ANNUAL REPORT -2014

NATIONAL INSURANCE TRUST FUND

CONTENTS

1. CORPORATE PHILOSOPHY

VISION

SAFETY-NET AND PROTECTION FOR ALL NEEDY SECTORS

MISSION

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

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

CORPORATE VALUES

- Credibility
- Integrity
- Accountability
- Financial Stability
- Professional Management

2. GOALS AND OBJECTIVES

- Implement insurance schemes for the benefit of intended target groups covering all segments of society.
- Design and manage a reinsurance programme to capture minimum of 50% of the reinsurance market.
- Automate the management of all schemes implemented by the NITF.
- Develop human resources to provide highly effective service to all beneficiaries.
- Manage the investments effectively to achieve a maximum return to shareholders during the next 5 year period.
- Promote and encourage the stakeholders to participate in relevant insurance schemes through educational awareness programmes.
- Develop adequate infrastructure facilities to cater to the future operations of NITF.
- Establish a risk management unit and conduct market studies and provide guidance to NITF on its future insurance businesses.

3. PROFILE OF THE BOARD OF NATIONAL INSURANCE TRUST FUND -2014

Mr. D. Widanagamachchi

Chairman -2014

Mr. J. Dadellage

(Board Member-2014)

Dr. Lohitha Samarawickrama

(Board Member-2014)

Mr. W. H. Piyadasa

(Board Member-2014)

Mr. N. Kulasekera

(Board Member-2014)

Mr. A. K. Seneviratne

(Board Member-2014)

Mr. D. Widanagamachchi -Chairman -2014

Mr. D. Widanagamachchi was appointed as the Chairman of NITF on 09.10.2012. He holds a B.Sc. (Business Administration) degree from the University of Sri Jayewardenepura and a Postgraduate Diploma in Public Administration from the Postgraduate Institute of Management, Colombo, as well as a Diploma in Financial Management from Sri Lanka Institute of Development Administration

Mr. Widanagamachchi, was a Deputy Secretary to the Treasury with over thirty years of experience in public service in several capacities. He has previously held senior positions in the Ministry of Finance and Planning some of it being, Director General, Department of Treasury Operations, Director General, Department of State Accounts, Director, Department of State Accounts and Director, Department of Public Finance. He has served on the Boards of many public entities such as Airport & Aviation Services, Sri Lanka Central Transport Board, National Water Supply & Drainage Board, CWE and Lak Sathosa Ltd.

Mr. J. Dadallage –Board Member

Mr. J. Dadallage was appointed as a Board member on 23.06.2010. In 2014 he was serving as Additional Secretary to the Ministry of Public Administration and is a senior officer of Sri Lanka Administration Services.

Mr. A.K. Seneviratne – Board Member

Mr. A. K. Seneviratne was appointed as a Board member on 08.07.2011. In 2014 he was serving as Additional Director General of Department of Fiscal Policies in Ministry of Finance and Planning and is a senior officer of Sri Lanka Administration Service.

Mr. N. Kulasekera – Board Member

Mr. N. Kulasekera was appointed as a Board member on 18.07.2011. In 2014 he was serving as Chief Accountant in Ministry of Finance and Planning and he was a senior officer of Sri Lanka Accounting Service.

Dr. Lohitha Samarawichrama – Board Member

Dr. Lohitha Samarawichrama was appointed as a Board member on 11.06.2010.

Mr. W. H. Piyadasa – Board Member

Mr. W. H. Piyadasa was appointed as the Working Director on 10.07.2010.

4.PROFILE OF NITF MANAGEMENT TEAM – 2014

Finance Department

Head of Finance Department (M)

Ms. Dammika Weerakoon

1.Bachelor of Science in Accountancy - University of Sri Jayawardhanapura
2.Associate Member - Institute of Chartered Accountants of Sri Lanka

Head of Expenditure and Investment Division(AM)

Ms. Randima D. M. Manage

1.Bachelor of Commerce (B.Com) (Special) Degree - University of Kelaniya

Head of Accounting and Financial Reporting Division (AM)

Ms. Gayathri Soysa

1.Bachelor of Business Administration (Special) Degree - University of Colombo
2.CIMA Passed finalist

Research & Analysis Department

Head of Research & Analysis Department(AM)

Mr. Rajith Gunasekera

1.Chartered Management Accountant of C.I.M.A (U.K.) –ACMA (U.K.), CGMA
2.Master of Business Administration in Finance of University of Colombo
3. M.C.I.M. (Member of Chartered Institute of Marketing) –U.K.)
4.Professional Post Graduate Diploma in Marketing from C.I.M. -U.K.
5. Bachelor of Science of Agriculture (special) - University of Peradeniya)(with Economics majoring module)
6. Licentiate Level Exam of Insurance Institute of India

Legal Department

Head of Legal Department(AM)

Ms. Manjula Guruge

LLB (Colombo) Hons

General Claims Department

Head of General Claims Department(AM)

Mr. T.G. Lakshman

1.Bachelor of Commerce (Special)
2..Licentiate Level Exam of Insurance Institute of India

CropInsurance Department

Head of Crop Insurance Department(AM)

Ms. Nimesha Sahabandu

1. Master of Business Studies – University of Colombo (MBS)
2.Bachelor of Business Administration - University of Colombo
3.Licentiate Level Exam of Insurance Institute of India

Agrahara Department

Head of Agrahara Department(AM)

Mr. Anura Samarakoon

1.Bachelor of Science in Business Administration, Business Economics (Special) Degree in University of Sri Jayawardenapura
2.Advance Certificate in General Insurance - National Institute of Business Management
3.Licentiate Level Exam of Insurance Institute of India

Revenue Department

Head of Revenue Department(M)

Ms. Nimali Perera

1.Bachelor of the Science of Agriculture- University of Peradeniya-
2. Licentiate Level Exam of Insurance Institute of India

HR & Administration Department

Head of HR & Administration Division(AM)

Ms. Upeksha Ekanayake

1.Master of Science in Applied Finance – University of Sri Jayawardanapura
2.B.Sc.Management (Public Administration) Special Degree - University of Sri Jayawardenapura
3.Licentiate Level Exam of Insurance Institute of India

Head of Logistics & Asset Management Division(AM)

Mr. Sithara Asanka Jayalath

1.B.Sc (Management) - University of Sri Jayawardhanapura

2.Post Graduate Diploma in Business Management - University of Colombo

IT Department

Head of IT Department(AM)
Mr. Kavindra Jayasinghe

1.M.Sc. in Information Management - Sri Lanka Institute of Information Technology
2.B.Sc. (Special) Honours in Information Technology - Sri Lanka Institute of Information Technology
3.Licentiate Level Exams of Insurance Institute of India
4.Member of Computer Society Sri Lanka - Computer Society of Sri Lanka
5. Professional Member of British Computer Society -UK

Reinsurance Department

Head of Reinsurance Department(AM)

Ms. Deshani Nanayakkara

1.Bachelor of Arts in Economics (special) University of Sri Jayawardhanapura

2.Licentiate Level Exam of Insurance Institute of India
3. AAT - AAT - Sri Lanka

SRCC & T Department

Head of SRCC & Tr Department(AM)
Ms. Tharangi Amarasinghe

1.Higher National Diploma in Accountancy - Advance Technical Institute

2.Licentiate Level Exam of Insurance Institute of India

General Underwriting Department and Anuradhapura Branch

Head of General Underwriting Department Anuradhapura Branch(AM)
Ms. Upeka Suriyamudali

1.Degree General (Arts) - University of Kelaniya

Hambantota Branch

Head of Hambantota Branch

Ms Chiththra Rajapakse

5. CHAIRMAN'S REVIEW

Presentation of Annual Report - 2014

I am pleased to present the Annual Report – 2014 of the National Insurance Trust Fund for the year ended 31st December 2014 which is its ninth year of operation.

Macro- economic environment

The national economy recorded a growth of 7.4% as against 7.2% in 2013. The services sector grew by 6.5% while the Banking, Insurance and Real Estate sub sector achieved a higher rate of growth of 6.6% compared to 5.9% in 2013. However, the insurance industry experienced a slow down with its growth rate falling to 5%. While long term insurance business grew by 7%, the growth rate achieved by General Insurance business was only 3.6% accompanied by an increasing combined ratio.

Performance and Contribution

Despite operating in an insurance market which was experiencing a slow down, NITF was able to achieve a significant growth of 40% in its Gross Written Premium (GWP) which represents the turnover. This growth was primarily attributable to the remarkable growth in reinsurance premium income which registered 96%, almost doubling the portfolio. SRCC and T Fund also contributed to the growth by recording a growth of 11%.

The profit generated by NITF also increased by 8% to reach Rs. 4.58 billion enabling it to transfer Rs. 4 billion to the Consolidated Fund.

Appreciation

I take this opportunity to convey my gratitude to the Hon. Prime Minister, as the Minister of National Policies and Economic Affairs under whom this institution functions, the State Minister, the Secretary and the Additional Secretaries for their guidance and support. I also acknowledge the support received from the Secretary to the Treasury and all other officials of the Treasury with whom NITF interacts closely on many of its functions. I also wish to express my appreciation to the Chairperson, Director General and other officials of Insurance Board of Sri Lanka (IBSL) which regulates the insurance industry.

Finally, I thank my fellow Members of the Board, our Chief Executive Officer and all other members of staff for their commitment and dedicated service

Sgd,

Manjula de Silva
Chairman
12th January 2016.

6. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 GENERAL ENVIRONMENTAL REVIEW

Review of the Insurance Industry

The growth rate of the Sri Lankan insurance industry was 5.14% in 2014, which is relatively lower when comparing with 2013 growth rate of 8.97%. This is due to the substantially lower growth rate in general insurance of 3.66% in 2014 as against 7.28% in 2013 and the lower growth rate of 7.04% of long term insurance business in 2014 when compared to 11.20% in 2013. Sri Lanka's Insurance penetration which reflects the total insurance premium as a percentage of GDP was recorded at 1.02% in 2014 and demonstrated a decline compared to 1.10% recorded in 2013. Penetration level of general insurance was 0.56% in 2014 as against 0.61% in 2013. Penetration level of long term insurance was 0.46% in 2014 as against 0.48% in 2013.All the above indicators reflected a slow-down in the insurance industry.

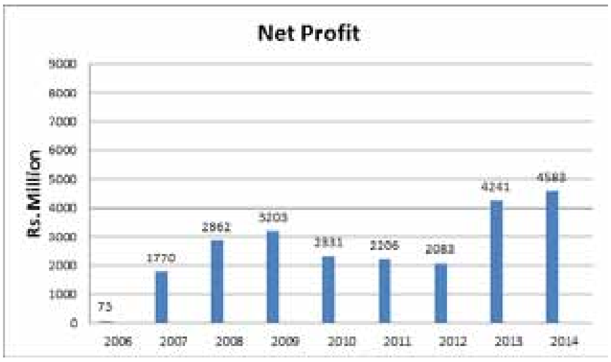
Role of NITF

National Insurance Trust Fund contributed towards the economy of the country by providing various insurance covers such as reinsurance, riot and terrorism insurance, health insurance, general insurance and crop insurance.

Under the Agrahara health insurance scheme, which is designed for the Government sector work force responsible for the major development activities in Sri Lanka, NITF has paid a large amount of health related claims. Due to the Reinsurance programme of National Insurance Trust Fund, NITF mitigated foreign exchange outflow towards overseas reinsurers and also paid a substantial portion of large claims of primary insurance companies. The SRCC and T fund also registered a strong growth and paid all legitimate claims relating to the covers provided. In 2014 under crop insurance NITF continued to pay claims related to flood, drought and wild elephant attacks.

