



**ANNUAL REPORT**  
2021

# CONTENTS

|                                    |    |
|------------------------------------|----|
| Corporate Information              | 1  |
| Branch Network                     | 2  |
| Chairman's Message                 | 3  |
| Managing Director's Message        | 5  |
| Management Discussion and Analysis | 7  |
| Director's Profile                 | 16 |
| Financial Highlights               | 20 |
| Report of the Directors            | 21 |
| Notice of the Meeting              | 37 |
| Form of Proxy                      | 38 |
| Audited Financials                 | 39 |

## Head Office

Orient Insurance Limited  
133, Bauddhaloka Mawatha,  
Colombo 04  
Tel: [+94] 112 030300

## Registration No PB 4720

Date of incorporation - 03 June 2011

## Auditors

KPMG Chartered Accountants

## Company Secretary

Rihab Thaha

## Bankers

Bank of Ceylon  
Commercial Bank of Ceylon  
Cargills Bank  
DFCC Bank  
Hatton National Bank  
National Development Bank

Nations Trust Bank  
Pan Asia Banking Corporation  
People's Bank  
Sampath Bank  
Seylan Bank  
Standard Chartered Bank



# BOARD OF DIRECTORS

## Omer Hassan Elamin

Chairman

## Tanuj Edward

Managing Director/ Executive Director

## G.L. Priya Aponso

Independent Non-Executive Director

## Deshapriya De Silva

Independent Non-Executive Director

# EXECUTIVE MANAGEMENT

## Tanuj Edward

Managing Director & Chief Executive Officer

## Anuradha Siriwardane

Senior Vice President - Technical

## Ameera Hindurangala

Senior Vice President - Strategy & Operations

## Rochana Kulatunge

Senior Vice President - Sales & Distribution

## Rihab Thaha

Senior Vice President - Finance



# BRANCH NETWORK

## Western Province

|              |  |
|--------------|--|
| Awissawella  | No. 223, Colombo Road, Ukwatte, Avissawella        |
| Gampaha      | No.119, Oruthota Road, Gampaha                     |
| Kiribathgoda | No. 502A, Kandy Road, Mahara, Kadawatha            |
| Maharagama   | No.107/1, High Level Road, Moraketiya, Pannipitiya |
| Negombo      | No. 06, St.Joseph Street, Negombo                  |
| Panadura     | No. 3b, Galle Road, Pinwatta, Panadura             |

## Central Province

|          |  |
|----------|--|
| Kandy    | No. 147, Kotugodella Street, Kandy           |
| Dambulla | No. 745, Anuradhapura Road, Dambulla         |
| Matale   | No. 22, Raththota Road, Mandandawela, Matale |

## North Western Province

|               |  |
|---------------|--|
| Chilaw        | No. 85C, Puttalam Road, Chilaw                     |
| Kurunegala    | No. 254/1/1, First Floor, Colombo Road, Kurunegala |
| Kuliyaipitiya | No. 60 1/1, Kurunegala Road, Kuliyaipitiya         |
| Wennappuwa    | No. 22,Peragas Junction, Kolingadiya, Wennappuwa   |
| Puttalam      | No. 171/1, Kurunegala, Puttalam                    |

## North Central Province

|              |   |
|--------------|---|
| Anuradhapura | No.190, Godage Mawatha, Kada Dolaha, Anuradhapura |
|--------------|---|

## Eastern Province

|             |   |
|-------------|---|
| Trincomalee | No. 113, Thiruganasampather Street, Trincomalee |
|-------------|---|

## Sabaragamuwa Province

|              |   |
|--------------|---|
| Kegalle      | No. 362, Colombo Road, Ranwalla, Kegalle            |
| Embilipitiya | No 168/A, Piyakaru Building, New Town, Embilipitiya |

## Southern Province

|        |  |
|--------|--|
| Galle  | No. 60B, Colombo Road, Kaluwella Road, Galle             |
| Matara | No. 306, 2/1, Anagarika Dharmapala Mawatha, Nupe, Matara |

## Point of Sales (POS) Outlets

|               |  |
|---------------|--|
| Anuradhapura  | No. 521/40, 4th Cross Street, New Town, Anuradhapura |
| Badulla       | No. 16A, Station Road, Badulla                       |
| Borella       | No. 445, Bauddhaloka mawatha, Colombo – 08           |
| Dambulla      | No. 22, First Floor, Kurunegala Junction, Dambulla   |
| Galle         | No. 287/A, Wakwella Road, Galle                      |
| Gampaha       | No.163A, Ja-Ela Road, Gampaha                        |
| Kuliyaipitiya | No. 463/A, Madampe Road, Kuliyaipitiya               |
| Kandy         | No. 400, Katugasthota Road, Kandy                    |
| Kurunegala    | No. 204, Colombo Road, Wanduragala, Kurunegala       |
| Matara        | No. 215E, Galle Road, Pamburna, Matara               |
| Negombo       | No. 262, Chillaw Road, Periyamulla, Negombo          |
| Nugegoda      | No. 330, High Level Road, Nugegoda                   |
| Panadura      | No. 201 Galle Road, Panadura                         |
| Rathnapura    | No. 510, Colombo Road, Veralupa, Rathnapura          |

# Chairman's Message



It is with great pleasure I present the Annual Report and the Financial Statements of Orient Insurance Limited for the financial year ended 31st December 2021.

## CONCLUSION OF A SUCCESSFUL YEAR DESPITE SEVERE TURBULANCE

I am pleased to announce that the company successfully ended the year 2021 achieving a robust growth of 25% and achieving its budgeted profits. The year 2021 has been a testing time for everyone, particularly due to the disruption caused by the COVID-19 pandemic, and the related economic fallback that has brought us many challenges.

Through another year of extraordinary circumstances, the Company's disciplined approach to underwriting in a truly challenging market together with our employee's dedication towards our values of Respect, Integrity, Collaboration and Excellence has steered us through these uncertain conditions and enabled us to thrive for another successful year.

Our businesses continued to grow, with Gross premiums crossing the Rs. 2 billion milestone, a 25% growth from Rs. 1.74 billion in 2020 to Rs. 2.17 billion in 2021, while Profit after tax increased by 6% from Rs. 129.0 million in 2020 to Rs. 136.9 million in 2021. We have achieved our budgeted profit and increased our technical profits by 22%. These achievements are clearly the results of the company's focus on superior customer service, leaner processes and the quality of business underwritten by the company.

The shareholder's equity recorded an increase of 14% over 2020 while our total assets recorded a growth of 22%. The basic earnings per share increased from Rs.15.63 in 2020 to Rs.16.59 in 2021.

In spite of hostile economic conditions, the company maintained its growth momentum by opening 3 new branches and one Area Development office in strategic cities in the country and takes pride in maintaining the reputation as one of the fastest growing General insurance companies in Sri Lanka.

The year 2021 was also a remarkable year in terms of digital transformation. The company has initiated many digitalization projects which will portray significant enhancements in underwriting and claims processes.

I am proud of the achievements of the company to deliver outstanding results during the year under review.

## **APPRECIATION**

I thank the Chairman and the Director General of Insurance Regulatory Commission of Sri Lanka for their guidance and continued support. I also thank the Insurance Ombudsman's office for his contribution to the insurance industry. I take this opportunity to thank our Directors of the Board, for their continued support and invaluable assistance to the Company I also take this opportunity to thank the Managing Director & CEO and the Senior Management for their perpetual commitment towards achieving the company's objectives.

We are truly thankful to our clients and partners who have supported us. We thank our employees for their dedication and hard work, which has resulted in achieving such great results despite the challenges the company experienced. We look forward to this continued commitment in the year 2022.

Omer Elamin

Chairman

06th May 2022

# Managing Director's message



I am delighted to share with you the Annual Report for the year 2021. Looking back at an eventful year filled with many external challenges brought about by the pandemic, global and local economic challenges, gives me great pride in presenting the outcome of the Company, where we have stood steadfast despite all these adversities and sustainably grown our business and created value to all stakeholders. We were able to win together, focus on our journey of becoming the premier General Insurer of choice and one of the fastest-growing General Insurance Companies in Sri Lanka.

Our work ambience at Orient Insurance is smart learning and fast adoption of lessons learnt. This has strengthened us and given us the might to face all these challenges and focus on our brand promise of creating positive customer experiences, which is the very core of our business and everything we do is in pursuit of this.

The current economic challenges of our nation are unprecedented and possess severe threats to the industry in which we operate. However, we are confident of upholding all our commitments to our valued customers, business partners and stakeholders, being a multinational with rich parentage of the #1 Insurance company in the Middle East Orient Insurance Group. The prestigious Al-Futtaim Group also gives us the added advantage of security and stability and the knowhow to wither these external challenges, and work towards our purpose of winning together with all stakeholders and ensure continued value creation.



We successfully managed to achieve our business objectives, through absolute professionalism in Underwriting, Claims and Servicing which created trust among customers and all stakeholders. Our bold and rapid expansion of branch network distribution touchpoints, and new partnerships gave us the added advantage, and enabled us to offer world-class security and protection to our customers, despite the challenges of the global pandemic.

Each decision and move we initiated is strengthened and driven by our inherent core values of Respect, Integrity, Collaboration, Excellence in everything we do, even though the external dynamics were very challenging in all facets of the business, our culture uplifted the spirits of our employees to overcome and overachieve the set trajectories for the year under review.

My gratitude is as always extended to our Chairman, as my strength and mentor, to lead and embrace each change from what we all believed was the new normal and the onset of which we reaffirmed our commitment to being operationally resilient, the Board of Directors for their guidance and their constant reinforcement, the senior management, and staff for their unwavering commitment and dedication and to our business partners for their persistence and trust.

In the year 2022, we are confident to integrate our strength and resources to overcome obstacles and achieve our business goals whilst fully understanding the severe economic hardships our customers and stakeholders face and are committed to winning together.

Tanuj Edward

Managing Director

06th May 2022



# Management Discussion and Analysis

## Macro Economic Environment

The Sri Lankan economy faced one of the most challenging times during the year 2021. The economy grew by 3.7 percent, a positive growth performance on record compared to the negative sentiment in 2020, as is the case in multiple countries fighting the pandemic which had a devastating impact. The economy began to recover thanks to a strong 12.3 percent, year-on-year, rebound from a low base in the second quarter of the year.

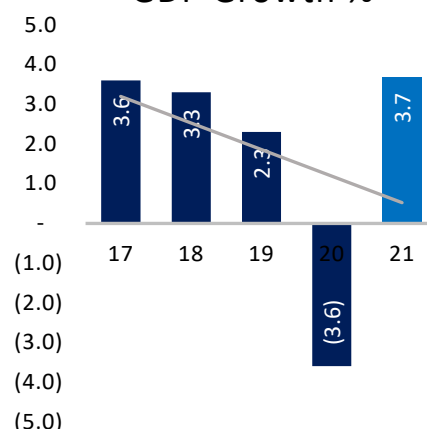
The growth momentum continued in the fourth quarter as the economy was broadly kept open despite a third wave of COVID-19 infections. The government took proactive measures to mitigate the impact of the pandemic by allocating resources for health measures, cash transfers, and postponed tax payments. While public expenditures increased, revenues declined, resulting in a widening of the fiscal deficit in 2021. Although the future remains uncertain due to forex currency issue, power crisis and low agriculture output, the economy is expected to record a growth of 2.4% in 2022. Increasing number in Tourist arrivals have indicated promising recovery, although recent geopolitical tensions, as well as domestic economic uncertainty along with power and energy outages and supply interruptions, could weigh on this recovery to some extent.

