417,739)	(21,775,179)	336,313,348	74,002,743
As at 31th December 2020		111,207,837	20,277,128	15,634,949	254,088,083	1,996,589	455,386,617	336,313,348	1,194,904,550

NATIONAL INSURANCE TRUST FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

As At 31st December 2020

20 RETIRING BENEFIT OBLIGATION

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

	Note	2020 Rs.	2019 Rs.
As at 1st January 2020		34,192,463	28,510,041
Add: Retiring gratuity expenses		16,157,709	5,904,578
Less: Benefits paid during the year	20.1	(229,555)	(222,156)
		-	-
As at 31th December 2020		<u>50,120,617</u>	<u>34,192,463</u>

20.1 Retiring Gratuity Expense

Current service cost	4,545,517	3,525,225
Past Services (Gains)/Cost	-	(1,702,930)
Interest cost	3,669,027	3,508,250
Actuarial (gain)/loss	7,943,165	574,033
	<u>16,157,709</u>	<u>5,904,578</u>

21 LEASE CREDITOR

	Motor Vehicles Rs.	Lease Hold Asset -Building		Total Rs.
		SRCC	NITF Rs.	
As at 1st January 2020	9,697,235	130,999,281	1,105,329	141,801,845
Interest Expense recognised in Income Statement	1,034,600	16,427,467	109,702	17,571,769
Settlement through lease payment	(5,730,000)	(39,600,000)	(780,000)	(46,110,000)
As at 31th December 2020	<u>5,001,835</u>	<u>107,826,748</u>	<u>435,031</u>	<u>113,263,614</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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.

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Engineering

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

Motor

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

Miscellaneous Accident

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

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

Marine

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

Medical and Personal Accident

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

Geographical concentration of risks

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

(b) **Financial Risk**

i. Credit risk

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

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

- Credit risk policy is based on circulars and guidelines issued by the Ministry of Finance . The exposures is limited to Government Securities only.
- The 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.

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.

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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.