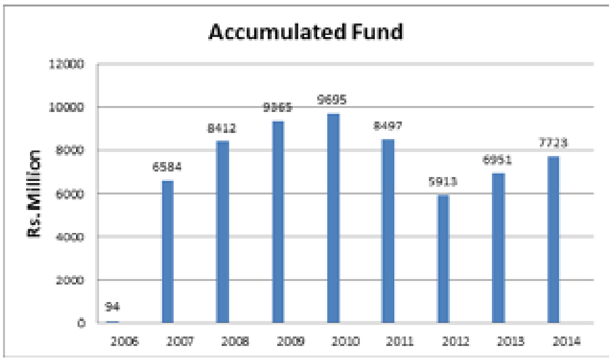
5.2.1 NINE YEAR FINANCIAL REVIEW

Chart- 5.01: Past Trend in Net Profit



The pattern of the Net Profit displayed an increasing trend over the 4 years till 2009 and thereafter reduced substantially during 2010-2012 due to the reduction in demand for terrorism cover. But during 2013 it achieved a sharp increase and in 2014 it grew slightly, relative to 2013.

Chart- 5.02: Past Trend in Accumulated Fund



The accumulated fund has grown till 2010 to a peak of Rs. 9,695 million but reduced sharply in 2011-2012. However, since 2012, it has again demonstrated a healthy growth and this trend had been maintained in 2014 as well.

Table-5.01a: Categorywise Classification of Premium Income

CATEGORY	2014 Rs.	2013 Rs.	2012 Rs.	2011 Rs.	2010 Rs.
01.NET EARNED PREMIUM INCOME					
Premium income –Govt. Motor	142,690,974	174,785,654	206,595,378	215,199,457	237,386,267
Premium income – Reinsurance	2,041,207,710	1,042,220,495	463,610,216	198,551,912	296,078,296
Premium income – Parliamentary members	13,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Premium income – Foreign Employment	_	_	54,577,250	208,799,952	231,968,216
Premium income – Non Motor	22,595,787	17,915,562	104,047,985	170,876,837	149,796,387
Premium Income- SRCC&T Fund	2,835,199,980	2,543,782,803	2,281,210,351	2,006,556,886	1,874,425,103
Crop Insurance- Farmers	787,372,981	379,328,695			
Premium Refund			(34,291)	(26,080)	(4,194,863)
Gross Written Premium	**5,842,067,431**	**4,168,033,208**	**3,120,006,892**	**2,809,958,964**	**2,795,459,406**

Table-5.01b: Contribution Towards Agrahara Medical Insurance Scheme

Source	2014 Rs.	2013 Rs.	2012 Rs.	2011 Rs.	2010 Rs.
Contribution from Members	1,094,899,976	996,706,841	588,435,521	623,424,037	595,140,400
Contribution from the Treasury	400,000,000	410,000,000	275,000,000	494,299,000	442,790,000
Total	**1,494,899,976**	**1,406,706,841**	**863,435,521**	**1,117,723,037**	**1,037,930,400**

REVIEW OF THE INSURANCE SCHEMES

The National Insurance Trust Fund was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006. From the inception, the following welfare oriented insurance schemes were formulated and implemented by the NITF to protect various segments of the Sri Lankan society.

i. Medical Insurance Scheme for Public Officers (Agrahara)

The Medical Insurance scheme which was established in 1997 for the benefit of government officers is known as Agrahara Health Insurance scheme. It commenced its operations with an initial payment of Rs. 11 per member per month. Subsequently as per a decision taken by the Government in 2005, premium of Rs.75 per month was deducted from the monthly salary from all pensionable Government Officers towards the scheme. Until such time as the Sri Lanka Insurance Corporation was privatized, the scheme was implemented by the Sri Lanka Insurance Corporation. But with its privatization, the Government took over the scheme with effect from 1st January 2006 and implements it as a separate Government scheme under the National Insurance Trust Fund.

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

The SRCC&T Fund was established in 1987 in terms of a decision made by the Cabinet of Ministers, with the objective of providing additional insurance cover on Insurance Policies, extended to cover against loss / damage to property and or personal health, accident, bodily injuries occurring due to strike, riot, civil commotion and terrorist activities within the geographical limits of Sri Lanka, issued by all members of the Fund who are licensed General Insurance Organizations in Sri Lanka. From 1987 onwards the Fund has been administered by the National Insurance Corporation.

With effect from 01.08.2005, the Fund was administered by the Ministry of Finance and Planning taking over from Janashakthi Insurance Co. Ltd, the successors of National Insurance Corporation. Subsequently, with incorporation of NITF all monies lying to the credit of the SRCC&T Fund was taken into to the NITF. Eventually, the money was transferred to a special account maintained by NITF and this scheme is currently under the management of NITF and this scheme is currently under the management of NITF.

iii. Parliamentary Members Insurance scheme

The NITF has introduced an Insurance Scheme for Parliamentary members. Under this scheme the 225 members of Parliament are benefited. This scheme provides the following benefits for the Members of Parliament.

1.	Accident insurance cover up to Rs. 5 million	
	Accidental death	Rs. 5,000,000.00
	Complete disability due to an accident	Rs. 5,000,000.00
2.	Medical Insurance cover per year	Rs. 200,000.00

iv. Re-insurance Covers to the Insurance Industry in Sri Lanka

NITF commenced accepting 20% reinsurance risk in Sri Lanka in 2008. Pursuant to the provision of NITF Act, it is mandatory for General Insurance Companies in Sri Lanka to obtain 30% of the total sum of reinsurance business from NITF.

v. Motor Vehicle Insurance Scheme (for the motor vehicles owned by the Government)

Motor vehicles owned by Government institutions and Semi–government institutions are insured against any risk of loss or damages. The NITF initially began to offer Motor Vehicle Insurance to the Government sector as well and thereafter extended it to private sector at an affordable premium. Its comprehensive motor insurance will cover all damages by fire and theft, third party damages (death and injury) and additional covers such as flood, strike, riots, civil commotion and terrorism etc. Currently, NITF focuses primarily on serving the insurance needs of the Government sector.

vi "VIDESA REKIYA" Overseas Employment Insurance Scheme

From June 2008 onwards the "VIDESA REKIYA" overseas employment insurance policy for Sri Lankan overseas migrant workers covered Sri Lankans who are in the age of 18 to 65 years leaving Sri Lanka for foreign employment after obtaining the insurance cover from the National Insurance Trust Fund. However, this has been discontinued since 2012.

vii General Insurance Scheme

Pursuant to the gazette notification No. 1615/20 issued on 20.08.2009 NITF has been given a mandate to provide Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies and Miscellaneous Insurance policies under the General Insurance Business. Currently, NITF aims to serve the needs of Government institutions which require these covers.

viii Crop insurance Scheme

Crop insurance scheme was established in 2013 according to the budget proposal in 2012 for farmers who receive subsidized fertilizer under the "Kethata Aruna Pohora Diriya" programme. It is a compulsory Insurance scheme as a remedial measure to mitigate damages caused to cultivations due to droughts, flood and wild elephants and operated as per circular No.BD/EE/118/01/BP/2013,dated 21/06/2013 ,issued by the Ministry of Finance & Planning. This scheme was transferred to the Agrarian and Agriculture Insurance Board (AAIB) at the end of the year 2014 and per circular No DFD/ circular/2014-03 issued by the Ministry of Finance & Planning.

Agrahara Medical Insurance

Agrahara medical insurance scheme was implemented by the Ministry of Public Administration Circular No: 12/2005 and this scheme came under the purview of National Insurance Trust Fund from 1st of January 2006 for the benefit of Married Employees - Member, Spouse and Children (only if they are unmarried, unemployed and below 21 years old) and unmarried Employees – Member, Parents (only if the parents are below 70 Years old)

The “Agrahara” medical insurance scheme has been established in order to uplift the living standards of the public servants and provincial public servants and their families. Therefore NITF has taken steps to expedite all claims received by us as early as possible.

National Insurance Trust Fund Board had implemented a new claims processing system after implementing the e-card system to expedite the claims payment process as early as possible. The Agrahara claims intimated which fulfilled all the necessary requirements have been paid within 3 working days after the introduction of e-card system.

Rs.125 per eligible employee is deducted in terms of circular from monthly salary of Government officers towards the Scheme since 2013. Under this insurance scheme following categories of benefits has been offered

1. Medical benefits against hospital charges:

   Under these benefits, hospital and nursing home charges, medical and surgical expenses, Fees for medical consulting services or for specialist physicians’ service and specialist services, indoor treatment etc. will be provided.

2. Purchase of spectacles:

   Under this , members are eligible to claim a sum of Rs.3,500/- to meet expenditure on purchase of spectacles once in every 3 years. Will be given to members after 3 years of joining.

3. Heart surgery expenses (Cardiac):

   Under this, members are eligible to claim a sum of Rs.400,000/- to meet expenditure for heart surgery.

4. Accidental death and natural death cover:

   Under this, members are eligible to claim a sum of Rs600, 000/-and Rs.100, 000 under accidental death and Natural death cover.

Government has provided benefits to safeguard the officers in the public service against unforeseeable risks related to health and personal accident through Agrahara medical scheme.

According to the public administration circular No. 12/2005 , dated 18.05.2005, public officers are entitled to receive benefit of the above medical insurance scheme .It is mandatory to deduct the premium of Rs. 125/- per month from the salary and contribute to National Insurance Trust Fund. There are about 675,000 Members insured under this scheme and covers are nearly 2.2 million for their family members.

The primary function of the Revenue Division is to collect and deposit cheques which are received from the government institutions islandwide , relevant to the medical insurance scheme(Agrahara)

In addition , the division perform certain functions to maintain proper revenue system & achieve target .

- Maintain & update records
- Collecting outstanding payments

Total member contribution for the year 2014 is Rs 1,094,899,676. The monthly deduction from Government officers was maintained at Rs.125/= throughout the year.

Table-5.02: PHYSICAL PERFORMANCE – YEAR 2014

CLASSIFICATION OF AGRAHARA CLAIMS – YEAR 2014 (IN NUMBERS)

CLAIM TYPE	TOTAL CLAIMS RECEIVED	CLAIMS PAID	OUTSTANDING CLAIMS	CLAIMS REJECTED
Death	1,137	840	278	19
Disability	359	310	36	13
Child birth	10,427	9,167	964	296
Cancer	352	310	29	13
Cardiac	664	653	7	4
Spectacles	60,205	52,760	3,019	4,426
Other government hospital charges for other illnesses	29,565	26,624	1,927	1,014
Other private, hospital charges for other illnesses	15,215	12,296	1,497	1,422
Kidney	16	14	-	2
Paralysis	1	1	-	-
TOTAL	**117,941**	**102,975**	**7,757**	**7,209**

Table-5.03: AGRAHARA MEDICAL DEFICIT / EXCESS FROM 2010 TO 2014

Source	2014 Rs.	2013 Rs.	2012 Rs.	2011 Rs.	2010 Rs.
Contribution from Members	1,094,899,976	996,706,841	588,435,521	623,424,037	595,140,400
Contribution from the Treasury	400,000,000	410,000,000	275,000,000	494,299,000	442,790,000
Total Contribution	1,494,899,976	1,406,706,841	863,435,521	1,117,723,037	1,037,930,400
Claim Expenses	(1,228,123,716)	(1,130,123,070)	(1,055,301,827)	(1,338,048,606)	(1,076,706,660)
Deficit/Excess	266,776,260	276,583,770	(191,866,306)	(220,325,569)	(38,776,260)

E-Card Project

Government has provided benefits to safeguard the officers in the public service against unforeseeable risks related to health, personal accident through medical scheme called Agrahara.

According to the public administration circular No. 12/2005, dated 18.05.2005, public officers are entitled to receive benefit of the above medical insurance scheme. At present we follow reimbursement method to settle the claims.