The interest rates recorded their steepest decline in 2021 as the unprecedented monetary accommodation takes root more effectively and faster than any time in the history. The authorities reiterate the necessity to maintain the low interest rate structure, amidst the significantly excess liquidity in the domestic money market, thereby facilitating the take-off of domestic investment.

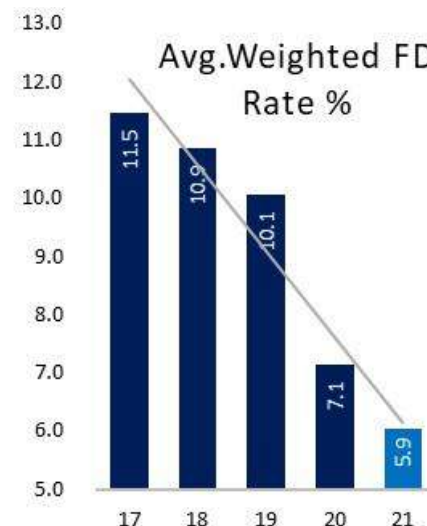
The Average Weighted Fixed Deposit Rates (AWFDR) of commercial banks fell by 1.2 percent from 7.14 percent in 2020 to 5.94 percent in 2021. The Average Weighted New Fixed Deposit Rate (AWNFDNR) up by 1.5 percent in the year.

Central Bank of Sri Lanka has indicated that it is committed to maintain a single digit interest rate throughout the year. Hence, it is expected that CBSL will not carry out any policy changes in the short term.

GDP Growth %



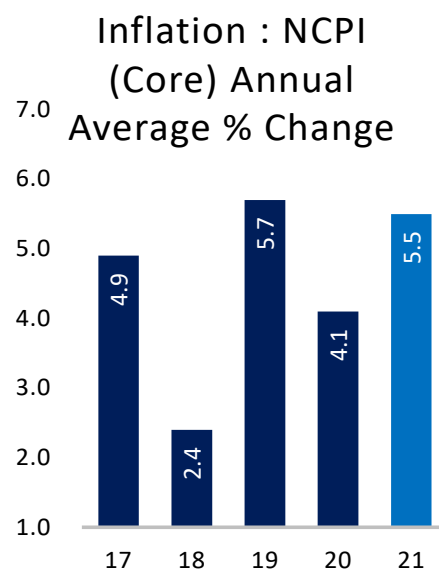
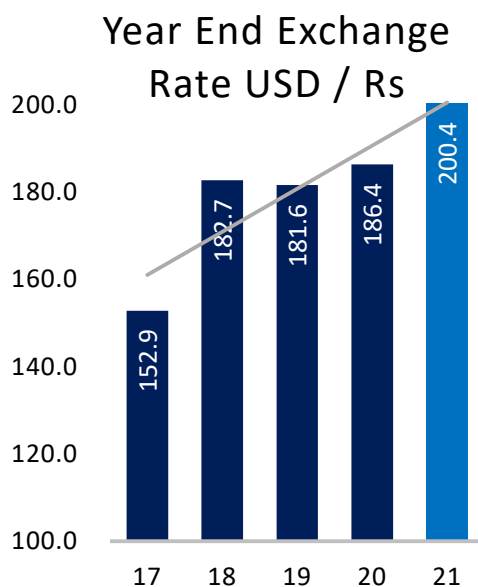
Avg. Weighted FD Rate %



Sri Lanka's trade deficit widened by USD 2 billion during the year 2021, driven by a larger contraction in expenditure on imports over earnings from exports. The overall deficit in the trade account in 2021 widened to USD 8 billion from the deficit of USD 6 billion recorded in 2020. Rising import bill offset the increase in export earnings, despite import restrictions on non-essential goods. Declines in remittances (22.7 percent) and tourism receipts (61.7 percent) are estimated to have further widened the current account deficit to USD 3.2 billion (or 3.8 percent of GDP) in 2021.

The annual closing exchange rate of Sri Lanka Rupee depreciated against USD by 8 percent, from Rs. 186.4 in 2020 to 200.4 in 2021. Rupee depreciation against USD continued during the year resulting price increase in almost all the commodities. Foreign remittances contracted by 23% to USD 5.5 billion compared to USD 7.1 billion in 2020. The introduction of special incentive schemes and the actions taken by the Central Bank to curb illegal fund transfers have generated renewed interest in routing funds through formal channels.

Headline inflation increased to 14.0 percent in December 2021, driven by monthly increases of prices in both Food and Non-food categories. Food inflation (YoY) increased to 21.5 percent and Non-food inflation (YoY) increased to 7.6 percent in December 2021.



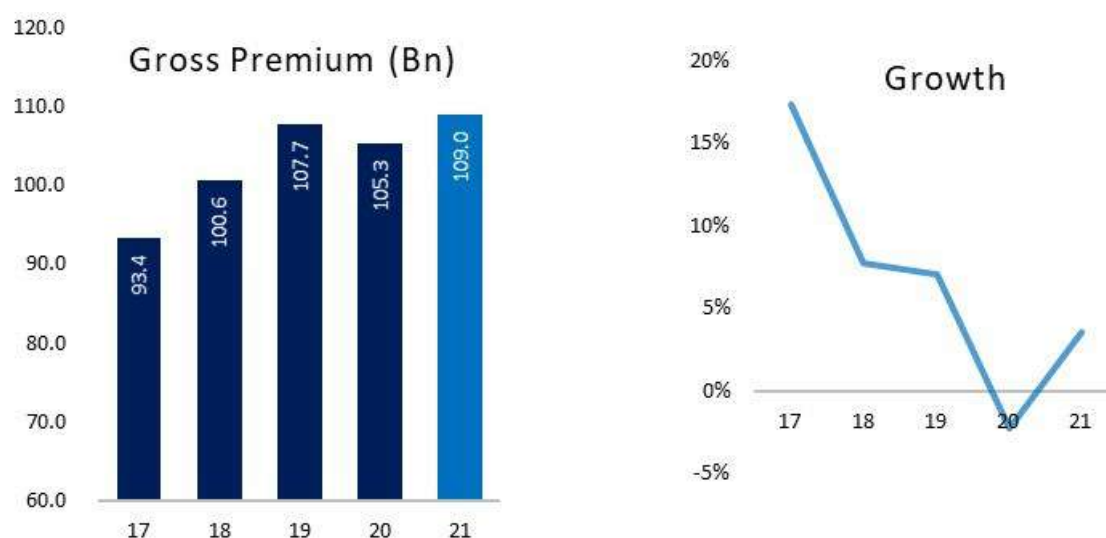
## General Insurance Industry

There were twenty-seven insurance companies operating in the market at the end of 2021, consisting of 2 composite insurers, thirteen life insurers and twelve General Insurance Companies.

The Insurance industry continues to experience the negative sentiment of the pandemic throughout the year. Medical claims and Motor claims were on the rise due to massive price increase in COVID related medical bills and labor and spare part bills in the motor sector.

Shortage of forex reserves have made delays in outward remittances to foreign parties like reinsurers and service providers. Import restrictions on Motor vehicles and spare parts have doubled the pressure on the Motor business as the prices of spare parts tend to increase rapidly due to the scarcity of commodities.

The following table illustrates the growth of the General Insurance Business over the past 5 years:



The Gross Written premium of the General Insurance Business for the twelve months ended December 2021 amounted to Rs. 109,048 million (2020: Rs. 105,276 million) recording a growth of 3.5 percent.

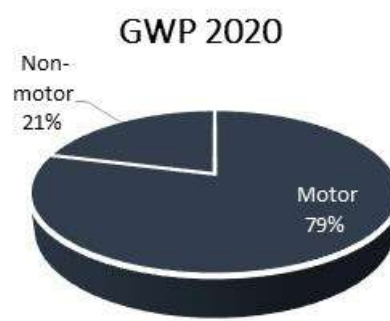
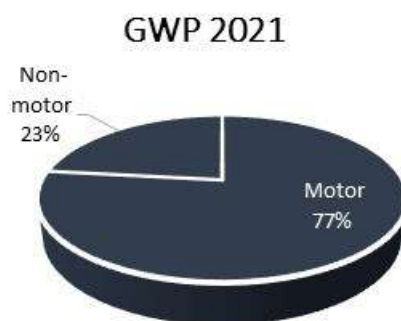
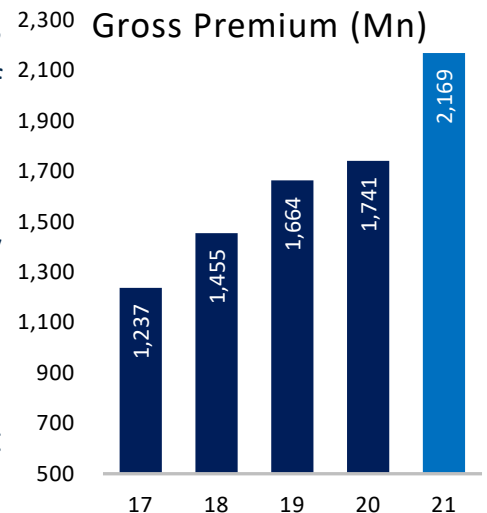
The claims incurred in the General Insurance Business for the twelve months ended December 2021, including Motor, Fire, Marine and other categories, amounted to Rs. 48,370 million (2020: Rs. 42,517 million).

## Performance of the Company

The Company achieved the 2 Billion mark in Gross Written Premium for the year 2021 with a YoY growth of 25 percent. The growth trajectory of the Company is remarkable compared to the overall industry growth in the turbulent market. Profits have continued to grow by 6.1 percent to 136.9 millions.

Our strategy to achieve a quality growth by delighting the customers with superior service standards with the right pricing and prudent management of key risks has paid dividends.

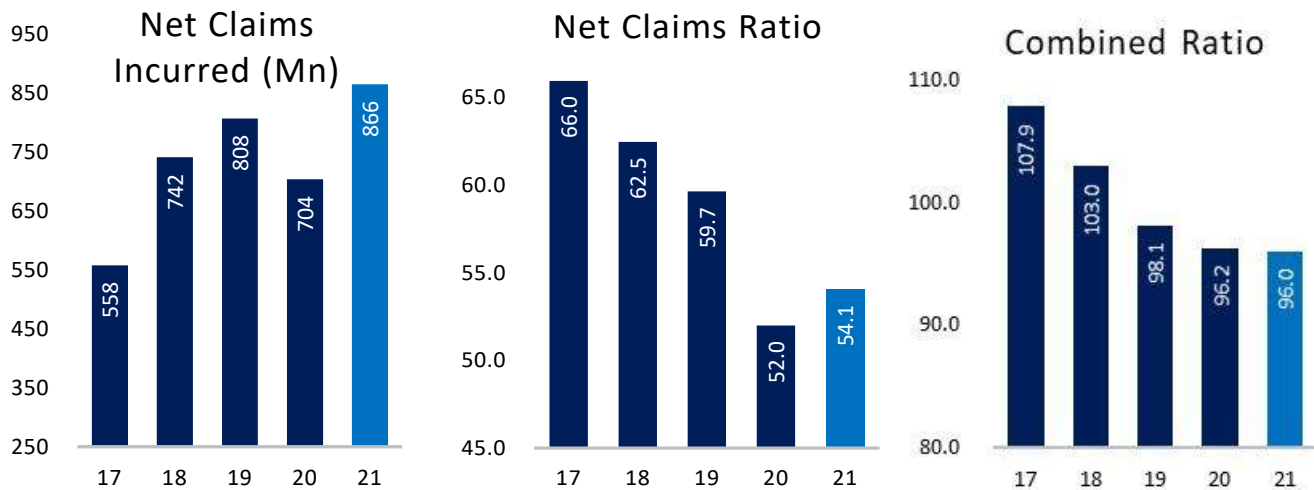
Business composition of the Company was similar to last year. The percentage of business written for Motor line of business has marginally declined in 2021 while proportion of Non-motor Portfolio has improved. The decline was mainly due to the import restrictions introduced on motor vehicles during the year.



The Company continues to maintain a strict control over the claims and other expenses, whilst automating several key processes to enhance capabilities to manage the high volumes of transactions, thereby improving the efficiency.

The overall claim cost has increased by 23 percent compared to the previous year, however there is a Rs. 142 million saving over the budgeted claim figure for the year 2021. The increase in claim cost is driven by Motor claims owing to high spare parts cost and labor charges demanded by the garages and suppliers.

Increase in claim costs has resulted in higher Net loss ratio for the year to 54.1 percent compared to 52.0 percent in previous year.



The net expense ratio (computed as a % of commission and overhead expenses over net earned premium) improved from 44.2% in 2020 to 42% in 2021. The combined ratio, which is a combination of the loss and expense ratio declined from 96.2% in 2020 to 96.0% in 2021. The savings on the administrative expenses contributed to the improved combined ratio, resulted with an underwriting profit of Rs.63.4 million in 2021 compared with Rs.52.1 million in 2020.

The interest rates have fallen to record low levels resulting low interest income and interest rates have marginally risen from August 2021 alone. The investment income declined from Rs. 133.6 million in 2020 to Rs. 120.6 million in 2021. With improved underwriting results the company was able to achieve the budgeted profit for the year.

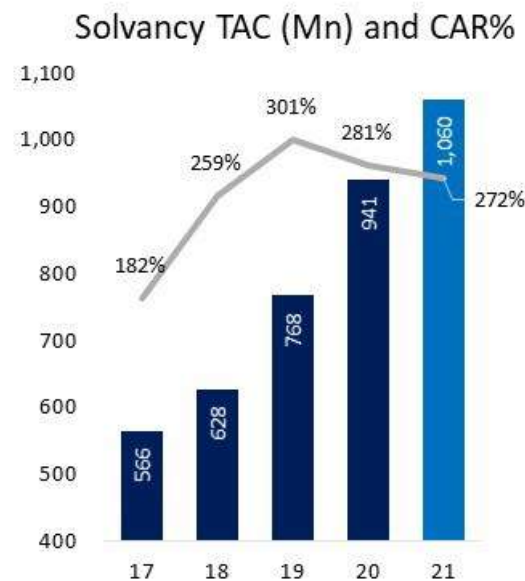
The profit before tax decreased from Rs. 185.8 million in 2020 to Rs. 183.4 million in 2021, whereas the profit after tax grew by 6.1% to Rs. 136.9 million compared with Rs. 129.0 million in the previous year.

The total equity increased from Rs. 1.02 billion in 2020 to Rs. 1.15 billion in 2021. Total financial investments of the Company increased from Rs. 1.8 billion to Rs. 2.1 billion as at the end of the financial year under review, resulting a in 17% growth.

A key requirement of our Company is to ensure compliance with the solvency obligations of the Insurance Regulatory Commission of Sri Lanka (IRCSL), Capital Adequacy Ratio (CAR) and Total Available Capital (TAC).

As at 31 December 2021, the Company has complied with the regulatory requirement by achieving Rs. 1,060 million for TAC and 272% for CAR.

These results clearly demonstrate the high level of solvency of the Company in terms of its scale of operations.



## Strength, Stability and Parentage

Orient Insurance Ltd was incorporated by Orient Insurance PJSC of Dubai in the UAE. Orient Insurance PJSC is owned by the one of the largest and diversified business conglomerates in the lower gulf, the Al-Futtaim Group.

Our parent, Orient Insurance PJSC has secured two ratings 'A Excellent' by A M Best, and 'A Strong' by Standard & Poor's. These ratings reflect the strength and recognition of the company and its outstanding performance despite the current challenging market conditions.

The reinsurance arrangements of Orient Insurance Limited were managed by the financially strong, reputed, and globally rated reinsurer giants such as SCOR and PartnerRe and multiple other partners.

Combined with the strength and stability of our holding company and the reinsurers, the Company is well geared to provide financially backed insurance risk solutions to our clients.

The Al-Futtaim Group in Sri Lanka also owns the AMW Group of companies, including AMW Capital Leasing & Finance PLC.

Further, the Company is managed by sound professionals and a management team with proven caliber and experience spanning over a decade in the insurance sector. Each member of our senior management team has worked and gained experience under local and multinational insurance corporations during their careers.

## Regulations

The Insurance Regulatory Commission of Sri Lanka governs the regulatory aspects of the insurance industry. The Parliament enacted the Regulation of Insurance Industry (Amendment) Act, No. 23 of 2017 on 19 October 2017. On 4 October 2018, IRCSL exempted our Company from the listing requirements.

We work closely with the Insurance Regulatory Commission of Sri Lanka to implement regulations which enable safeguarding all stakeholder interests. During the year under review, the IRCSL issued 6 directions depicted below;

1. Restriction on providing codes & Restriction on changing codes.
2. Dividend declaration and distribution.
3. Employing persons subject to financial misappropriation—Revised.
4. Dividend declaration and distribution—Amendment.
5. Termination of using Telecommunication service providers' Platforms (mobile Insurance) and matters connected therewith and incidental thereto.
6. Principle Officers of Insurance and Insurance Brokers—Revision



# Outlook into the Future

## Continuing our Brand Promise of “creating positive customer experiences” to All Corners of Sri Lanka

Orient Insurance prides itself for Winning together with our valuable customers, business partners and all stakeholders in a truly challenging 2021 where every aspect of the business was challenged in a Pandemic stricken world and economic challenges.

The company through its brand promise of “creating positive customer experiences” grew sustainably achieving a 25% year on year premium growth and growth in profitability. These outstanding achievements were possible as the company and its employees lived the company’s core values of Respect, Integrity, Collaboration, Excellence, known in short through the acronym “RICE”. These values are enshrined in every transaction processed by delivering “a predictable customer service” that enabled consistent positive experiences for our customers and partners throughout the entire distribution network of the company.

## Uninterrupted Service, Protection and Stability in Turbulent times

The pandemic Local and Geopolitical uncertainty lowering economic growth prospects and increasing inflationary pressures has radically changed the environment in which we operate. We at Orient Insurance Limited, were able to wither the catastrophic impact of these events and develop new operating models backed by digitization and ease of doing business, which are constantly redefining our customer relationships and processes towards withstanding the current external pressures, and assure our customers, business partners and stakeholders an uninterrupted Service, Protection and Stability in these Turbulent times.

The current economic challenges of our nation are unprecedented and possess severe threats to the industry in terms of increasing claims cost due to weakening of the rupee, import restrictions and high inflation. The scarcity of foreign currency and severe restrictions on remittances of reinsurance premiums are causing severe threats of reinsurers cancelling contracts and covers. However, we at Orient Insurance, a multinational being a part of the Number 1 Insurance company in the Middle East, Orient Insurance Group which is a part of the prestigious Al-Futtaim group is able to assure customers and business partners that the company will uphold its promise at all times. We fully understand the severe economic hardships of our customers and are committed towards winning together in overcoming these challenges.

One of our key priorities last year and this year too is to take insurance closer to the doorsteps of all Sri Lankans with a genuine hope of increasing insurance penetration in the country, and towards this we are committed to increasing our footprints in the island. We plan to open a few more branches and area development offices in potential towns to be in line with our commitment to take world class insurance solutions at affordable prices to our valuable customers.

## 2022 Dubbed as A Year of Aggressive Growth, Stability & Resolve



Each year Orient Insurance focuses on a theme to deliver it's brand promise. The company's theme for 2022 is **"2022 A Year of Sustainable Growth, Stability & Resolve"**. It is a fitting and timely theme to ensure sustainability and stability in these highly volatile times, where our prime focus is to offer our best service, protection, and uninterrupted commitment to our customers.

We are confident that the company's investment in digitalization and IT infrastructure will play a significant role in delivering our brand promise. To this day, we have taken measures enhancing our ease of doing business to improve the customer experience through online portals, claims management systems, active engagement through social media, and payment gateways.

With lessons learnt in a pandemic world, improved processes, a resilient mindset, and highly committed and dedicated staff, we look forward to 2022 and beyond, to become the *Insurer of Choice* for all Sri Lankans.

# Director Profiles

## Omer Elamin

Chairman

[Non-executive Director (Member of the Board since May 2011)]



Mr. Omer Elamin is currently the Group President of Orient Insurance PJSC and he leads Orient Insurance Group in seven countries.

The company is a well-recognized Insurer operating in the UAE insurance market with a capital of 500 Million Dirhams and accredited with the highest credit rating in the region of 'A' Stable (S&P) and 'A' Excellent (AM Best).

Mr. Elamin holds a BA degree from the University of Cairo. He is the Advisory Board Member for Al-Futtaim Finance, Dubai and a member of the Al-Futtaim Group HR committee.

He was also a former Insurance Advisory Board Member for Dubai Financial Center (DIFC), Former Board Member of Arab War Risk Insurance Syndicate, Manama Bahrain, Former Chairman of the Insurance Business Group, Dubai Chamber of Commerce and Former Chairman of the High Technical Committee, UAE Insurance Association.

Mr. Elamin has made remarkable contributions to the insurance sector in the Middle East. With more than 30 years of experience in the industry, his stellar leadership and business know-how have also been recognized by various conferences. In April 2019, he has been ranked among the Top 10 CEOs in the Insurance category at the TOP CEO Conference and Awards held in Bahrain.

## Tanuj Edward

Managing Director & CEO

[Executive Director (Member of the Board since November 2021)]



Tanuj Edward, Managing Director and CEO, counts over 32 years of professional experience in the insurance industry and held many Senior Management positions in Sri Lanka and overseas. Mr. Edward is a Chartered Insurer and an Associate Member of the Chartered Insurance Institute of London and a Senior Associate of the Australian and New Zealand Institute of Insurance and Finance.

Throughout his illustrious career holding key positions in the insurance industry of Sri Lanka and overseas, Mr. Edward has been the recipient of multiple accolades and recognition awards for his services. His very latest sprint was bagging the special award of recognition of “Al-Futtaim Values Award”, the most prestigious recognition awarded by the group. His achievement thus went beyond his own halo and garnered recognition to Sri Lanka in a global forum.

Under his leadership during the very challenging couple of years the company has shown that despite the challenges of the global pandemic, the company has stood steadfast and maintained its growth potential. #strongerthancorona was the key element of this growth. The company prides itself that they managed to achieve their business objectives and served all the expectations of their valuable customers and stakeholders without having to adhere to any salary reductions or redundancies.