To enhance the efficiency of service, rendered to the Agrahara beneficiaries, E-card system has been introduced to simplify the claim settlement process as cashless payments.

In order to implement the above project, details of members of the scheme have to be collected. The project was started in January 2012 and applications were called from the government institutions island wide. Up to now nearly 428,000 applications have been received from government institutions. According to the available records, more than 700,000 public servants are eligible to be members of the scheme. 170,310 printed cards have been distributed island wide up to now.

Installation of card readers in private hospitals, island wide.

To operate the card system, NITF had called for expression of interest from all hospitals registered with Private Health Regulatory Council to be the facilitator for implementation of e-card system and up to now has installed card readers in the following private hospitals in island-wide.

Lanka Hospital – Colombo
Nawaloka Hospital - Colombo
Sri Jayawardenapura Hospital -Colombo
Pannipitiya Hospital -Colombo
New Philip Hospital -Kalutara
Nothern Central Hosptal -Jaffna
Singha Hospital -Rathnapura
Balasoriya Hospital -Puttalam
Kurunegala Co-operative Hospital -Kurunegala

Also arrangements have been made to install card readers in other selected hospitals in other districts

Strike, Riot, Civil Commotion & Terrorism Extension

As per the decision made in 1987 by the Cabinet of Ministers, the Strike, Riot, Civil Commotion and Terrorism fund (SRCC & T) was formed and administrated by National Insurance Corporation, with the objective of providing additional Insurance cover on insurance policies, extended to cover against loss/damage to properties and or personal death/bodily injuries occurring due to Strike, Riot, Civil Commotion and Terrorism activities, issued by all members of the fund who are licensed insurance organizations in Sri Lanka.

Thereafter the Strike, Riot, Civil Commotion and Terrorism Fund was taken into the Ministry of Finance and Planning, and managed by the Ministry of Finance and Planning from 2005 onwards.

Ultimately, the Strike, Riot, Civil Commotion and Terrorism Fund was absorbed into the National Insurance Trust Fund in 2007 under the National Insurance Trust Fund Act No. 28 of 2006.

After the absorption of Strike, Riot, Civil Commotion and Terrorism Fund, all money credited to the Fund in terms of paragraph (c) of subsection (1) of section 18 of the Act has been transferred to a special account maintained by the National Insurance Trust Fund.

The guidelines in respect of administration and management of it will be issued from time to time by the National Insurance Trust Fund.

The NITF continued to follow the procedures adopted previously prior to the absorption of Strike, Riot, Civil Commotion and Terrorism unit into National Insurance Trust Fund until guidelines will be introduced.

Main Activities of SRCC & T Fund ....

- Collection of premium through Insurance Companies and investing at a higher rate.
- Claims to be paid by Insurance Companies are reimbursed by the SRCC & T Fund on the approval of the NITF Board
- The management of the soft loans granted to the institutions damaged due to terrorist attacks which was administered by the Bank of Ceylon

Objectives of the SRCC & T Fund ....

- To establish the Fund out of the Strike, Riot, Civil Commotion and Terrorism component of insurance premiums received by all the members of the Fund as defined in insurance policies extended to include the risks of Strike, Riot, Civil Commotion and Terrorism covered by the Fund.

- To afford protection against loss/ damage to property/ or personal injury occurring due to Strike, Riot, Civil Commotion and Terrorism activities as defined in the insurance policy to such risks insured and situated within the geographical limits of the Democratic Socialist Republic of Sri Lanka including those type of general insurance risk which provides for an extension of the geographical limit.

- To prevent valuable premium going overseas by securing cover from our very own Sri Lankan Fund.

Financial Review of the SRCC & TR Unit ....

The SRCC & T unit of the NITF recorded an improved performance in 2014 recording a Gross Written Premium(GWP) growth of 11% of from Rs. 2,544 million to Rs. 2,835 million and the gross revenue grew from Rs. 3,098 million to Rs. 3,369 million.

Market interest rates have drastically dropped in 2014. Hence the investment income also recorded a decline. However the total Investment of the SRCC & TR unit as at 31.12.2014 grew from Rs. 5.1Bn to 6.1Bn and the amount transferred to the Consolidated Fund was Rs. 2.2Bn in 2014.

Net claims have increased to Rs. 56.9M in 2014 compared to Rs. 2.3M recorded in 2013. This was due to the riotous situation that occurred in the Aluthgama area.

Reinsurance

Reinsurance Department of National Insurance Trust Fund was established in the year 2008, by the Gazette notification No.1528/20 of 19th December 2007 under the NITF Act, No. 28 of 2006, to undertake a compulsory cession of 20% as being the percentage payable by the insurer on the total liability arising out of every general reinsurance business in year 2008. Further to the above the compulsory cession has been increased up to 30% from 20% in this year according to the amended gazette No. 1791/4 dated 31st December 2012.

The main objective, behind the establishment of this department is to retain the foreign currency in Sri Lanka. The Department extends Guidelines and the necessary support to all primary insurance companies in Sri Lanka with regards to the subject of reinsurance. Therefore NITF plays a major and decisive role as the "National Reinsurer" in Sri Lanka.

It is compulsory, in accordance with the conditions specified in the subject Gazette notification, all primary Insurance companies to cede 30% of their reinsurance with NITF and NITF is responsible for settlement of any claims submitted by any primary insurance company to a sum equivalent to the accepted liability.

In accordance with directions given by Ministry of Finance & Planning, NITF has created a "National Reinsurance Fund" in 2013 and end of the year 2014 it grew to became a fund of over Rs. 2000 Million. In the mean time, until fund builds up, Treasury has also advised to go for a retrocession for the risks that cannot be borne by the NITF. Therefore, Management of NITF is taking necessary action to accomplish the above requirement.

The total Annual Reinsurance Premium Income has increased from Rs.1042 Million in 2013 to 2041 Million in 2014.

General (non – motor) Insurance

NITF's General Insurance (Non- Motor) business is mainly sub divided into Fire Insurance, Marine Insurance, Miscellaneous Insurance and Medical Insurance. As per the gazette notification No. 1615/20 issued on 20.08.2009 the general insurance business was initiated and it grew steadily over the years. Under General Insurance NITF provides Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies Personal Accident policies, Burglary policies etc.

Table-5.04: CLASSIFICATION OF GENERAL INSURANCE (NON- MOTOR) POLICIES

	2014
POLICY CATEGORY	**NO OF POLICIES**
FIRE	3
MARINE	38
PERSONAL ACCIDENT	1
WORKMAN COMPANSATION INSURANCE	1
BURGLARY	N/A
CASH IN TRANSIT	5
ELECTRICAL EQUIPMENTS	6
CONTRACTORS ALL RISK	1
PLANT AND MACHINERY	6
MEDICAL	3
TRAVEL	23
TOTAL	**87**

Table-5.05: CLASSIFICATION OF MEDICAL INSURANCE CLAIMS PAID - YEAR 2013 & 2014

CATEGORY	2013 Rs. (Million)	2014 Rs. (Million)
CHILD BIRTH	0.51	0.35
CRITICAL ILLNESS	11.89	10.93
DEATH	0.05	
OTHER GOVERNMENT HOSPITAL CHARGES FOR OTHER ILLNESSES	0.22	0.67
OUT DOOR	0.53	0.56
OTHER PRIVATE, HOSPITAL CHARGES FOR OTHER ILLNESSES	5.06	5.01
SPECTACLE	0.22	0.15
CARDIAC	0.35	0.40
TOTAL	**18.84**	**18.07**

NITF has paid Rs.18.07 Million in 2014 for medical claims. This shows a slight decline from 2013. Medical claims classifications are shown in the above table. NITF ensures claims have been settled within one week.

Motor Insurance

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

As a fully government owned insurance institution, NITF provides a Comprehensive and Third Party insurance cover to government institutions at an affordable premium.

Insured can get additional covers by paying additional charge for Flood cover, Third party property damage cover, Air bag cover, Special windscreen cover, Learner driver cover, Workmen's Compensation Insurance cover Personal Accident Benefit cover etc.

In 2014 NITF has paid motor claims of Rs.71.93 Million for 892 Vehicles. This shows a slight decline in terms of both number of vehicles and value. Classification of vehicle is shown in the under mentioned table. Also NITF has increased the network of registered garages and motor assessors island wide.

Table-5.06: CLASSIFICATION OF MOTOR CLAIMS PAID

CATEGORY	2013		2014	
	TOTAL		TOTAL	
	NO OF CLAIMS	Rs. AMOUNT (Million) 2013	NO OF CLAIMS	Rs. AMOUNT (Million) 2014
TRACTOR	2	0.06	1	0.06
PRIVATE CAR	497	43.05	392	32.77
MOTOR CYCLE	37	0.54	42	0.52
MOTOR COACH	101	8.13	117	12.28
LORRY/LAND VEHICLE	78	3.20	68	6.46
DUAL PURPOSE VEHICLE	372	23.98	272	19.85
TRAILOR	1	0.01		
TOTAL	**1,088**	**78.97**	**892**	**71.93**

Crop Insurance

In terms of budget proposals 2013, it has been decided to secure farmers' contribution for Compulsory Insurance Scheme as a remedial measure to mitigate damages caused to cultivations due to droughts, floods and wild elephants' attack. Accordingly, action was taken to make every farmer receiving subsidised fertilizer a member of an Insurance Scheme to be implemented by the National Insurance Trust Fund under Compulsory Insurance Contribution of Rs. 150/- at the purchase of each chemical fertilizer bag of 50 kg from 'Yala' season 2013 onwards.

01. Cultivation insurance Beneficiaries

    As the initial step of this undertaking, this Insurance Cover was to be implemented for farmers receiving subsidy fertilizer.

02. Perils to be covered in paddy fields under this Insurance Policy
    - i. Flood
    - ii. Drought
    - iii. Wild Elephants attack

As per guidelines of the circular, the Crop Insurance Scheme was handed by NITF up to end of 2014. However, this scheme has been transferred to the Agrarian and Agriculture Insurance Board and per circular dated DFD/ circular/2014-03 issued by the Ministry of Finance & Planning.

In 2014 droughts as well as floods affected paddy fields. So farmers applied for more and more claims to reimburse their expenses. The NITF also followed procedures to quicken the claims payments.

The value of claims paid in 2014 on crop insurance amounted to Rs. 364 Million.

A further Rs. 554 Million was reserved to meet claims relating to 2014 that are likely to be submitted in 2015.

7. SUSTAINABILITY REPORTING

Introduction

In recent decades there has been growing concern at the problems resulting from the impact that human activity has on the world. This includes issues such as biodiversity, water scarcity, resource depletion, climate change, excess packaging and waste, over population, and poverty. These concerns are often linked to the term 'sustainability'.

Sustainability can be defined as 'Meeting the needs of the present generation without compromising the ability of future generations to meet their needs.'

Sustainable development is the process through which organizations aim to achieve sustainability. Sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional changes are made consistent with future as well as present needs.

The term Corporate Social Responsibility (CSR) is often used interchangeably with sustainability. However, it should be seen as a complementary term, used to help organizations define their responsibilities and to understand how sustainability issues can be integrated into strategy and operations.

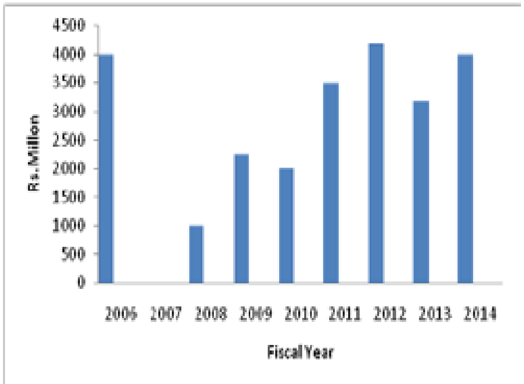
National Insurance Trust Fund thrives to enhance its corporate image to be a "Well Responsible Corporate Citizen" by adopting Sustainable Development through achieving a balance or integration of economic, environmental and social imperatives while at the same time addressing shareholder and stakeholder expectations.