Tanuj Commenced his insurance career at Union Assurance Limited in 1990, thereafter he joined Norwich Union, and returned back to Sri Lanka to Join Eagle Insurance and was part of Eagle Star, Zurich, AVIVA and AIA, thereafter he Joined Abu Dhabi National Insurance Company (ADNIC) to gain exposure in Marine Hull, Aviation and Energy, after a successful learning there Tanuj returned to Sri Lanka to Join AIA and continued there until the sale to Janashakthi in the capacities of Chief Operating Officer, and Deputy CEO AIA General insurance company. On the date of the sale to Janashakthi, Tanuj Joined Orient Insurance Limited as its CEO and rose to his current position as its Managing Director and CEO.

## G. L. Priya Aponso

Independent Non-Executive Director (Member of the Board since September 2020)



Mr. Priya Aponso is an experienced and renowned personality within Orient and the Insurance industry.

Mr. Aponso commenced his career in the Insurance Industry in 1988 when he joined CTC Eagle Insurance Ltd (now known as AIA Insurance Lanka Ltd) at the inception of the Company. He held progressively responsible positions before being appointed as the Chief Financial Officer in 2001, a position he retained until a few months prior to his retirement in 2010.

He served as the Chief Financial Officer of Peoples Insurance Ltd from its inception in 2010 to 2011. After which he joined Orient Insurance Ltd as the Senior Vice President – Finance from its inception in 2011 to 2015. He was a Consultant – Finance to the National Insurance Trust Fund Board (NITF) between 2015 and 2016, as well as Janashakthi Insurance PLC (2016-2017).

Mr. Aponso was a member of the Group Internal Audit Team of Eagle Star Insurance Group UK, who conducted Internal Audit assignments in several branches of the Eagle Star Group in England, Scotland, Isle of Man and Hong Kong.

He has completed a General Insurance Accounting and Management Information training program at Zurich Insurance Group Head Office and a Reinsurance Accounting and Reporting training program conducted by Swiss Re in their branch office in Munich. He has obtained certifications in General Management from the National University of Singapore, in Communication Skills from the Management Institute of Ahmadabad, in Top Management from FALIA Tokyo, and in Shipping Business from JICA Tokyo.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.



## Deshapriya De Silva

Independent Non-Executive Director (Member of the Board since November 2021)



Mr. Deshapriya De Silva of the known professionals in the insurance industry who reached the Pinnacle of the industry starting from 1985. Mr. Deshapriya De Silva started his profession at Mercantile Credit and has gained 35 years of experience by working at ACW insurance, Union Assurance and Fair first Insurance. He has held key positions in the insurance industry in motor, health, fire and other miscellaneous business units while directly handling operations departments throughout his 35 years of experience. His expertise in engagement and implementation of the general insurance system,

designing health insurance systems, implementation of Reinsurance automation systems and implementation of the Motor front-end system are some of his achievement and initiations that added value to industry norms. Mr. De Silva was heading the claims function at Fair First Insurance as the Deputy General Manager until he reached his retirement.

Mr. De Silva's experience in the insurance field and business management, qualifies him further as an industry professional as a Chartered Insurer by profession and possesses the qualification of Associate Ship of the Chartered insurance Institute (ACII). His recognition in the industry also includes positions such as Chief Examiner for insurance for the Institute of Bankers of Sri Lanka (IBSL) from 2013 to 2017.

He is also a senior associate of the Australian and New Zealand institute of insurance and finance (ANZIIF), and a member of British computer society (MBCS). Mr. De Silva as a professional has qualified himself in the field of management and holds a Diploma in Business Management from the National Institute of business management (NIBM).

# FINANCIAL HIGHLIGHTS

|  | 2021<br><i>Rs. Mn</i> | 2020<br><i>Rs. Mn</i> | Change<br>% |
|--|-----------------------|-----------------------|-------------|
| <b><u>RESULTS FOR THE YEAR</u></b>           |                       |                       |             |
| Gross Written Premium                        | 2,168.9               | 1,741.1               | 25%         |
| Investment and other income                  | 171.5                 | 177.4                 | -3%         |
| Profit before Tax                            | 183.9                 | 185.8                 | -1%         |
| Profit after Tax                             | 136.9                 | 129.0                 | 6%          |
| Basic Earnings per share (Rs)                | 16.59                 | 15.63                 | 6%          |
| Retention ratio ( % )                        | 82.5                  | 84.3                  | -2%         |
| Loss ratio ( % )                             | 54.1                  | 52.0                  | 4%          |
| Combined ratio ( % )                         | 96.0                  | 96.2                  | -0.1%       |
| <b><u>FINANCIAL POSITION AT YEAR END</u></b> |                       |                       |             |
| Total Assets                                 | 3,194.6               | 2,612.4               | 22%         |
| Equity                                       | 1,154.1               | 1,016.3               | 14%         |
| Investments                                  | 2,141.2               | 1,827.6               | 17%         |
| <b><u>STATUTORY REQUIREMENTS</u></b>         |                       |                       |             |
| Capital Adequacy Ratio (CAR) %               | 272                   | 281                   | -3%         |
| Total Available Capital (TAC)                | 1,060.4               | 941.4                 | 12.6%       |





# Report of the Directors

The Board of Directors of Orient Insurance Limited has pleasure in presenting its Annual Report together with the Audited Financial Statements for the financial year ended 31st December 2021 to the shareholders of the Company.

This Report was approved by the Board of Directors on 17<sup>th</sup> June 2022.

## • Our Vision

To be the premier insurer of choice.

## • Our Mission

To reach the consumer and corporate segments with appealing risk solutions.

## • Corporate Conduct

In achieving the vision and mission, all directors and employees conduct their activities with the highest level of ethical standards and integrity.

## • Principal Activities

The principal activity of the company is primarily engaged in business of Non-Life insurance.

There were no significant changes in the nature of principal activities of the Company during the financial year under review. The Company has not engaged in any activities, which contravene laws and relevant regulations.

## • Human Resources

The Company implements appropriate human resource management policies to develop employees and optimize their contribution towards the achievement of corporate objectives.

## • Remuneration policy

Our remuneration policy is designed to attract, reward, recognize, motivate and compensate employees for their services to Al-Futtaim's success in line with market practice. A key feature of our remuneration policy is recognizing and rewarding our employees in order to help drive performance. To do this, we offer market-aligned rewards and benefits to attract, engage, retain, and drive superior performance in all sectors, businesses, and regions where our businesses compete for talent. Our Total Rewards (TR) policy for employees consists Fixed and Variable compensation, Benefits, Performance-based elements, and cost of operations work related element.

We aim to inspire and take part in the moments that matter to our employees, offering rewards that they will appreciate at any given time whether in their personal and professional lives. Our policy is a testament as well as a document to showcase Al-Futtaim commitment to providing each employee the opportunity to grow, evolve and contribute.

# Performance Review

## Orient Reached the 2 Billion mark in Gross Written Premium— 25% YoY Growth

The year 2021 was yet another remarkable year for the Company where steady results were delivered with extremely challenging conditions.

The Company was able to record a steady growth in Gross Written Premiums and Profitability. The Gross Written Premiums increased by 25%, from Rs.1.74 billion in 2020 to Rs.2.17 billion in 2021.

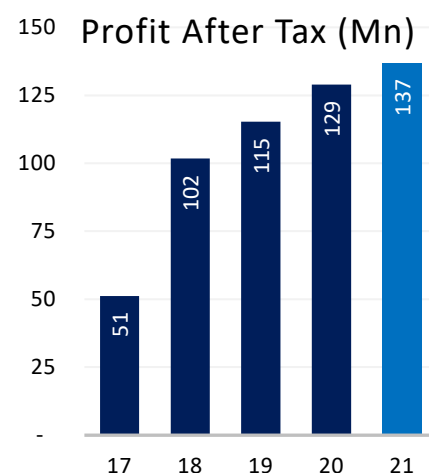
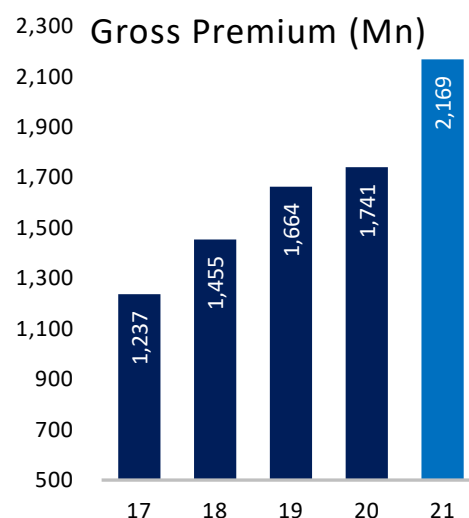
The growth in motor premiums slowed due to the recent import restrictions on vehicle imports introduced by the government to curtail foreign exchange outflow.

The Company was able to increase the share of non-motor business to counter the impact from lower motor insurance. The Motor premiums grew by 21% while the Non-motor premiums grew by 38%.

Premium ceded to reinsurers amounted to 17% of the gross premiums in 2021, compared with 16% reported in 2020. This was due to increase volumes in non-motor premiums, where reinsurance outgo is high.

Due to higher reinsurance outgo and changes in unearned premium reserves, the net earned premiums for the year 2021 recorded at Rs. 1.6 billion.

Underwriting and net acquisition costs increased by 16%, from Rs. 145.7 million in 2020 to Rs. 169.3 million in 2021.



The claims incurred increased by 23% in comparison with same period last year. The net claims incurred increased from Rs. 704.4 million in 2020 to Rs. 865.9 million in 2021. This was due to increase in medical and motor claim expenses.

With improved Combined Ratio the company was able to increase the Underwriting Profit from Rs. 52.1 million in 2020 to Rs. 63.4 million in 2021.

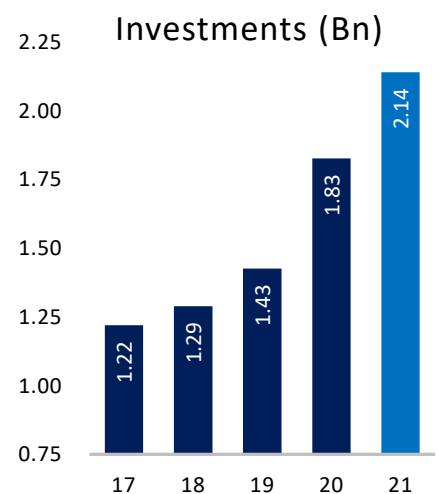
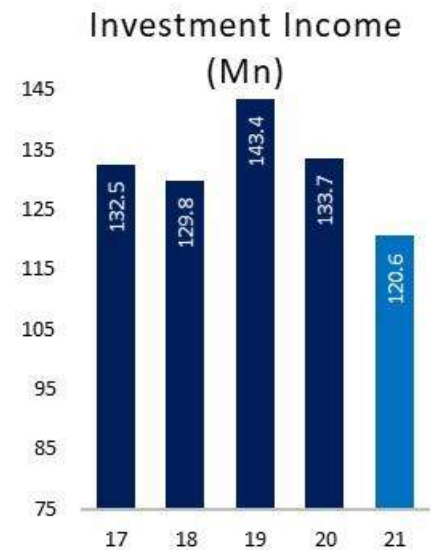
As part of economic revival and in order to facilitate the take-off of domestic investments, the Central Bank reiterates the necessity to maintain low interest rates.

Due to this stance taken by the regulator, the Interest rates recorded their steepest decline during the year 2021, resulted the Investment income to decline by 10% from Rs 133.7 million in 2020 to Rs. 120.6 million in 2021.

The Profit before Tax decreased by 1%, from Rs. 185.8 million in 2020 to Rs. 183.9 million in 2021, while the Profit after tax increased by 6%, from Rs. 129 million in 2020 to Rs. 136.9 million in 2021.

The other comprehensive income increased by 6%, from Rs. 130.2 million in 2020 to Rs. 137.8 million in 2021.

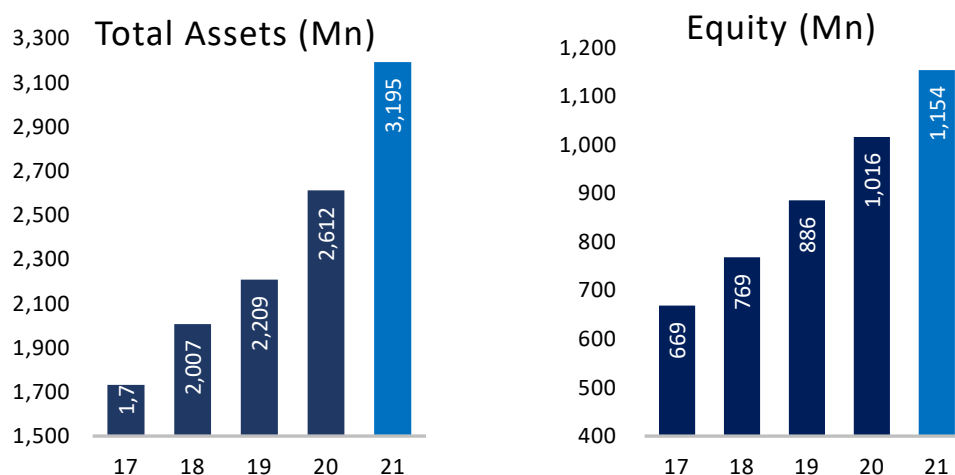
The investment portfolio includes government securities, bank deposits and corporate debts. The investments increased by 17%, from Rs. 1.83 billion in 2020 to Rs. 2.14 billion in 2021.



Investments in government debt securities amounted to Rs. 1,112.9 million representing 52% (2020 Rs. 800.3 million, 44 %) of the total investments.

The Total Assets increased to Rs. 3.2 billion in 2021, when compared to Rs. 2.6 billion recorded in 2020, reflecting a 22% growth.

Improved profitability resulted in equity increasing from Rs. 1,016.3 million in 2020 to Rs.1,154.1 million in 2021. This is an excellent achievement, considering the very competitive market environment.



## Key Financial Highlights

| In Rs. Mn                           | 2017  | 2018  | 2019  | 2020  | 2021  | Growth 21 | CAGR |
|-------------------------------------|-------|-------|-------|-------|-------|-----------|------|
| Gross Written Premium               | 1,237 | 1,455 | 1,664 | 1,741 | 2,169 | 25%       | 15%  |
| Net Earned Premium                  | 846   | 1,187 | 1,354 | 1,355 | 1,601 | 18%       | 17%  |
| Total Benefits, Claims and Expenses | 558   | 742   | 808   | 704   | 866   | 23%       | 12%  |
| Investment and Other Income         | 132   | 130   | 143   | 134   | 121   | -10%      | -2%  |
| Profit Before Tax                   | 66    | 95    | 169   | 186   | 184   | -1%       | 29%  |
| Income Tax (Expense) / Income       | -15   | 7     | -54   | -57   | -47   | -17%      | 34%  |
| Profit After Tax                    | 51    | 102   | 115   | 129   | 137   | 6%        | 28%  |
| Total Comprehensive Income          | 51    | 100   | 117   | 130   | 138   | 6%        | 28%  |

## Share Capital

The Stated Capital of the Company as at 31<sup>st</sup> December 2021 was Rs. 825,000,000/-, represented by issued and fully paid Rs. 825,000 voting ordinary shares.

## Corporate Governance

The Board of Directors is committed towards maintaining good and effective corporate governance. The operations of the Company is effectively directed and controlled within the corporate governance framework.

Corporate governance is a collective effort of the Company's management, it's Board of directors, shareholders, auditors, and other stakeholders. The key aspects of corporate governance are transparency of corporate structures and operations, the accountability of managers and the board to shareholders and other stakeholders at large.

Orient Insurance Ltd (Company) has adopted all the required rules and practices by which the Board of directors ensures accountability, fairness, and transparency in the Company's relationships with all it's stakeholders.

The Company's core business is providing Non-life insurance products to the Sri Lankan market and it is duly licensed by the Insurance Regulatory Commission of Sri Lanka (IRCSL). The Company is a limited liability company which is owned by Orient Insurance PJSC UAE and the ultimate parent of the Company is Al Futtaim Company LLC (UAE).

# Statement of Compliance

Orient Insurance Ltd firmly believes that value creation to all the stakeholders should be achieved via ethically driven business processes. This is ensured by conducting business with a firm commitment and taking ethical business decisions by safeguarding the interest of all the stakeholders. All the business processes and business practices are in line with the Group policies which have been readjusted to suit local business context. Orient Insurance Ltd has gained and retained trust of the stakeholders throughout the year by managing Company affairs in a fair and transparent manner.

The Company is compliant with all the rules and regulations stipulated for the limited liability companies by the Colombo Stock Exchange and Insurance Regulatory Commission of Sri Lanka (IRCSL).

Operations at Orient Insurance Ltd are embedded with a sound corporate governance culture, giving assurance to all the stakeholders. The Company was subject to statutory and regulatory requirements in relation to governance and operations during the year under review.

The below segment provides details of all the statutes applicable to the Company and Company's compliance with section 7.10 of the Listing Rules of the Colombo Stock Exchange.

The Primary statutes applicable to the Company:

- ◆ The Companies Act No. 7 of 2007 (as amended)
- ◆ Regulation of Insurance Industry Act No 43 of 2000 (as amended)
- ◆ Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987
- ◆ Inland Revenue Act No. 10 of 2006 (as amended)
- ◆ Shop and Office Employees Act No. 15 of 1954
- ◆ Employees' Provident Fund Act No. 15 of 1958 (as amended)
- ◆ Employees' Trust Fund Act No. 46 of 1980 (as amended)
- ◆ Payment of Gratuity Act No. 12 of 1980 (as amended)
- ◆ Financial Transactions Reporting Act No. 6 of 2005 (as amended)
- ◆ Prevention of Money Laundering Act No. 5 of 2006
- ◆ Foreign Exchange Act No 12 of 2017
- ◆ Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- ◆ Other Laws that govern the tax regime for companies in Sri Lanka
- Directives issued by the IRCSL
- Guidelines issued by the IRCSL
- Listing Rules of the CSE, Rules, Regulations and Guidelines issued by the Securities and Exchange Commission of Sri Lanka



It is also required that the Company comply with the following rules, regulations directives and guidelines:

- ◆ Circulars issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- ◆ Directives issued by the IRCSL
- ◆ Guidelines issued by the IRCSL
- ◆ Listing Rules of the CSE, Rules, Regulations and Guidelines issued by the Securities and Exchange Commission of Sri Lanka

## Status of compliance with section 7.10

|          | Requirement  | Status         |
|----------|--|----------------|
| 7.10.1   | Non-executive directors - minimum 2 or 1/3 of total which ever higher  | Complied       |
| 7.10.2a  | Independent directors - minimum 2 or 1/3 of total which ever higher  | Complied       |
| 7.10.2b  | Each Non-Executive Director to submit a declaration of his/her independence or non- independence in the prescribed format  | Complied       |
| 7.10.3 a | Names of directors determined to be independent should be disclosed in the annual report.  | Complied       |
| 7.10.3 b | In the event a Director does not qualify as independent as the criteria set out in corporate governance, but if the Board is of the opinion that the Director is nevertheless independent, that shall specify the criteria not met and basis of the determination in the annual report | Not applicable |
| 7.10.3 c | A brief resume of each director should be published in the Annual Report   | Complied       |
| 7.10.3 d | Provide to the Exchange a brief resume of such director upon appointment of a new director to its board  | Not applicable |
| 7.10.5   | A listed entity shall have a Remuneration Committee.   | Complied       |
| 7.10.5 a | The Remuneration Committee shall comprise of a minimum of two independent non-executive directors or non-executive directors' majority of whom shall be independent whichever is higher.   | Complied       |
|          | One non-executive director shall be appointed as Chairman of the Committee by the board of directors.  | Not Complied   |
| 7.10.5 b | The Remuneration Committee shall recommend the remuneration of executive directors and Chief Executive Officer.  | Complied       |
| 7.10.5 c | The annual report should set out the names of directors comprising the remuneration committee, contain a statement of remuneration policy and setout aggregate remuneration paid to executive and non-executive directors.   | Complied       |
| 7.10.6   | A listed Company shall have an Audit Committee.  | Complied       |

|          | Requirement  | Status         |
|----------|--|----------------|
| 7.10.6 a | The Audit Committee shall comprise a minimum of two independent non-executive directors or a non-executive director a majority of whom shall be independent, whichever is higher.  | Complied       |
|          | One non-executive director shall be appointed as Chairman of the committee by the board of directors.  | Complied       |
|          | The Chief Executive Officers and Chief Financial Officers shall attend Audit Committee meetings.   | Complied       |
|          | The Chairman or one member of the committee should be a member of a recognized professional accounting body.   | Complied       |
| 7.10.6 b | Confirmation of functions of the Audit Committee is in accordance with the rules.  | Complied       |
| 7.10.6 c | The names of the directors comprising the audit committee should be disclosed in the annual report.  | Complied       |
|          | The committee should make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.  | Complied       |
|          | The annual report shall contain a report by the audit committee, setting out the manner of compliance of the functions in relation to the above, during the period to which the annual report relates.   | Complied       |
| 7.10.7   | In the event a listed entity fails to comply with any of requirement contained in Rule 7.10 of these Rules, such entity shall make an immediate announcement to the Market via the exchange on such non-compliance, not later than one market day from the date of non-compliance. | Not Applicable |

## Appointments to the Board

Mr. Tanuj Edward was appointed to the Board as an Executive Director during the year 2021. His profile is provided on page number 17. Mr. Edward will be serving the Board sub-committees and will be chairing the Remuneration Committee of the Company.

Mr. Deshapriya De Silva appointed to the Board as an Independent Non-Executive Director during the year. His profile is provided on page number 19. Mr. De Silva will be serving the Board sub committees and will be chairing the Investment committee of the Company.

## Director's Retirement

In accordance with Article No. 83 of the Articles of Association of the Company, Directors appointed to the office of Chairman is not subject to retirement by rotation.

The Deputy Chairman Mr. Thilak De Zoysa and independent Non-Executive Director Mr. S. S Mathiaparanan ended their terms during the year.

Mr. G. L. Priya Aponso and Mr. Deshapriya De Silva, Independent Non-Executive Directors of the Company, retires and are eligible for re-appointment at the Annual General Meeting.