STAKEHOLDER GROUP 1 – GOVERNMENT

Table – 6.01:
Contribution to the Consolidated Fund

FISCAL YEAR	RS. MILLION
2006	4,000
2007	-
2008	1,000
2009	2,250
2010	2,000
2011	3,495
2012	4,200
2013	3,200
2014	4,000

Chart 6.01: Contribution to the Consolidated Fund



NITF increased its annual contribution of Rs. 4,000 million relative to its contribution of Rs. 3,200 million in 2013, to the Consolidated Fund. In 2012 NITF had contributed the highest ever amount of Rs. 4,200 million.

STAKEHOLDER GROUP 2 – CUSTOMERS

National Insurance Trust Fund, has implemented many insurance schemes with the objective of providing social welfare. Crop insurance scheme of NITF provides protection from natural calamities at a considerably low premium. Agrahara Insurance scheme provides protection to government servants for health related calamities with highly concessionary premium rates.

In order to improve and extend the service of the Agrahara Insurance Scheme NITF has partnered with a number of private hospitals by signing MOUs. By this the National Insurance Trust Fund has established counters in these hospitals to expedite the Agrahara claims settlement process.

STAKEHOLDER GROUP 3 – SOCIETY

NITF participated in Deyata Kirula 2014 which was held in Kuliyapitiya and operated a stall to introduce its activities. National Insurance Trust Fund's Welfare Society donated cash amounting to Rs. 143,325 to Dickellakanda Kanishta Widyalaya, a rural school.

STAKEHOLDER GROUP 4 – EMPLOYEES

National Insurance Trust Fund's success depends on our employees' performance. Poor performance is detrimental to NITF's success. Creating a well-rounded approach for managing and coaching NITF's work force requires the expertise and the immense support of HR and Administration department. HR and administrative department have identified potential of educating staff as the competitive edge to thrive in the market. Hence we invested on staff through training and development programs, welfare programs etc.

Table 6.02: Staff Welfare expenditure from 2010-2014 (Rs.)

2010	2011	2012	2013	2014
935,912	1,438,399	1,944,808	957,411	1,399,871

NITF arranged the annual residential training program in 2014 too. It was a 03 day out bound training program from which the employees learnt a lot on team spirit and attitude development. Also "Annual Bak Maha Ulela" was held in 2014 with a view to improving the team spirit and the unity among the work force. Also, on January 01st as usual NITF started the New Year with a sermon from a Buddhist monk to invoke blessings on the staff and the organization as well.

8.ENTERPRISE GOVERNANCE

INTRODUCTION

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

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

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

THE BOARD OF NITF

The NITF was managed in 2014 by a Board consisting of six members appointed by the Minister in charge, consisting an officer to represent the Ministry of Finance, Chief Accountant of the Ministry of Finance, An officer representing the Ministry of Public Administration, and three other persons nominated by the Minister to represent expertise in the fields of Finance, Banking, Insurance, Management and Law. The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. The names of the Board of Directors are given on page 8.

SUPPLY OF INFORMATION

The Board of directors is provided with monthly reports of performance and minutes of previous

Board meetings Board Papers, which are circulated a week prior to the Board meeting.

FINANCIAL STATEMENTS

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

THE ANNUAL REPORT 2014

The institution's Annual Report 2014 was designed to illustrate an overall view of NITF's affairs during the year 2014 in order to make informed decisions.

PROCUREMENT

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

THE INTERNAL CONTROL

During the year 2014, internal audit functions including the internal audit of departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund has been carried out by the Internal Audit Department.

THE AUDIT COMMITTEE

During the year 2014, the Audit Committee was established and the scope of the Audit Committee is as follows.

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

CORPORATE GOVERNANCE COMPLIANCE DURING 2014

Management Structure

The Members of Board of NITF are responsible to stakeholders for ensuring that the NITF is appropriately managed and that it achieves its objectives. This includes ensuring that an appropriate system of governance is in place throughout the institution.

Board Meetings

During the year 2014, there were 14 Board Meetings and Members of the Board have maintained an excellent records of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows;

Board Member	Date of Appointment	No. of Meetings attended
Mr D Widanagamachchi Chairman	09.10.2012	14
Dr. L. Samarawickrama Board Member	11.06.2010	14
Mr. A K Seneviratne Board Member	08.07.2011	14
Mr. N Kulasekara Board Member	18.07.2011	12
Mr. J. Dadallage Board Member	23.06.2010	13
Mr. W.H. Piyadasa Working Director	10.07.2010	14

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

9. ENTERPRISE RISK MANAGEMENT

Introduction

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

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

- Consideration in the context of business strategy
- It is everyone's responsibility, with the tone set from the top
- A focused strategy, led by the board
- Active management of risk
- Creation of a risk aware culture
- A comprehensive and holistic approach to risk management
- Consideration of a broad range of risks (strategic, financial, operational and compliance)
- Implementation through a risk management framework or system.

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

R01 -STRATEGIC RISK

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

R02 -BUSINESS RISK

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

R03 -LIQUIDITY RISK

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

R04 -OPERATIONAL RISK

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

R05 -INTERNATIONAL RISK

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

R06 -NATURAL RISK

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

R07 -CONCENTRATION RISK

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

10. AUDIT COMMITTEE REPORT

Audit Committee Report

During 2014, the Audit committee (AC) comprised of three non – executive Directors; namely, Mr. A.K. Senevirathne (Additional Director General –Fiscal Policy Department), Dr. LohithaSamarawikrama and Mr. N. Kulasekara (Chief Accountant- Ministry of Finance).

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

Scope of the Audit

During the year 2014, the Audit Committee established following scope of the Audit.

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

Meetings of the committee

During the financial year ended 31st December 2014, five meetings of the committee were held. The proceedings of the committee meetings are recorded with adequate details and are reported regularly to the Board of Directors.

Internal Audit

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

External Audit

The AC reviews audit services provided by the Auditor General to ensure that such services do not impair the independence of the External Auditors.

11. REPORT OF THE DIRECTORS

Report of the Directors

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

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

The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment.

During the year 2014, there were 14 Board Meetings and Members of the Board have maintained excellent records of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows;

Board Member	Date of Appointment	No. of Meetings attended
Mr D Widanagamachchi Chairman	09.10.2012	14
Dr. L. Samarawickrama Board Member	11.06.2010	14
Mr. A K Seneviratne Board Member	08.07.2011	14
Mr. N Kulasekara Board Member	18.07.2011	12
Mr. J. Dadallage Board Member	23.06.2010	13
Mr. W.H. Piyadasa Working Director	10.07.2010	14

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

Principal Activities and Business Reviews

Principal activities of NITF in 2014 are implementation of Medical Insurance Scheme for Public Officers (Agrahara), Compulsory Reinsurance Scheme, Parliamentary Members Insurance scheme, Motor Vehicle Insurance Scheme (for the motor vehicles owned by the Government), General Insurance Scheme, Crop insurance Scheme and Management of Strike, Riot, Civil Commotion & Terrorism Fund (SRCC&TF).

Financial Results

In 2014 NITF recorded a Gross Written Premium of Rs.5,842 million In 2014 GWP registered a sharp increase relative to 2013 due to increase in inward reinsurance, SRCC and T premium and premium from farmers under the crop insurance scheme. During 2014, NITF earned a Net Profit of Rs. 4,583 million.

Employees

Total number of employees as at end of the year 2014 was 177.

Auditors

The financial statement of 2014 of the Board was audited by the Auditor General in terms of Financial Act No. 38 of 1971.

Audit Committee

During 2014, the Audit committee (AC) comprised three non – executive Directors; namely, Mr. A.K. Seneviratne – (Treasury Representative /Additional Director General –Fiscal Policy Department), Dr. Lohitha Samarawikrama and Mr. N. Kulasekara (Chief Accountant- Ministry of Finance).

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

During the financial year ended 31st December 2014, five meetings of the committee were held. The proceedings of the committee meetings are recorded with adequate details and are reported regularly to the Board of Directors.

The internal audit plan was presented and approved by the Audit Committee. During the year 2014, internal audit functions including the internal audit of departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund have been carried out by the Internal Audit Department

Corporate Governance

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

Manjula de Silva
Chairman

Gayani Siyambalagoda
Secretary to the Board

9th June 2016
Colombo

12. FINANCIAL STATEMENTS-2014

INCOME STATEMENT

Year ended 31 December	Notes	2014 Rs.	2013 Rs.
		(All figures in Sri Lankan rupees)	
Gross written premiums	1	5,842,067,431	4,168,033,208
Contribution Received for Agrahara	1	1,494,899,976	1,406,706,842
Crop Insurance Levy Collected		1,184,647,255	440,836,600
Net written premiums		**8,521,614,663**	**6,015,576,650**
Net change in Reserve for unearned premium		**(505,986,318)**	**(563,257,987)**
Net earned premium		**8,015,628,346**	**5,452,318,663**
Revenue from other operations			
Fees and commission income	2	1,405,900	16,275
Investment & Other Income	3	638,509,884	700,136,640
Other revenue		**639,915,784**	**700,152,915**
Gross benefits and claims paid	4	(2,373,269,385)	(1,394,317,378)
Claims ceded to reinsurers	4	-	-
Gross change in contract liabilities	4	(831,930,326)	13,017,715
Change in contract liabilities ceded to reinsurers	4	-	-
Net benefits and claims		**(3,205,199,711)**	**(1,381,299,662)**
Underwriting and acquisition cost (including reinsurance)	5	(694,770,258)	(382,177,026)
Other operating and administrative	6	(172,918,575)	(149,567,708)
Total benefits, claims and other expenses		**(4,072,888,544)**	**(1,913,044,397)**
Profit/(Loss) before tax		**4,582,655,586**	**4,239,427,182**
Income tax expense		-	-
Profit/(Loss)for the year		**4,582,655,586**	**4,239,427,182**
Other Comprehensive Income			
Net change in available for sale financial assets		155,191,084	17,624,148
Other comprehensive income for the year, net of tax		155,191,084	17,624,148
Total Comprehensive Income		**4,737,846,670**	**4,257,051,330**

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BALANCE SHEET

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2014 Rs.	2013 Rs.
Assets			
Intangible assets	7	0	17,188
Property, plant and equipment	8	26,251,881	19,277,720
Financial Assets	9	9,105,573,879	6,844,238,119
Premium receivables	10	1,144,259,034	824,727,624
Soft Loans	11	188,220,907	622,760,214
Other non financial assets	12	84,351,380	78,069,200
Deferred Commission	13	366,621,700	199,173,169
Cash at bank and in hand	14	278,096,913	360,658,373
Total assets		**11,193,375,695**	**8,948,921,608**
Equity and Liabilities			
Retained earnings		7,550,219,714	6,949,244,214
Other component of equity		172,815,232	17,624,148
Total equity		**7,723,034,946**	**6,966,868,362**
Liabilities			
Insurance contract liabilities		3,240,259,344	1,895,716,630
Retirement benefit obligation		11,364,304	7,799,474
Other liabilities	15	197,413,174	23,374,582
Bank overdraft	14	21,303,927	55,162,561
Total liabilities		**3,470,340,750**	**1,982,053,247**
Total equity and liabilities		**11,193,375,695**	**8,948,921,608**