## Director's Meetings

The number of Board Meetings held during the financial year under review were four and the number of meetings attended by each Director of the Company are as follows:

|                         |     |
|-------------------------|-----|
| Mr. S. S. Mathiaparanan | 2/2 |
| Mr. Tilak De Zoysa      | 2/2 |
| Mr. G.L. Priya Aponso   | 4/4 |
| Mr. Tanuj Edward        | 2/2 |
| Mr. Deshapriya De Silva | 2/2 |

## Board Committees

The Board has delegated some of its functions to Board committees while retaining final decision rights pertaining to matters under the purview of these committees

## Investment Committee

The Board Investment Committee comprised of the following members including two Independent Non-Executive Directors and one Executive Director as at the end of the year. Two Directors ended their terms during the year and two new Directors were appointed.

### Directors ended their terms during the year.

Mr. Tilak De Zoysa - Non-Executive Director  
Mr. S. S. Mathiapparanan - Independent Non-Executive Director

### Active Directors by the end of year

Mr. Deshapriya De Silva - Chairman / Independent Non-Executive Director  
Mr. G.L. Priya Aponso - Independent Non-Executive Director  
Mr. Tanuj Edward - Executive Director

Senior Vice President – Finance and Vice President Operation Control attends the meetings of the Committee by invitation. Other Executive Committee members maybe invited as and when required. Senior Vice President – Finance serves as the Secretary of the Investment Committee.

The Investment Committee held four meetings during the year. The number of meetings attended by each Director who are members of the Committee are as follows:

|                          |     |
|--------------------------|-----|
| Mr. S. S. Mathiapparanan | 2/2 |
| Mr. Tilak De Zoysa       | 2/2 |
| Mr. G.L. Priya Aponso    | 4/4 |
| Mr. Tanuj Edward         | 2/2 |
| Mr. Deshapriya De Silva  | 2/2 |

## Remuneration Committee

The Board Remuneration Committee comprised of the following members including two Independent Non-Executive Directors and one Executive Director as at the end of the year. Two Directors ended their terms during the year and two new Directors were appointed.

### Directors ended their terms during the year.

Mr. Tilak De Zoysa - Non-Executive Director  
Mr. S. S. Mathiapparanan - Independent Non-Executive Director

### Active Directors by the end of year

Mr. Tanuj Edward - Chairman / Executive Director  
Mr. G.L. Priya Aponso - Independent Non-Executive Director  
Mr. Deshapriya De Silva - Independent Non-Executive Director

Senior Vice President – Finance attends the meetings of the Committee by invitation. Other Executive Committee members maybe invited as and when required. Head of the Human Resources function serves as the Secretary of the Remuneration Committee.

The Remuneration Committee held two meetings during the year. The number of meetings attended by each Director who are members of the Committee are as follows:

|                          |     |
|--------------------------|-----|
| Mr. S. S. Mathiapparanan | 1/2 |
| Mr. Tilak De Zoysa       | 1/2 |
| Mr. G.L. Priya Aponso    | 2/2 |
| Mr. Tanuj Edward         | 1/2 |
| Mr. Deshapriya De Silva  | 1/2 |

## Audit Committee Report

The Board Audit Committee comprised of the following members including two Independent Non-Executive Directors and one Executive director as at the end of the year. Two Directors ended their terms during the year and two new Directors were appointed.

### Directors ended their terms during the year.

Mr. Tilak De Zoysa - Non-Executive Director  
Mr. S. S. Mathiapparanan - Independent Non-Executive Director

### Active Directors by the end of year

Mr. G.L. Priya Aponso - Chairman / Independent Non-Executive Director  
Mr. Tanuj Edward - Executive Director  
Mr. Deshapriya De Silva - Independent Non-Executive Director

The Senior Vice President – Finance and Vice President Operation Control attends the meetings of the Committee by invitation. Other Executive Committee members maybe invited as and when required. Vice President Operation Control serves as the Secretary of the Investment Committee.

The Audit Committee held four meetings during the year. The number of meetings attended by each Director who are members of the Committee are as follows:

|                          |     |
|--------------------------|-----|
| Mr. S. S. Mathiapparanan | 2/2 |
| Mr. Tilak De Zoysa       | 2/2 |
| Mr. G.L. Priya Aponso    | 4/4 |
| Mr. Tanuj Edward         | 2/2 |
| Mr. Deshapriya De Silva  | 2/2 |

The Audit committee reviewed the independence, objectivity and performance of the Company's Internal audit function and External audit findings including Management Letter for the year under review.

## Purpose

The purpose of Audit Committee is to:

- ♦ Assist the Board of Directors in executing their responsibilities over Financial reporting process.
- ♦ Review the system of internal control and Risk management procedure.
- ♦ Monitor effectiveness and efficacy of Internal Audit function.
- ♦ Review the Company's process for monitoring compliance with laws and regulations.
- ♦ Make recommendations to the Board on independence, performance, and appointment of external auditors.

## Charter of Audit Committee

The Charter of the Audit Committee approved by the Board during September 2020. The Charter defines the Terms of Reference of the Committee and Committee's functions. The Audit plan detailed the audits to be conducted during the year. The Charter and the Plan are set to be reviewed annually by the Audit Committee.

## Compliance with Laws and Regulations

The Audit Committee reviewed the Company compliance with laws and regulations through review of checklists signed off by the management on quarterly basis. This covers compliance with all applicable compliance submissions relating to Insurance Regulatory Commission of Sri Lanka (IRCSL), Department of Inland Revenue and Labor regulations.

## Internal Audit

The Committee is responsible in reviewing and approving the internal Audit plan, scope and reporting requirements of the Company/Group annually and ensuring that internal auditors have adequate access to information to carry out their audits. The Audit plan for 2021 was approved by the committee members during the Audit committee meeting held on 25<sup>th</sup> February 2021.



## External Audit

The Committee reviewed the External audit report for 2020 and discussions were held between the committee members and management of the external auditors on the external audit findings, Management Letter and improvements needs to be done to safeguard Company's assets. Recommendations issued by the External auditor for the year 2020 were completed by the end of year.

## Conclusion

The Committee, along with the management assessed the internal controls of the Company and actions were taken to improve the same. The Committee is satisfied with the current internal controls in place and the risk management initiatives taken in safeguarding Company's assets.

## Directors' Remuneration and Other Benefits

Details of the fees paid to the Directors during the financial year are given in Note. 35 to the Financial Statements.

## Financial Statements

The Financial Statements of the Company are prepared in conformity with the currently applicable Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka.

In the opinion of Directors, the Financial Statements comply with the requirements of the Companies Act No. 7 of 2007 and the provisions of the Regulation of Insurance Industry Act No. 43 of 2000 together with the rules and regulations applicable to regulated General Insurance companies of Sri Lanka and subsequent amendments thereto.

## Related Party Transactions

The Directors have disclosed the transactions with related parties in terms of the Sri Lanka Accounting Standards – LKAS 24 – Related Party Transactions. Due regard has been accorded to these disclosures in the preparation of the Company's Financial Statements. These transactions are listed under the notes to the Financial Statements.

## Minimum Capital Requirement to continue General Insurance Business

Section 13(b) of the Regulation of the Insurance Act, No. 43 of 2000 requires a minimum Stated Capital as prescribed by the Insurance Regulatory Commission of Sri Lanka to be maintained by any insurer to carry on Non-Life Business. The requirement gazetted for the year under review is Rs. 500 million per each class of business for all new insurance companies and Orient Insurance Ltd has an issued and fully paid Stated Capital of Rs. 825 million as at 31<sup>st</sup> December 2021 and therefore, is in compliance with the above-mentioned statutory requirement. Total net assets of the Company amounted to Rs.1,154 million (2020 - Rs.1,016 million) as at the reporting date of 31<sup>st</sup> December 2021.

## Appointment of Auditors

Auditors of the Company, Messrs. KPMG have expressed their willingness to continue in office as Auditors of the Company for the year ending 31<sup>st</sup> December 2022. A Resolution pertaining to their re-appointment and authorizing the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Sgd.

Rihab Thaha

Company Secretary

Dated: 06th May 2022

# ORIENT INSURANCE LIMITED

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE** is hereby given that the **Eleventh GENERAL MEETING** of **ORIENT INSURANCE LIMITED** ("the Company") will be held on 17<sup>th</sup> June 2022 commencing at 12.00 p.m. at No. 133, Bauddhaloka Mawatha, Colombo 4, to transact the following businesses:

### AGENDA

1. To read the Notice convening the Meeting.
2. To receive, consider and adopt the Annual Report of the Directors, Financial Statement for the year ended 31<sup>st</sup> December 2021 and the Report of the Auditors thereon.
3. To re-elect Mr. G.L. Priya Aponso as a Director, who retires by rotation at the Annual General Meeting in terms of Article 85 of the Articles of Association of the company.
4. To re-elect Mr. Deshapriya De Silva as a Director, who retires by rotation at the Annual General Meeting in terms of Article 85 of the Articles of Association of the company.
6. To re-appoint the Auditors for the financial year 2022 and authorize the Directors to determine their remuneration.
7. To consider any other business of which due notice has been given in terms of the relevant laws and regulations.

### By Order of the Board

Sgd.  
Rihab Thaha  
Company Secretary  
Colombo  
Dated, 11<sup>th</sup> May 2022

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on its/his behalf.
2. A proxy need not be a member of the Company. The Form of Proxy will be found at the end of the Annual Report.
3. The completed Form of Proxy should be deposited at No. 133, Bauddhaloka Mawatha, Colombo 4, Sri Lanka not less than 48 hours before the date and time appointed for the meeting.

# ORIENT INSURANCE LIMITED

## FORM OF PROXY

I/We ..... of.....

being a member of Orient Insurance Limited, hereby appoint .....

(holder of NIC/Passport No.....) of.....(or failing him)

..... of.....

as our Proxy to represent and vote for us on our behalf at the Annual General Meeting of the Company to be held on 17<sup>th</sup> June 2022 and at any adjournment thereon and at every poll which may be taken in consequence thereon.

|  | For                      | Against                  |
|--|--------------------------|--------------------------|
| 1. To receive and adopt the Statement of Accounts for the year ended 31 December 2021 and to receive the Report of the Auditors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To appoint KPMG as Auditors and authorize the Directors to determine their remuneration.                                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To reappoint Mr. Priya Aponso as an Independent Non-Executive Director of the Company.  | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To reappoint Mr. Deshapriya De Silva as an Independent Non-Executive Director of the Company.                                 | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To transact any other business of which due notice shall be given   | <input type="checkbox"/> | <input type="checkbox"/> |

\* The proxy may vote as he thinks fit on any other resolution brought before the meeting

As witness my hand/our hands this ..... day of .....  
Two Thousand & Twenty.

.....  
Signature

.....  
Seal

1. Kindly complete the form of proxy, by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.

2. If the Proxy form is signed by an Attorney, the relative Power of Attorney should also accompany the proxy form for registration, if such Power of Attorney has not already been registered with the Company.

3. In the case of a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.

4. The completed form of proxy should be deposited at No. 133, Baudhaloka Mawatha, Colombo 4, Sri Lanka, not less than 48 hours, before the time appointed for the holding of the meeting.