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

....
Finance Officer

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

....
Director

....
Director

21 October 2015
Colombo

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STATEMENT OF CHANGES IN EQUITY

As at 31 December

	Retained earnings Rs.	Available-for-sale financial assets Rs.	Total equity Rs.
Balance as at 31 December 2012	**5,912,918,517**	**-**	**5,912,918,517**
Profit for the year	4,239,427,182	-	**4,239,427,182**
Other comprehensive income			
Net change in available for sale financial assets	-	17,624,148	**17,624,148**
Motor Premium adjustment	(5,964,896)		**(5,964,896)**
Prior Year adjustment SRCC	2,863,411		**2,863,411**
Cash Transferred to the Consolidated Fund	(3,200,000,000)	-	**(3,200,000,000)**
Balance as at 31 December 2013	**6,949,244,214**	**17,624,148**	**6,966,868,362**
Profit for the year	4,582,655,586	-	4,582,655,586
Other comprehensive income			
Net change in available for sale financial assets	-	155,191,084	155,191,084
Motor Vehicles Accumulated Depriciation Adjustment	14,558,589	-	**14,558,589**
Write back Profit Commisssion & Recoverable from RI Dept:	12,287,375		12,287,375
Reinsurance Premium correction & taken to SRCC payable	(10,268,621)		(10,268,621)
Depreciation applicable for 2013	(511,780)		(511,780)
SLIPS retun correction	2,055,047		2,055,047
ETF and Stamp duty correction	199,305		199,305
Cash Transferred to the Consolidated Fund	(4,000,000,000)	-	(4,000,000,000)
Balance as at 31 December 2014	**7,550,219,714**	**172,815,232**	**7,723,034,946**

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CASHFLOW STATEMENT

Year ended 31 December (All figures in Sri Lankan rupees)

		2014 Rs.	2013 Rs.
Cash Flows from Operating Activities			
Profit Before Tax		4,582,655,586	4,239,427,182
Adjustments for :			
Interest Income		(624,075,269)	(700,136,640)
Depreciation		8,552,653	9,604,450
Net Fair Value Changes		155,191,084	17,624,148
Write off Profit Commission Expenses & Recoverable from RI Dept:		12,287,375	-
Reinsurance Premium correction & taken to SRCC payable		(10,268,621)	
Motor Premium adjustment		-	(5,964,896)
Prior Year adjustment SRCC		-	2,863,411
SLIPS retun correction		2,055,047	
ETF and Stamp duty correction		199,305	
		4,126,597,159	**3,563,417,655**
Change in Operating Assets	**A**	(493,262,120)	(219,246,251)
Change in Operating Liabilities	**B**	1,518,581,307	489,454,031
Cash Flow from Operating Activities		5,151,916,346	3,833,625,434
Gratuity Paid		3,564,830	4,902,437
Net Cash Generated from Operating Activities		5,155,481,176	3,838,527,871
Cash Flows from Investing Activities			
Net Acquisition of Financial Investments		(2,261,335,760)	(1,468,323,447)
Interest Received		624,075,269	700,136,640
Recovery of Soft Loans		434,539,307	335,696,568
Acquisition of Property, Plant and Equipment		(1,462,818)	(4,183,215)
Net Cash Used from Investing Activities		(1,204,184,002)	(436,673,454)
Cash Flows from Financing Activities			
Cash Transferred to the Consolidated Fund		(4,000,000,000)	(3,200,000,000)
Net Cash Used in Financing Activities		(4,000,000,000)	(3,200,000,000)
Net Increase / (Decrease) in Cash and Cash Equivalents	**C**	(48,702,826)	201,854,417
Net Cash and Cash Equivalents at the beginning of the Year		305,495,812	103,641,397
Cash and Cash Equivalents at the end of the Year		256,792,986	305,495,814

Notes to the Cash Flow Statement

	2014	2013
A. Change in Operating Assets		
(Increase)/ Decrease in Deferred Commission	(167,448,531)	(22,640,481)
(Increase)/ Decrease in Premium Receivable	(319,531,410)	(327,650,517)
(Increase)/ Decrease in Other Non Financial Assets	(6,282,179)	131,044,747
	(493,262,120)	(219,246,251)
B. Change in Operating Liabilities		
Increase / (Decrease) in Insurance Contract Liabilities	1,344,542,715	550,240,272
Increase / (Decrease) in Other liabilities	174,038,592	(60,786,241)
	1,518,581,307	489,454,031
C. Increase / (Decrease) in Cash and Cash Equivalents		
Net Cash and Cash Equivalents at the end of the Year	256,792,986	305,495,812
Less: Net Cash and Cash Equivalents at the beginning of the Year	305,495,812	103,641,397
Net Increase / (Decrease) in Cash and Cash Equivalents	(48,702,826)	201,854,415

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1.0 CORPORATE INFORMATION

1.1 Reporting Entity

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

1.2 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 General Insurance and Re-insurance businesses.

1.4 Responsibility for Financial Statements

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

1.5 Number of Employees

The staff strength of the Board as at 31st December 2014 was 177 (2013 – 162)

2.0 ACCOUNTING POLICIES

2.1 Basis of Preparation

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

2.2 Statement of compliance

The Financial statements of the Board have been prepared in accordance with new Sri Lanka Accounting Standards (SLAS) prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL). These are the Board's first financial statements prepared in accordance with Sri Lanka Accounting Standards prefixed SLFRS and LKAS and SLFRS 1-First-time Adoption of Sri Lanka Financial Reporting Standards .

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.3 Functional and presentation currency

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

2.4 Reporting Period

The reporting period is from January to December 2014

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

2.5 Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

2.5.1 Valuation of Insurance contract liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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

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

2.5.2 Impairment of Deferred Acquisition Cost (DAC)

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

2.5.3 Assessment of Impairment

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

2.5.4 Provision for Liabilities and Contingencies

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

2.5.5 Deferred Tax Assets and Liabilities

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

2.5.6 Valuation of Retirement Benefit Obligation

The cost of Retirement Benefit Obligation is not determined using actuarial valuation.
Provision for Gratuity is calculated based on a minimum of half month's salary for each completed year of service.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.5.7 Going Concern

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

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

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

2.6 Summary of Significant Accounting Policies

2.6.1 Intangible assets

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

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

Computer Software	Over 4 Years

2.6.2 Property, Plant & Equipment

The Property, Plant & Equipments are recorded at cost.

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Expenditure incurred for the purpose of acquiring, extending or improving assets of permanent nature by means of which to carry on the Board.

2.6.3 Depreciation

The provision for depreciation is calculated by using straight line basis on the cost of all property, plant & equipments in order to write off such amount over their estimated useful lives by equal annual installments as follows

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

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.
During the year under review, the Board decided to revise the useful life of motor vehicles from 5 years to 10 years.
The revision was accounted for in 2014 as a change in accounting estimates and restated the accumulated depreciation at amounts which would have been reflected in the balance sheet on the date of reinstatement had the Board measured depreciation from date of acquisition of Motor Vehicles based on the revised useful life including the estimated remaining useful life and adjusted the difference under Equity.

Change in accumulated depreciation adjusted through Equity	-Rs. 14,558,589
Additional depreciation charge for 2014	-Rs. 2,417,982

Fully depreciated Property, Plant & Equipments in Use

The initial cost of fully depreciated PPE which are still in use as at reporting date, is shown in Note 8 on page 26

2.6.4 Financial Instruments

The Board recognizes Financial Assets or Financial Liabilities in its Statement of Financial Position when the Board becomes a party to the contractual provisions of the Instrument. Financial Assets and Financial Liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of a Financial Asset or a Liability (other than Financial Assets and Financial Liabilities at fair value through profit or loss) are added or deducted from the fair value of the Financial Asset or Liability, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of Financial Assets and Financial liabilities at fair value through profit or loss are recognized immediately in the Income Statement. Financial Assets and Liabilities are offset and the net amount is presented when, and only when the Board has a legal right to offset the amount and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Financial Assets

(a) Initial recognition and measurement

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

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

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

The Board determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Board's ability. Financial assets are classified as at Fair-Value-Through-Profit -or-Loss where the Group's investment strategy is to manage financial investments on a fair value basis. The Available-For-Sale and Held-To-Maturity categories are used when the relevant is passively managed and/or carried at amortized cost. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognized on the settlement date, i.e. the date that the Board receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognize/derecognize the asset Investment are shown at Cost.

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

Financial Asset	**Category**
Treasury Bonds	Available-For-Sale (AFS)
Treasury Bills	Available-For-Sale (AFS)
Debentures	Loans and Receivables (L&R)
Repurchase Agreement	Loans and Receivables (L&R)

(b) Subsequent measurement

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

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

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

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

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

Available-for-sale financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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

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

Loans and receivables

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

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

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

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

Held to maturity financial assets (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has the intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortized cost, using the EIR, less impairment.

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

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

(c) De-recognition of financial assets

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

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

Or

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

And either:

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

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

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

(d) Impairment of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Financial liabilities

(a) Initial recognition and measurement

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

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

(b) Subsequent measurement

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

Loans and borrowings

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

(c) Derecognition

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

(d) Insurance payables

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

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

2.6.5 Offsetting of financial instruments

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

2.6.6 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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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 recognised in the income statement in those expense categories consistent with the function of the impaired asset.

2.6.7 General insurance contract liabilities

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

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

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

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

2.6.8 Reinsurance

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

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

Ceded reinsurance arrangements do not relieve the Board from its obligation to policy holders.
Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

The Board did not cede insurance and inward reinsurance risks for all of its businesses during the year under review and previous years commencing from 2012.

2.6.9 Insurance receivables

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

2.6.10 Cash and cash equivalents

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

(a) 2.6.11 Sales taxes and premium taxes

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

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

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

2.6.12 Foreign currency translation - Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

2.6.13 Retirement Benefit Obligations

(a) Defined Benefit Plan – Gratuity

Gratuity is a defined benefit plan. The Board is liable to pay gratuity in terms of the payment of gratuity Act No. 12 of 1,983, according to which a liability to pay gratuity arises only on completion of 5 years of continued service. In order to meet this liability, a provision is carried forward in the financial statements. Gratuity liability is not computed as per Sri Lanka Accounting Standard LKAS 19 Employee Benefits, using actuarial method of valuation.

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

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

2.6.14 Provisions and Contingent Liabilities

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. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

2.7 REVENUE RECOGNITION

2.7.1 Gross premiums

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

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 365^{th} basis ,1/24th basis or 35% on the gross premiums basis in line with generally accepted insurance and reinsurance industry practices. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

2.7.2 Fees and other income

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.7.3 Interest income

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

2.8 BENEFITS, CLAIMS AND EXPENSES RECOGNITION

2.8.1 Gross benefits and claims

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

2.8.2 Expenditure Recognition

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

2.9 Comparative Figures

SLFRS/LKAS have been applied retrospectively and therefore the comparative financial information provided in these Financial Statements have been restated to be in line with the current year accounting policies and presentations.

2.10 Capital Commitments

There were no Capital commitments as at Balance Sheet date.

2.11 Cash Flow Statement

Cash Flow Statement is prepared using "indirect method"

2.12 Related Party Transactions

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

2.13 Post Balance Sheet Events

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

2.14 Contingencies

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

2.15 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following standards not yet effective for the year ended 31 December 2014 and have not been applied in preparing these financial statements of the Board. These standards could have a financial impact in the financial statements from their effective dates.

SLFRS 9-Financial Instruments: Classification and Measurement

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

This standard was originally effective for annual periods commencing on or after 01 January 2015.However effective date has been deferred subsequently.

SLFRS 14 -Regulatory Deferral Accounts

The scope of this standard is limited to first-time adopters of SLFRS that already recognize regulatory deferral account balances in their financial statements. Consequently, the financial statements of rate regulated entities that already apply SLFRS, or that do not otherwise recognize such balances, will not be affected by this standard. This standard is effective for the annual periods beginning on or after 01 January 2016.

2.16 EXPLANATION OF TRANSITION TO NEW SLASs

These are the Board's first Financial Statements prepared in accordance with new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL). The accounting policies set out above have been applied in preparing these Financial Statements for the year ended 31st December 2014, the comparative information presented in these Financial Statements for the year ended 31st December 2013 and in the preparation of an opening statement of financial position as at 1st January 2013 (the Board's date of transition). In preparing its opening new SLAS Statement of Financial Position, the Board has adjusted amounts reported previously in Financial Statements prepared in accordance with previous SLASs. An explanation of how the transition from previous SLASs to new SLASs has affected the Board's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Reconciliation of equity for the year ended 31st December 2013

Assets	**SLFRS/LKAS**	**Remeasurements**	**SLAS**
			-
Property Plant and Equipment	19,317,968		19,317,968
Financial Investments	6,844,238,119	176,720,098	6,667,518,021
Premium Receivable	814,910,533	-	814,910,533
Cash and Cash Equivalents	360,658,372	-	360,658,373
Other Receivable	710,623,447	(160,516,011)	871,139,458
Total Assets	**8,749,748,439**	**16,204,087**	**8,733,544,352**
Equity			
Technical Reserve			
Other Reserves	1,622,656,295	-	1,622,656,295
Deferred Commission	(199,173,169)	-	(199,173,169)
Revenue Reserve		-	
Accumulated Fund	6,966,868,361	16,204,087	6,950,664,274
Total Equity & Reserves	**8,390,351,487**	**16,204,087**	**8,374,147,400**
Current Liabilities			
Claim payable	273,060,335		273,060,335
Other payable	86,336,617	-	86,336,617
Total Liabilities	**359,396,952**	**-**	**359,396,952**
Total Equity and Liabilities	**8,749,748,439**	**16,204,087**	**8,733,544,352**

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

Reconciliation of comprehensive income for the year ended 31st December 2013

	SLFRS/LKAS	Remeasurements	SLAS
Gross Written Premium	4,168,033,208	-	4,168,033,208
Contribution Received for Agrahara	1,406,706,842	-	1,406,706,842
Crop Insurance Levy Collected	440,836,600	-	440,836,600
Net Change in Reserve for Unearned Premium	(563,257,987)	-	(563,257,987)
Gross Earned Premium	5,452,318,662	-	5,452,318,662
Net Earned Premium	**5,452,318,662**	**-**	**5,452,318,662**
Other Revenue			
Finance Income	690,052,838	(1,420,061)	691,472,899
Net Realized Gain	3,303,729	-	3,303,729
Other Operating Income	6,796,348	-	6,796,348
	700,152,915	(1,420,061)	701,572,977
Total Net Revenue	**6,152,471,577**	**(1,420,061)**	**6,153,891,639**
Benefits Claims and Expenses			
Net Insurance Benefit and Claims	(1,381,299,662)	-	(1,381,299,662)
Underwriting and Acquisition Cost	(382,177,026)	-	(382,177,026)
Other Operating & Administration Expenses	(164,126,297)	-	(164,126,297)
Total Benefits Claims and Expenses	**(1,927,602,985)**	**(1,420,061)**	**(1,927,602,985)**
Profit/(Loss) Before Taxation	4,224,868,592	(1,420,061)	4,226,288,654
Income Tax Expenses	-		
Profit/(Loss) for the year	**4,224,868,592**	**(1,420,061)**	**4,226,288,654**
Other Comprehensive Income	**17,624,148**	**17,624,148**	-
Total Comprehensive Income	**4,242,492,740**	**16,204,087**	

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NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

1. NET PREMIUMS

1.1 Gross Written Premium

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

	2014 Rs.	2013 Rs.
Inward Reinsurance	2,041,207,710	1,042,220,495
SRCC & Tr Premium	2,835,199,980	2,543,782,803
General Insurance - Motor	142,690,974	174,785,654
General Insurance - Non Motor	22,595,787	17,915,562
Crop Insurance -Premium from farmers	787,372,981	379,328,695
Medical scheme for Parliamentory members	13,000,000	10,000,000
	5,842,067,431	**4,168,033,208**

1.2 Contribution collected for Agrahara medical Insurance Scheme

	2014 Rs.	2013 Rs.
Contribution from Members	1,094,899,976	996,706,842
Contribution from the Treasury	400,000,000	410,000,000
	1,494,899,976	**1,406,706,842**

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

		2014	2013
2.	FEES AND COMMISSION INCOME	**Rs.**	**Rs.**
	Policyholder administration fees	1,405,900	16,275
	Total fees and commission income	**1,405,900**	**16,275**

3.	**INVESTMENT & OTHER INCOME**	**2,014**	**2,013**
		Rs.	**Rs.**
3.1	**Loans and receivables interest income**		
	Interest income from Repurchase Agreements	137,565,147	261,446,037
	Interest income from Debentures	113,941,967	114,250,459
		251,507,113	**375,696,497**
3.2	**Available for sales interest income**		
	Interest income from Treasury Bills	136,852,638	77,066,626
	Interest income from Treasury Bonds	235,715,518	237,289,715
		372,568,155	314,356,341
	Total investment income	**624,075,269**	**690,052,838**
3.3	**Other Income**		
	Interest on Soft Loans	11,937,931	5,915,955
	Interest on Staff Distress Loans	713,358	645,850
	Other	1,783,326	3,521,997
		14,434,616	10,083,802
	Total Income	**638,509,884**	**700,136,640**

		2014	2013
4.	**NET BENEFITS AND CLAIMS**	**Rs.**	**Rs.**
	(a) Gross benefits and claims paid		
	Reinsurance	(612,666,566)	(47,998,535)
	SRCC & Tr	(80,993,389)	(15,449,613)
	General Insurance - Motor	(83,453,649)	(107,457,388)
	General Insurance - Medical & Other	(75,560,574)	(85,707,270)
	Crop Insurance	(369,304,694)	(5,697,749)
	Medical scheme for Parliamentory members	(15,161,878)	(15,333,763)
	Agrahara medical Insurance Scheme	(1,136,128,636)	(1,116,673,061)
		(2,373,269,385)	**(1,394,317,378)**
	(b) Gross change in contract liabilities		
	Reinsurance	(161,154,770)	27,267,711
	SRCC & Terrorism	24,096,208	13,117,777
	General Insurance - Motor	(55,715,081)	(9,178,864)
	General Insurance - Medical & Other	2,236,590	-
	Crop Insurance	(549,398,194)	(4,738,899)
	Agrahara medical Insurance Scheme	(91,995,080)	(13,450,010)
		(831,930,326)	13,017,715
	Net benefits and claims	**(3,205,199,711)**	**(1,381,299,662)**

NOTES TO FINANCIAL STATEMENT

Year ended 31 December

		2014 Rs.	2013 Rs.
5.	**UNDERWRITING AND ACQUISITION COST**		
	Acquisition Cost	(862,218,789)	(404,817,508)
	Change unearned commission reserve - SRCC	25,211,540	22,640,481
	Change unearned commission reserve - Reinsurance	142,236,991	-
		(694,770,258)	(382,177,026)

		2014 Rs.	2013 Rs.
6.	**OTHER OPERATING AND ADMINISTRATIVE EXPENSES**		
	Auditors Remuneration	430,000	337,500
	Employee Benefit Expenses	84,790,542	76,487,490
	Administration and establishment Expenses	77,133,156	61,229,192
	Selling Expenses	791,355	808,660
	Depreciation of Property Plant and Equipment	8,552,653	9,604,450
	Legal Fees	361,826	521,386
	Donations	859,044	579,030
	Total other operating and administrative expenses	**172,918,575**	**149,567,708**

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NOTES TO FINANCIAL STATEMENT

Year ended 31 December

7. **INTANGIBLE ASSETS**

	2014 Rs.	2013 Rs.
Cost		
At 1 January 2014	6,542,073	6,542,073
Additions	-	-
At 31 December 2014	6,542,073	6,542,073
Accumulated amortisation and impairment		
At 1 January 2014	6,524,886	6,448,518
Amortisation	17,188	76,367
At 31 December 2014	6,542,073	6,524,886
Carrying amount		
At 31 December 2013		17,188
At 31 December 2014		0

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

As at December 31st	**2014**	**2013**
Software	6,542,073	6,267,073

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NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

8. PROPERTY, PLANT & EQUIPMENT

Company	Motor Vehicles	Office Equipment	Furniture & Fittings	Misc. Assets	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
At 1 January 2014	34,470,255	34,459,929	7,115,498	23,338	76,069,020
Additions	-	974,170	488,648	-	1,462,818
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 December 2014	34,470,255	35,434,098	7,604,146	23,338	77,531,838
At 1 January 2014	33,062,519	19,822,313	3,883,130	23,338	56,791,300
Depreciation	3,445,025	4,195,344	895,096		8,535,465
Disposals	-		-	-	-
Adjustment for Prior year		511,780			511,780
Depreciation Estimate Adjustment	14,558,589	-	-	-	14,558,589
At 31 December 2014	21,948,956	24,529,436	4,778,226	23,338	51,279,956
Carrying amount					
At 31 December 2013	1,407,736	14,637,616	3,232,368	-	19,277,720
At 31 December 2014	12,521,299	10,904,662	2,825,920	-	26,251,881

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

	2014	2013
	Rs.	Rs.
Office Equipments	5,935,077	1,220,673
Furniture & Fittings	137,011	69,965
Miscellaneous Assets	23,338	23,338

9. FINANCIAL ASSETS

	Notes	2014	2013
		Rs.	Rs.
Loans And Receivables	9.1	3,588,917,799	2,577,747,070
Available For Sale Financial Assets	9.2	5,516,656,080	4,266,491,049
		9,105,573,879	6,844,238,119

9.1 Loans And Receivables

	2014	2013
	Rs.	Rs.
Loans and receivables	3,588,917,799	2,577,747,070
Total financial instruments	3,588,917,799	2,577,747,070
Loans and receivables		
Government Securities - Repo Investment	2,516,496,974	1,505,332,919
Debentures - Unquoted	1,072,420,825	1,072,414,151
Total loans and receivables at amortised cost	3,588,917,799	2,577,747,070

9.2 Available For Sale Financial Assets

	2014	2013
	Rs.	Rs.
Government Securities - Treasury Bonds	3,073,152,738	2,389,498,551
Government Securities - Treasury Bills	2,443,503,342	1,876,992,498
	5,516,656,080	4,266,491,049

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

10. PREMIUM RECEIVABLES

	2014 Rs.	2013 Rs.
Premium Receivable from :		
Direct customers	725,145,901	464,924,181
Others	3,462,112	9,817,091
Agent, Brokers and Other Intermediaries	415,651,021	349,986,352
	1,144,259,034	824,727,624

10.1 Premium Receivable from Direct customers

General Insurance Motor	6,773,856	-
General Insurance Non motor	2,278,260	1,955,673
Inward Reinsurance	716,093,785	462,968,508
	725,145,901	464,924,181

11. SOFT LOANS

11. SOFT LOANS	188,220,907	622,760,214

12. OTHER NON-FINANCIAL ASSETS

	2014 Rs.	2013 Rs.
Advances & Prepayments	944,129	1,056,376
WHT receivable	46,121,820	34,618,240
Refundable Deposits	8,995,104	9,415,854
Staff Distress Loans	15,417,086	19,074,595
Prepaid Expenses	-	7,819
Economic Service Charge	12,092,199	12,092,199
Cheque Return Receivable	757,982	1,781,057
Inventories	23,060	23,060
	84,351,380	78,069,200

13. DEFERRED COMMISSION

	2014 Rs.	2013 Rs.
As at 1 January	199,173,169	176,532,688
Provision made /(released) during the year	167,448,531	22,640,481
As at 31 December	366,621,700	199,173,169

14. CASH AND CASH EQUIVALENTS

	2014 Rs.	2013 Rs.
Petty Cash	130,270	143,584
Cash at bank	277,966,643	360,514,790
Cash in hand and at bank	278,096,913	360,658,373
Bank overdraft	(21,303,927)	(55,162,561)
Total cash and cash equivalents	256,792,986	305,495,812

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

		Notes	2014 Rs.	2013 Rs.
15.	**OTHER LIABILITIES**			
	Other financial liabilities	15.1	118,675,128	37,727,990
	Other non financial liabilities	15.2	78,738,047	(14,353,408)
			197,413,174	23,374,582

		2014 Rs.	2013 Rs.
15.1	**Other financial liabilities**		
	Claim cheques/SLIPS returned payable	3,261,680	4,254,343
	Motor premium Advance Collected	45,260,626	-
	Premium Refund Payable	61,928,872	11,928,872
	Accrued expenses	5,284,964	15,908,295
	Other payables	2,938,985	5,636,480
		118,675,128	37,727,990

The carrying amounts disclosed above reasonably approximate fair values as at the reporting date 31 December 2014. All amounts are payable within one year.