# **AUDITED FINANCIALS**

---

**ORIENT INSURANCE LIMITED**  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31ST DECEMBER 2021



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDERS OF ORIENT INSURANCE LIMITED

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of Orient Insurance Limited ("the Company"), which comprise the statement of financial position as at 31 December 2021, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

##### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Other Information

Our opinion on the financial statements does not cover any other information and we will not express any form of assurance conclusion thereon. Management is responsible for the other information. These financial statements do not include any other information.

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

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

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

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

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara FCA  
G.A.U. Karunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Atahakoon ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyratne FCA  
R.M.D.B. Rajapakse FCA  
M.N.M. Shameel FCA  
Ms. P.M.K. Sumanasekara FCA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo FCA  
Ms. C.T.K.N. Perera ACA  
Principals - S.R.L. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardane ACA, W.A.A. Weerasekara CFA, ACMA, MRICS

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.

**Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

Further, as required by section 47(2) of the Regulations of Insurance Industry Act, No 43 of 2000, as far as appears from our examination, the accounting records of the company have been maintained in the manner required by the rules issued by the IRCSL give true and fair view of the financial position.

Colombo, Sri Lanka  
31 March 2022

**ORIENT INSURANCE LIMITED**  
**INCOME STATEMENT**

*For the year ended 31 December,*

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Gross Written Premium                              | 7    | 2,168,884         | 1,741,140         |
| Change in Reserve for Unearned Premium             |      | (245,251)         | (162,339)         |
| <b>Gross Earned Premium</b>                        |      | <b>1,923,633</b>  | <b>1,578,801</b>  |
| Premiums Ceded to Reinsurers                       | 8    | (378,680)         | (272,935)         |
| Change in Reserve for Unearned Reinsurance Premium |      | 56,355            | 49,279            |
| <b>Net Earned Premium</b>                          | 9    | <b>1,601,308</b>  | <b>1,355,145</b>  |
| <b>Other Revenue</b>                               |      |                   |                   |
| Net Investment Income                              | 10   | 120,583           | 133,680           |
| Other Operating Income                             | 11   | 50,957            | 43,734            |
| <b>Total Other Revenue</b>                         |      | <b>171,540</b>    | <b>177,414</b>    |
| <b>Total Net Revenue</b>                           |      | <b>1,772,848</b>  | <b>1,532,559</b>  |
| <b>Net Benefits, Claims and Expenses</b>           |      |                   |                   |
| Net Insurance Benefits and Claims                  | 12   | 865,895           | 704,410           |
| Underwriting and Net Acquisition Cost              | 13   | 169,305           | 145,684           |
| Other Operating and Administrative Expenses        | 14   | 512,451           | 455,779           |
| Depreciation and amortisation                      |      | 41,259            | 40,873            |
| <b>Total Benefits, Claims and Expenses</b>         |      | <b>1,588,910</b>  | <b>1,346,746</b>  |
| <b>Profit Before Taxation</b>                      | 15   | <b>183,938</b>    | <b>185,813</b>    |
| Income Tax Expense                                 | 16   | (47,041)          | (56,847)          |
| <b>Profit for the year</b>                         |      | <b>136,897</b>    | <b>128,966</b>    |
| <b>Earnings per share</b>                          |      |                   |                   |
| Basic Earnings per share (Rs)                      | 17   | <b>16.59</b>      | <b>15.63</b>      |

The Notes to the Financial Statements are an integral part of these Financial Statements





**ORIENT INSURANCE LIMITED**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December,*

|  | Note | 2021<br>Rs. ' 000     | 2020<br>Rs. ' 000     |
|--|------|-----------------------|-----------------------|
| <b>Profit for the year</b>                                 |      | <u>136,897</u>        | <u>128,966</u>        |
| <b>Other Comprehensive Income</b>                          |      |                       |                       |
| Items that will never be reclassified to profit or loss    |      |                       |                       |
| Actuarial Gain on defined benefit plan                     | 31.2 | 1,211                 | 1,667                 |
| Related Tax  | 25.1 | (291)                 | (467)                 |
|  |      | <u>920</u>            | <u>1,200</u>          |
| <b>Other comprehensive income for the year, net of tax</b> |      | <u>920</u>            | <u>1,200</u>          |
| <b>Total comprehensive income</b>                          |      | <u><b>137,817</b></u> | <u><b>130,166</b></u> |

The Notes to the Financial Statements are an integral part of these Financial Statements



**ORIENT INSURANCE LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

| <i>As at 31 December,</i>           | <i>Note</i> | <b>2021</b>      | <b>2020</b>      |
|-------------------------------------|-------------|------------------|------------------|
|                                     |             | <b>Rs. ' 000</b> | <b>Rs. ' 000</b> |
| Financial Investments               | 18          | 1,465,879        | 1,827,619        |
| Property Plant and Equipment        | 19          | 138,713          | 46,257           |
| Intangible Assets                   | 20          | 5,545            | 3,644            |
| Reinsurance Receivables             | 21          | 132,816          | 83,303           |
| Premium Receivables                 | 22          | 599,503          | 451,444          |
| Receivables and Other Assets        | 23          | 12,415           | 50,278           |
| Deferred acquisition cost           | 24          | 138,783          | 113,579          |
| Deferred Tax Assets                 | 25          | 2,845            | 3,998            |
| Cash and Cash Equivalents           | 26          | 698,104          | 32,258           |
| <b>Total Assets</b>                 |             | <b>3,194,603</b> | <b>2,612,380</b> |
| <b>Equity and Liabilities</b>       |             |                  |                  |
| <b>Equity</b>                       |             |                  |                  |
| Stated Capital                      | 27          | 825,000          | 825,000          |
| Retained Earnings                   |             | 329,137          | 191,320          |
| <b>Total Equity</b>                 |             | <b>1,154,137</b> | <b>1,016,320</b> |
| <b>Liabilities</b>                  |             |                  |                  |
| Insurance Contract Liabilities      | 28          | 1,499,160        | 1,215,934        |
| Reinsurance Payable                 | 29          | 106,739          | 53,106           |
| Deferred Revenue                    | 30          | 32,493           | 19,970           |
| Employee Benefits                   | 31          | 19,307           | 18,637           |
| Other Liabilities                   | 32          | 227,976          | 178,286          |
| Lease Liabilities                   | 33          | 100,249          | 20,945           |
| Current Tax Liabilities             | 34          | 32,121           | 62,085           |
| Amount due to related parties       | 35          | 22,421           | 27,097           |
| <b>Total Liabilities</b>            |             | <b>2,040,466</b> | <b>1,596,060</b> |
| <b>Total Equity and Liabilities</b> |             | <b>3,194,603</b> | <b>2,612,380</b> |


The Notes to the Financial Statements are an integral part of these Financial Statements.


These Financial Statements are in compliance with the requirement of the Companies Act No 07 of 2007.

  
 .....  
 Rihab Thaha  
 Senior Vice President - Finance

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

Signed for and on behalf of the Board :

  
 .....  
 Omer Elamin  
 Chairman  
 31 March 2022  
 Colombo

  
 .....  
 Tanuj Edward  
 Director



**ORIENT INSURANCE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

*For the year ended 31 December 2021,*

| <b>Rs. '000</b>  | <b>Stated capital</b> | <b>Retained earnings</b> | <b>Total</b>     |
|--|-----------------------|--------------------------|------------------|
| <b>Balance as at 1 January 2020</b>                        | <b>825,000</b>        | <b>61,154</b>            | <b>886,154</b>   |
| Profit for the year  | -                     | 128,966                  | 128,966          |
| <b>Other comprehensive income for the year, net of tax</b> |                       |                          |                  |
| Actual Gain/(Loss) on retirement benefit obligation        | -                     | 1,200                    | 1,200            |
| Net change in available for sale financial assets          | -                     | -                        | -                |
| <b>Total other comprehensive income</b>                    | <b>-</b>              | <b>1,200</b>             | <b>1,200</b>     |
| <b>Total comprehensive income for the year</b>             | <b>-</b>              | <b>130,166</b>           | <b>130,166</b>   |
| <b>Balance as at 31 December 2020</b>                      | <b>825,000</b>        | <b>191,320</b>           | <b>1,016,320</b> |
| <b>Balance as at 1 January 2021</b>                        | <b>825,000</b>        | <b>191,320</b>           | <b>1,016,320</b> |
| Profit for the year  | -                     | 136,897                  | 136,897          |
| <b>Other comprehensive income for the year, net of tax</b> |                       |                          |                  |
| Actual Gain/(Loss) on retirement benefit obligation        | -                     | 920                      | 920              |
| Net change in available for sale financial assets          | -                     | -                        | -                |
| <b>Total other comprehensive income</b>                    | <b>-</b>              | <b>920</b>               | <b>920</b>       |
| <b>Total comprehensive income for the year</b>             | <b>-</b>              | <b>137,817</b>           | <b>137,817</b>   |
| <b>Balance as at 31 December 2021</b>                      | <b>825,000</b>        | <b>329,137</b>           | <b>1,154,137</b> |

The Notes to the Financial Statements are an integral part of these Financial Statements



**ORIENT INSURANCE LIMITED**  
**STATEMENT OF CASH FLOWS**

*For the year ended,*

|  | Note     | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|----------|-------------------|-------------------|
| Profit before tax  |          | 183,938           | 185,813           |
| <b>Adjustment for:</b>                                       |          |                   |                   |
| Depreciation and amortisation                                | 15       | 41,259            | 40,873            |
| Provision/(reversal) of impairment of premium receivable     | 22       | 8,500             | 11,180            |
| Provision for employee benefits                              | 31       | 5,261             | 6,108             |
| Interest on lease liability                                  | 33       | 7,177             | 5,515             |
| Fair Value adjustment on Refundable deposit                  |          | (1,016)           | -                 |
| Loss on Assets write-off                                     |          | 7                 | -                 |
| <b>Profit before working capital changes</b>                 |          | <b>245,126</b>    | <b>249,489</b>    |
| <b>Net change in operational assets</b>                      |          |                   |                   |
| Net change in reinsurance assets                             |          | (49,513)          | (5,479)           |
| Net change in premium receivables                            |          | (156,559)         | (90,644)          |
| Net change in accrued interest                               |          | (117,688)         | (4,443)           |
| Net change in receivables and other assets                   |          | (15,529)          | 1,974             |
| <b>Net change in operational liabilities</b>                 |          |                   |                   |
| Net change in other liabilities                              |          | 37,009            | 35,097            |
| Net change in insurance contract liabilities                 |          | 283,226           | 185,864           |
| Net change in related party payables                         |          | (4,676)           | 14,652            |
| Net change in reinsurance payables                           |          | 53,633            | 26,710            |
| <b>Cash generated in operating activities</b>                |          | <b>275,029</b>    | <b>413,220</b>    |
| Gratuity paid  | 31       | (3,380)           | (1,844)           |
| Income tax self assesment payments                           |          | (39,592)          | -                 |
| <b>Net cash from operating activities</b>                    |          | <b>232,057</b>    | <b>411,376</b>    |
| <b>Cash flows from investing activities</b>                  |          |                   |                   |
| Acquisition of investments                                   | 18.1 (b) | (2,570,141)       | (6,935,438)       |
| Maturity proceeds of investments                             | 18.1 (b) | 3,049,569         | 6,538,732         |
| Acquisition of intangible assets                             | 20       | (2,938)           | (3,537)           |
| Acquisition of property, plant and equipment                 | 19       | (25,419)          | (7,292)           |
| <b>Net cash used in investing activities</b>                 |          | <b>451,071</b>    | <b>(407,535)</b>  |
| <b>Cash flows from financing activities</b>                  |          |                   |                   |
| Repayment of lease liabilities                               | 33.3     | (17,278)          | (27,005)          |
| <b>Net cash used in financing activities</b>                 |          | <b>(17,278)</b>   | <b>(27,005)</b>   |
| <b>Net (decrease)/ increase in cash and cash equivalents</b> |          | <b>665,850</b>    | <b>(23,164)</b>   |
| Cash and cash equivalents as at 1 January                    |          | 32,258            | 55,422            |
| <b>Cash and cash equivalents as at 31 December</b>           |          | <b>698,104</b>    | <b>32,258</b>     |

The Notes to the Financial Statements are an integral part of these Financial Statements



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

---

#### **1. Reporting Entity**

##### **Corporate Information**

Orient Insurance Limited ("Company") is a private limited Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No. 133, New Bullers Road, Colombo 04.