		2014 Rs.	2013 Rs.
15.2	**Other non financial liabilities**		
	Government Levies	78,738,047	(14,353,408)
		78,738,047	(14,353,408)

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NOTES TO FINANCIAL STATEMENTS

Year ended 31 December

16. SEGMENT INFORMATION

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

	2014						
PREMIUMS	**Motor Rs.**	**Non Motor Rs.**	**Reinsurance Rs.**	**SRCC Rs.**	**Health Scheme Agrahara/ MP**	**Crop Insurance Scheme**	**Total Rs.**
Gross written premiums	142,690,974	22,595,787	2,041,207,710	2,835,199,980	13,000,000	787,372,981	5,842,067,431
Contribution Received for Agrahara	-	-	-	-	1,494,899,976		1,494,899,976
Crop Insurance Levy Collected	-	-	-	-		1,184,647,255	1,184,647,255
Premiums ceded	-	-	-	-	-	-	-
Net written premiums	**142,690,974**	**22,595,787**	**2,041,207,710**	**2,835,199,980**	**1,507,899,976**	**1,972,020,236**	**8,521,614,662**
Net change in Reserve for unearned Premium	(8,438,303)	(5,432,223)	(349,645,526)	(142,470,265)	-	-	(505,986,318)
NET PREMIUMS EARNED (A)	**134,252,671**	**17,163,564**	**1,691,562,183**	**2,692,729,715**	**1,507,899,976**	**1,972,020,236**	**8,015,628,345**
Reinsurance commission income			-	-			-
Change in deferred RI com income			-	-			-
Net reinsurance commission income (B)	**-**	**-**	**-**	**-**	**-**		**-**
Fee income (C)	1,395,500	10,400	-	-	-	-	1,405,900
TOTAL UNDERWRITING INCOME (A + B + C)	**135,648,171**	**17,173,964**	**1,691,562,183**	**2,692,729,715**	**1,507,899,976**	**1,972,020,236**	**8,017,034,245**
Acquisition costs	-	-	(264,154,412)	(430,615,847)	-	-	(694,770,258)
Change in deferred acquisition costs							-
Net acquisition costs (D)	**-**	**-**	**(264,154,412)**	**(430,615,847)**	**-**		**(694,770,258)**

17. SEGMENT INFORMATION (Contd...)

	2014						
	Motor Rs.	**Non Motor Rs.**	**Reinsurance Rs.**	**SRCC Rs.**	**Health Scheme Agrahara/ MP**	**Crop Insurance Scheme**	**Total Rs.**
Gross claims paid	(139,168,729)	(73,323,984)	(773,821,335)	(56,897,181)	(1,243,285,594)	(918,702,888)	(3,205,199,711)
Reinsurance recoveries	-	-	-	-	-	-	-
Net claims paid	**(139,168,729)**	**(73,323,984)**	**(773,821,335)**	**(56,897,181)**	**(1,243,285,594)**	**(918,702,888)**	**(3,205,199,711)**
Gross change in reserve for outstanding claims						-	-
Reinsurers share of change in outstanding claims						-	-
Gross change in other technical reserves - IBNR						-	-
Reinsurers share of change in other technical reserves - IBNR						-	-
NET CLAIMS INCURRED (E)	**(139,168,729)**	**(73,323,984)**	**(773,821,335)**	**(56,897,181)**	**(1,243,285,594)**	**(918,702,888)**	**(3,205,199,709)**
Administrative expenses (F)	(27,419,909)	(6,854,977)	(13,709,954)	(35,819,030)	(82,259,727)	(6,854,977)	(172,918,575)
TOTAL UNDERWRITING EXPENSES (D + E + F)	(166,588,638)	(80,178,961)	(1,051,685,702)	(523,332,057)	(1,325,545,321)	(925,557,865)	(4,072,888,542)
UNDERWRITING RESULT	**(30,940,467)**	**(63,004,997)**	**639,876,482**	**2,169,397,658**	**182,354,655**	**1,046,462,371**	**3,944,145,703**
Investment & Other Income for the year	35,724,408	12,901,317	79,785,701	491,195,609	739,326	18,163,521	638,509,882
Profit before tax	**4,783,941**	**(50,103,680)**	**719,662,183**	**2,660,593,266**	**183,093,981**	**1,064,625,892**	**4,582,655,585**

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NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2014

18 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.

Engineering

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

NOTES TO FINANCIAL STATEMENTS

19 INSURANCE AND FINANCIAL RISK (Contd...)

Motor

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

Miscellaneous Accident

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

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

Marine

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

Medical and Personal Accident

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

Geographical concentration of risks

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

(b) Financial Risk

i. Credit risk

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

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

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

NOTES TO FINANCIAL STATEMENTS

20 INSURANCE AND FINANCIAL RISK (Contd...)

Year ended 31 December 2014

Premium receivables

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

The maximum exposure to credit risk at the reporting date was:	Notes	2014 Rs.	2013 Rs.
Loans and receivables	9.1	3,588,917,799	2,577,747,070
Available for sale financial assets	9.2	5,516,656,080	4,266,491,049
Premium Receivables	10	1,144,259,034	824,727,624
Soft Loans	11	188,220,907	622,760,214
Cash in hand and at bank	14	256,792,986	305,495,812
		10,694,846,806	**8,597,221,770**

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. In the event there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

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

The company's exposure to liquidity risk as at the reporting date is against the following liabilities.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2014

21 INSURANCE AND FINANCIAL RISK (Contd...)

iii. Market Risk

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

a) Interest rate risk

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

b) Foreign currency risk

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

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

22 CONTINGENCIES AND COMMITMENTS

(a) Contingencies

As at the year end, there was no pending litigations against the Board.

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

(b) Capital commitments

As at the year end, there was no Capital commitment.

13. AUDITOR'S REPORT

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. } TRE/C/NITF/FA/2014 ඔබේ අංකය / உமது இல. / Your No. } දිනය / திகதி / Date } 12 May 2016

The Chairman,
National Insurance Trust Fund.

Report of the Auditor General on the Financial Statements of the National Insurance Trust Fund for the year ended 31 December 2014 in terms of Section 14(2) (c) of the Finance Act, No.38 of 1971.

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statements of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 17 of the National Insurance Trust Fund Act, No. 28 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Fund on 04 January 2016.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව, - இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka
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AGDSL
Auditor General's Department

1.3 Auditor's Responsibility

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

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

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

1.4 Basis for Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Even though the current and non- current assets and liabilities should be classified in the financial statements in the order of liquidity by the Entity in terms of Sri Lanka Accounting Standard 01, action had not been taken by the Fund accordingly.

(b) Even though provisions should be made in order to ensure the real position as much as possible through past experience and trends in the identification of insurance claims expenses in terms of Sri Lanka Accounting Standard 04, an over provision of Rs.24,096,208 had been made in the year under review.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Even though the market value of 04 motor vehicles had been revaluated as Rs.15,400,000 of the net value of which was Rs.9,501,597, only their effective lifetime of the motor vehicles had been re- estimated, bringing to account showing that value of the motor vehicles.

(b) The Rent Expense and contributions to the Employees Provident Fund had been overstated by Rs.1,500,000 and Rs.546,183 respectively in the year under review, due to Rent Expense and the contributions to Employee Provident Fund being brought to account on cash basis.

(c) An overprovision of Rs.189,953 was observed in the year under review due to erroneous calculation of Employee Gratuity provision.

2.2.3 Lack of Evidence for Audit

Letters of confirmation of balances for the receivable premium income amounting to Rs.718,919,253 with regard to general, reinsurance and other divisions of the Fund and detailed schedules and letters of confirmation of balances with regard to other financial liabilities amounting to Rs.68,675,128 were not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) As the crop insurance operated by the Fund had been vested in the Agricultural and Agrarian Insurance Board since the maha season of 2014, a sum of Rs.11,904,463 out of the estimated premium amounting to Rs.50,000,000 payable to the Board remained payable even by 31 December 2015.

(b) A sum of Rs.11,928,811, which had been granted approval by the Committee appointed to refund premiums paid by the insurance companies to Strike, Riot, Civil Commotion and Terrorism Fund, at the time where they were demanded, to be refunded due to various reasons could not be settled further due to non-presentation of the documents necessary to settle that amount.

(c) Action had not been taken to settle dishonoured cheques amounting to Rs.757,982 which had been unsettled for periods over 1 to 4 years even by 31 December 2015.

(d) Action had not been taken to recover a sum of Rs.859,655 receivable relating to the Agrahara Insurance Division which had been brought forwarded since three years, from the relevant parties.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Regulation of Insurance Industry Act (No.43 of 2000)	
(i) Section 7(1)	Even though a cess should be paid to the Sri Lanka Insurance Trust Board by the Fund on the annual net premium income of every insurer from time to time by Order published in the Gazette by the Minister with the agreement of the Board as determined by the concurrence, a sum of Rs.56,829,739 had been payable relating to the years 2011 and 2012 and any amount had neither been provided or been recovered for the years 2013 and 2014.

(ii) Section 16(1)	Even though every insurer should pay an annual fee to the Sri Lanka Insurance Board such sum of money as may be prescribed, a sum of Rs.10,349,888 in relation to the period from 2011 to 2014 was payable by the Fund to the Board, according to the records of the Board.
(b) Chapter 9.14 of Public Enterprises Circular No.PED/12 of 02 June 2003	Even though the consent of the Secretary to the Treasury should be obtained after obtaining the approval of the Board of Directors by preparing a handbook of administration including rules and regulations relating to Human Resource Management the approval of the Secretary to the Treasury had not been obtained in terms of the Procedure Rules operated by the Institution.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2014 amounted to a surplus of Rs.4,582,655,586 as compared with the corresponding surplus of Rs.4,239,427,182 for the preceding year. There was an improvement of Rs.343,228,404 in the financial result as compared with the preceding year. Even though the net benefits and payments of claims and expenditure of acquisition had been increased by Rs.1,823,900,049 and Rs.312,593,232 respectively, the increase of the Gross Premium Income, crop

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insurance income and "Agrahara" contributions by Rs.1,674,034,223, Rs.743,810,655 and Rs.88,193,134 had been mainly contributed to the improvement of the financial result.

4. Operating Review

4.1 Performance

The following observations are made.

(a) In terms of National Insurance Trust Fund Act No.28 of 2006 the main objective of the establishment of the Fund was to implement insurance schemes for the vulnerable groups of the society. Even though plans had been prepared for the fulfillment of the above objective, the Fund had not taken action to implement such insurance schemes until the date of audit.

(b) It had been informed by Public Finance Circular No.PF/437 of 18 September 2009 that all Government and Semi- government institutions should obtain the motor vehicles insurance only from the National Insurance Trust Fund and the Sri Lanka Insurance Corporation, in accordance with their needs; even though 9,158 motor vehicles of the public sector had been insured in the year 2013 it had been reduced to 6,206 or, by 32 per cent in the year 2014. As a result, the insurance income had been reduced to Rs.39 million. Similarly, even though 22 motor vehicles had been insured in the year 2013, the Fund had not achieved any progress in respect of motor vehicle insurance as none of the motor vehicles had been insured in the year 2014.

(c) Collection of crop levy recovered from banks, financial companies and insurance companies had been vested to the Fund in accordance with the Gazette Extraordinary No.1824/23 of 23 August 2013 but the guidance in respect of the utilization of that money had not been received by the Fund. However, the Fund had taken action to pay crop insurance compensation claims from this levy as there was no sufficient money in the account. The income received to the Fund by recovering crop levy that could not be paid in the years 2013 and 2014 had been Rs.440.8 million and Rs.1,184.6 million respectively.

4.2 Management Inefficiencies

It was observed in audit that the insurance activities had been conducted in accordance with the procedures adopted by other insurance companies as guidelines had not been formulated even until 31 December 2014 by the Fund for the implementation of insurance schemes/reinsurance activities under the motor vehicles, non- motor vehicles and various other categories of insurance. As such, an approved methodology had not been implemented for insurance activities by this Fund which performs as the reinsurer in Sri Lanka, despite a considerable period of time had elapsed after the commencement of its business activities.

4.3 Operating Inefficiencies

The Fund had not taken action to maintain a data base about all Officers of the Public Service and Provincial Public Service or a proper methodology in order to ensure whether "Agrahara" contributions recovered from salaries of the Officers for the "Agrahara" Insurance Scheme introduced with the objective of granting equal and more benefits to Officers of the Public Service and the Provincial Public Service by the Budget Proposals of the year 2005, had been received to the Fund on due date and to ensure the accuracy of payments of benefits.

A sum of Rs.69 is paid monthly to the Fund as a contribution for each Officer for the payment of "Agrahara" benefits, is stated in the Public Administration Circular No.12/2005(ii) of 18 May 2005. However, it could not be ensured in audit whether the Government's contribution receivable to the Fund in the years 2012, 2013 and 2014 had been properly received due to paying only an agreed amount without concerning about the number of employees, as the Fund had not accurately identified the number of members in making the Government's contribution by the Treasury to the Fund.

4.4 Identified Losses

The Fund had taken action to introduce an Electronic card system without conducting a feasibility study with the objective of provision of hospitalizing facilities for Public Servants from the year 2011 without payment of deposits under the "Agrahara" Scheme. The following observations were made in this regard.

(a) A total cost estimate inclusive of all related expenses necessitated to be prepared in accordance with Sub- sections (a) and (c) of Paragraph 4.3.1 of the Procurement Guidelines 2006 had not been prepared for this project by the Fund and the Procurement Committee had also not been appointed in accordance with the relevant guidelines.

(b) Even though quotations were received from three suppliers for this project the relevant contract had been awarded to a private institution which had presented the Second Minimum quotation of Rs.21,820,000. However, acceptable reasons for the rejection of the first minimum quotation had not been included in the recommendations. According to the information presented to audit, the total amount spent for this project had been Rs.10, 999,000.

(c) A sum of Rs.4,364,000 as mobilization advances for the purchase of 650,000 Electronic cards and 20 Electronic card reading machines and payments totalling Rs.6,025,000 had been made in the years of 2011 and 2012 in three instances as part payments by the Fund. However, according to the information furnished to audit a sum of Rs.855, 210 had been overpaid for 28,370 Electronic cards as only 221,630 Electronic cards were received to the Fund.

(d) The preparation of complete data base in relation to beneficiaries had not been completed by the Fund and it was informed the audit that data of 477,000 members had been computerized by 14 September 2015 and 212,969 cards had been distributed to Officers by now. However, it was informed to audit that a situation had prevailed that the cards could not be issued to the beneficiaries as the supplier had stopped printing of cards by now.

(e) It was informed to audit that even though it had been planned to install these card reading machines in 9 main hospitals, it could not be fulfilled due to the change of the management of the Fund by that time.

4.5 Personnel Administration

There had been 20 vacancies by the end of the year under review and an expenditure amounting to Rs.515,255 had been spent for the publication of newspaper advertisements for the recruitment of six posts out of those vacancies. Even though 09 applications for the post of Internal Auditor and 12 applications for the post of Assistant Manager (Finance and Corporative Services) respectively, had been received, those recruitment had not been made for the post of Assistant Manager (Insurance) in the year 2014 this post had again remained vacant by 30 April 2015.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Although the draft annual report and the financial statements should be presented to audit within 60 days after the close of financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED 12 dated 02 June 2003, the financial statements for the year under review had been presented only on 22 October 2015.

5.2 Budgetary Control

As variations ranging from 29 percent to 1176 per cent between the budgeted and actual expenses were observed, the budget had not been made use of as an effective instrument of management control.

5.3 Unresolved Audit Paragraphs

It had been decided by the Cabinet of Ministers to provide a sum of Rs.1,500 million under a 2 per cent concessionary interest rate from Strike, Riot, Civil Commotion and

Terrorist Fund, managed by the Fund for the restoration of Commercial institutions damaged by Terrorist bomb explosions in the years 1996 and 1997 around Colombo Fort area. As Rs.1,789.48 million had been given to 07 institutions in 19 instances, a sum of Rs.289.48 million had been given as loans in excess of the approved limit. The following observations were made in this regard.

(i) Of this loan the amount recoverable by 31 December 2014 was Rs.188.2 million and the interest amounting to Rs.79,261,218, with regard to the loans provided to a private company in 5 instances including a sum of Rs.11,669,029 with regard to a loan provided to that company had been written off on the agreement, after a discussion held with the Board of Directors of the relevant company and with the Officers of the Ministry of Finance without referring it to the Cabinet of Ministers.

(ii) Action had not been taken to refer to the Cabinet of Ministers for the granting of approval to write off the capital amounting to Rs.111.53 million payable by 31 August 2013 out of the loan amount granted to another private company under concessionary conditions, 50 per cent out of the premium of Rs.10.81 million which remained outstanding as at that date and the remainder of the premium if payments had been fully made on or before 31 August 2013.

6. Systems and Controls

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

(i) Control of Expenditure
(ii) Accounting
(iii) Provision for Gratuity
(iv) Deposits Receivable and Payable

H.M Gamini Wijesinghe
Auditor General

14. NINE YEARS AT A GLANCE

NINE YEAR SUMMARY - FINANCIAL PERFORMANCE

For the year ended 31st December *(All Figures in Sri Lankan Rupees)*

	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenue									
Net Earned Premium Income	8,015,628,345	5,452,318,662	3,886,183,341	3,606,365,031	3,926,469,856	4,019,486,220	3,427,950,662	2,654,902,681	318,902,642
Benefits,Losses and Expenses									
Insurance claims and benefits	(3,899,969,969)	(1,763,476,689)	(2,281,470,751)	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)	(1,736,355,732)	(1,423,044,038)	(242,465,993)
	4,115,658,376	3,688,841,974	1,604,712,590	1,726,878,335	1,634,396,873	1,943,549,415	1,691,594,930	1,231,858,643	76,436,649
Other Revenue									
Investment Income	624,075,269	691,492,020	615,813,544	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
Interest on Soft Loans	11,937,931	5,915,955	7,278,316	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
Other Income	3,902,584	4,165,001	18,886,182	743,614	1,006,353	471,787	917,841		
	639,915,784	701,572,977	641,978,043	734,319,701	816,105,721	1,380,055,889	1,225,806,111	1,798,837,006	76,436,649
Expenditure									
Staff Related Costs	84,790,542	76,487,490	72,006,709	52,769,174	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
Administration Expenses	86,907,163	64,621,143	74,402,484	72,147,229	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
Finance &Other Expenses	1,220,870	8,459,075	17,258,273	21,581,925	32,425,697	38,401,103	5,380,035	3,385,205	138,170
Total Expenditure	172,918,575	149,567,708	163,667,466	146,498,329	119,887,735	120,772,099	55,114,528	29,029,109	2,980,916
Taxation				108,349,446					
Income Over Expenditure	4,582,655,585	4,240,847,242	2,083,023,166	2,206,350,261	2,330,614,859	3,202,833,203	2,862,286,514	1,769,807,897	73,455,733

NINE YEAR SUMMARY - FINANCIAL POSITION

As at 31 December (in Sri Lankan Rupees)

	2014	2013	2012	2011	2010	2009	2008	2007	2006
Assets									
Property Plant and Equipment	26,251,881	19,317,968	24,739,202	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465	1,461,388
Financial Investments	9,105,573,879	6,667,518,021	5,375,914,672	4,444,546,262	5,574,107,464	8,550,206,721	7,749,178,616	5,449,343,240	
	9,131,825,761	6,686,855,988	5,400,653,874	4,474,153,140	5,610,203,475	8,593,810,225	7,793,838,397	5,474,583,705	1,461,388
Current Assets									
Receivable	1,416,831,322	1,686,049,990	1,664,647,836	1,927,814,565	1,945,815,895	2,079,570,419	1,988,501,988	2,221,955,826	511,844,970
Cash and Cash Equivalents	278,096,913	305,495,813	103,641,397	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122	13,357,202
	1,694,928,235	1,991,545,803	1,768,289,233	5,470,784,510	5,539,920,448	2,189,743,421	2,228,297,246	2,782,214,948	525,202,172
Total Assets	**10,826,753,995**	**8,678,381,792**	**7,168,943,107**	**9,944,937,649**	**11,150,123,923**	**10,783,553,646**	**10,022,135,643**	**8,256,798,953**	**526,663,560**
Equity & Liability									
Accumulated Fund	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
	7,723,034,946	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
Technical Reserve									
Unearned Premium	2,128,642,612	1,622,656,295	1,059,398,308	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727	
Deferred Commission	(366,621,700)	(199,173,169)	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)	
	1,762,020,912	1,423,483,136	882,865,620	801,957,122	681,819,505	846,685,740	856,318,432	716,378,499	
Liability									
Non-Current Liabilities									
Government Grant	-	66,960	66,960	142,150	284,330	719,190	719,190	719,190	719,190
Profit Commision Paybale	-	12,287,375	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
		12,354,336	12,354,336	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257	719,190
Current Liabilities									
Claim Payable	1,111,616,732	273,060,335	286,078,050	392,410,772	518,000,207	329,449,921	333,321,632	602,777,397	
Other Payable	230,081,405	18,819,722	74,726,585	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	1,341,698,137	291,880,056	360,804,635	633,101,294	760,265,557	507,533,784	639,442,967	872,469,968	431,842,361
Total Equity and Liabilities	**10,826,753,995**	**8,678,381,792**	**7,168,943,108**	**9,944,937,649**	**11,150,123,923**	**10,783,553,647**	**10,022,135,643**	**8,256,798,653**	**526,663,560**

15. CORPORATE INFORMATION

- ***Name of the Institution:***

National Insurance Trust Fund Board

- ***Legal Form***

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

- ***Office Address***

National Insurance Trust Fund

No. 97, Maradana Road,

Colombo 10

- ***Auditors:***

The Auditor General

- ***Bankers:***

Peoples Bank, Bank of Ceylon, National Savings Bank