##### **Principal Activities and Nature of Operations**

The Company is primarily engaged in the business of underwriting Non-Life Insurance.

There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

##### **Parent Entity and Ultimate Parent Entity**

The Company's parent undertaking and controlling entity is Orient Insurance PJSC which is incorporated in United Arab Emirates, and is a fully owned subsidiary of Al-Futtaim Company LLC incorporated in United Arab Emirates.

##### **Number of Employees**

The staff strength of the Company as at 31 December 2021 is 247 (2020 – 217).

#### **2. Basis of Preparation**

##### **Statement of Compliance**

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (hereinafter referred to as SLFRS/ LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka, the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

These financial statements include the following components:

- Income Statement and Statement of profit or loss and other comprehensive income providing the information on the financial performance of the Company for the year under review;
- Statement of financial position providing the information on the financial position of the Company as at the year-end;
- Statement of changes in equity depicting all changes in shareholders' funds during the year under review of the Company;
- Statement of cash flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of the Company to utilize those cash flows; and
- Notes to the financial statements comprising accounting policies and other explanatory information. Details of the Company's accounting policies, including changes during the year, are included in Note 5

##### **Responsibility for Financial Statements**

The Board of Directors is responsible for preparation and presentation of the financial statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

##### **Approval of Financial Statements**

The financial statements for the year ended 31 December 2021 were authorized for issue by the Directors on 31 March 2022.



## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### Materiality and Aggregation

Each item which is similar in nature is presented separately if material. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 1 on "Presentation of financial statements".

#### Going Concern

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID 19 pandemic on the business operations and performance of the Company and the measures adopted by the Government to mitigate the pandemic's spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the financial statements continue to be prepared on the going concern basis.

The assessment of potential implication of Covid - 19 on the Company's ability to continue as a going concern is described in note 41.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date:

| Items   | Measurement basis  | Note No. |
|---|--|----------|
| Net defined benefit assets/ (liabilities)   | Actuarially valued and recognized at the present value of the defined benefit obligation             | 31       |
| Incurred But Not Reported (IBNR) / Incurred But Not Enough Reported Liabilities (IBNER) | Actuarially determined values based on internationally accepted actuarial policies and methodologies | 28       |

No adjustments have been made for inflationary factors affecting the financial statements.

#### 3. Functional and Presentation Currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency. All amounts presented in rupees have been rounded to the nearest rupees thousand (Rs'000), except when otherwise indicated.

#### 4. Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.





**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



**Coronavirus (COVID-19) pandemic**

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Company's performance. The outbreak necessitated the government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus, the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery. The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included as follows

| Critical Accounting Estimates / Judgments  | Disclosure reference              |
|--|-----------------------------------|
|  | Notes to the Financial Statements |
| Insurance contract liabilities   | 5.27                              |
| Measurement of defined benefit obligations: Key actuarial assumptions  | 5.29                              |
| Recognition of deferred tax assets   | 5.18.2                            |
| Impairment test: Key assumptions underlying recoverable amounts  | 5.21.7                            |
| Recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources | 5.31                              |
| Deferred acquisition cost  | 5.22.1                            |
| Determination of the fair value of financial instruments   | 5.21.6                            |
| Liability Adequacy Test  | 5.27.5                            |

**5. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements unless otherwise indicated.

**5.1 Foreign Currency**

Transactions in foreign currencies are translated into the respective functional currency of the Company at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized costs in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of the available-for-sale equity instruments are recognized in OCI.





**Income Statement and Statement of Profit or Loss and Other Comprehensive Income**

**5.2 Gross Written Premiums (GWP)**

Gross written premiums comprise the total premiums received/ receivable for the whole period of cover provided by contracts entered into during the accounting period. GWP is generally written upon approval of the policy.

Premium include any adjustments arising in the accounting period for premiums receivable in respect if business written in prior accounting periods.

**5.3 Unearned Premium Reserve (UPR)**

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. UPR represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24 basis except for the travel policies which are computed on a 1/365 basis. The proportion attributable to subsequent period is deferred as a provision for unearned premiums.

**5.4 Reinsurance Premiums**

Reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered during the period, and are generally recognized on the date on which the policy incepts. Premium include any adjustments arising in the accounting period for premiums receivable in respect if business written in prior accounting periods.

**5.5 Unearned Reinsurance Premiums**

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are calculated on the 1/24 basis except for the travel policies which are computed on a 1/365 basis.

**5.6 Unexpired Risk**

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at the reporting date.

**5.7 Acquisition Costs**

Acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred.

**5.8 Reinsurance Commission Income**

Reinsurance commission income on outwards reinsurance contracts are recognized as revenue when receivable. Subsequent to initial recognition, reinsurance commission income on outwards reinsurance contracts are deferred and amortized on a straight line basis over the term of the expected premiums payable.

**5.9 Gross Claims Expense**

Gross claims expense include all claims occurring during the year, whether reported or not, 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.

Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

Gross claims expense includes gross claims expense reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct cost of setting those claims. The provision in respect of IBNR is actuarially valued to ensure a more realistic estimation of the future liability based on past experience and trends.

## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

Actuarial valuations are performed on quarterly basis. While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

#### **5.10 Reinsurance Claims Recoveries**

Reinsurance claims recoveries are recognized when the related gross insurance claim is recognised according to the terms of the relevant contract. This includes reinsurance exposure of IBNR as well.

#### **Other Revenue**

#### **5.11 Finance Income**

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognized in the Income Statement as it accrues and is calculated by using the effective interest rate method (EIR). Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

#### **5.15 Other Income**

Other income comprises fees charged for policy administration services, disposal gains on property, plant and equipment, gains on foreign currency translations, and miscellaneous income.

#### **Expenses and Taxation**

#### **5.16 Expenditure Recognition**

Expenses are recognized in the Income Statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Income Statement.

#### **5.17 Finance Cost**

Interest paid is recognized in the Income Statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

#### **5.18 Income Tax Expense**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in items recognized directly in equity or in Income Statement and Statement of Profit or Loss and Other Comprehensive Income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under LKAS 37 Provisions, Contingent Liabilities and Contingent assets.

##### **5.18.1 Current Tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### **5.18.2 Deferred Tax**

Deferred tax is provided using the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets are setoff, if a legally enforceable right exist to set off current tax assets against current tax liabilities and deferred tax assets relate to the same taxable entity and the same taxation authority.

#### **5.18.3 Tax Exposures**

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities and such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### **5.18.5 Crop Insurance Levy (CIL)**

The Crop Insurance Levy was introduced under the provisions of the Section 14 of the Finance Act No. 12 of 2013, and came into effect from 1 April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit after tax.

#### **5.18.7 Sales Tax**

Revenues, expenses and assets are recognized net of the amount of sales tax except;

- Where the sales tax incurred on a purchase of asset or service is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as a part of receivables or payables in the statement of financial position.

#### **5.19 Earnings per share (EPS)**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.



**Statement of Financial Position**

**5.20 Insurance and Investment Contracts**

**5.20.1 Product Classification**

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are contracts under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Significant insurance risk exists if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). The classification of contracts identifies both the insurance contracts that the Company issues and reinsurance contracts that the Company holds.

Contracts where the Company does not assume a significant insurance risk is classified as investment contracts.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk.

Interest rate financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

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

Insurance and investment contracts are further classified as being either with or without discretionary participating features (“DPF”).

**5.20.2 Impact of Unrealized Gains and Losses on Available For Sale Assets on Liabilities from Insurance Contracts**

Where unrealized gains or losses arise on available- for-sale assets, the adjustment to the liabilities arising from insurance contracts and investment contracts with DPF is equal to the effect that the realization of those gains or losses at the end of the reporting period would have had on those liabilities (and related assets) and is recognized directly in other comprehensive income.

**5.21 Financial Assets and Liabilities**

**5.21.1 Non Derivative Financial Assets**

**Initial Recognition and Measurement**

The Company initially recognises loans and receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

In the case of financial assets not at fair value through profit or loss, a financial asset is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.





## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

Depending on the intention and ability to hold the invested assets, the Company classifies its non-derivative financial assets into following categories;

#### **➤ Loans and receivables (L&R)**

Income and expenses are presented on a net basis only when permitted under SLFRS/LKAS, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.



### **Subsequent Measurement**

#### **(a) Loans and Receivables (L&R)**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of investments in reverse repos, reinsurance receivables, premium receivables and cash and cash equivalents.

#### **Cash and cash equivalent**

Cash and cash equivalents comprise cash balances, and call deposits with original maturities of three months or less. Bank overdrafts are included in the statement of financial position under liabilities.

For the purpose of the cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **Premiums receivable**

Premium receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognized in the Income Statement.

Premium receivables are derecognized when de-recognition criteria for financial assets, as described in Note 5.21.3, have been met.

### **5.21.2 Non Derivative Financial Liabilities**

#### **Initial Recognition and Measurement**

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise interest bearing borrowings, reinsurance payables, other liabilities and bank overdrafts.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows.



### **Subsequent Measurement**

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

#### **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.

#### **De-recognition of Insurance Payables**

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

#### **5.21.3 De-recognition**

The Company de-recognizes a financial asset when:

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights 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 Company has transferred substantially all the risks and rewards of the asset, or
  - (b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of;

- (i) The consideration received (including any new asset obtained less any new liability assumed) and
- (ii) Any cumulative gain or loss that had been recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income is recognised in profit or loss.

The Company de-recognises a financial liability when its contractual obligations are discharged or cancelled or expire.

#### **5.21.4 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount 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.

#### **5.21.5 Amortised Cost Measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

#### **5.21.6 Fair Value Measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

#### **Determination of Fair Value**

The fair value of financial instruments that are traded in an active market at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

#### **5.21.7 Impairment**

##### **Financial Assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a 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 result of one or more events that has occurred after the initial recognition of the asset and the 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.

##### **(a) Impairment losses on financial assets carried at amortised cost**

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in Income Statement under other cost and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Income Statement.

#### **5.22 Deferred Expenses**

##### **5.22.1 Deferred Acquisition Costs (DAC)**

Deferred acquisition costs comprise commissions and other variable costs directly connected with acquisition or renewal of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

DAC is amortised over the period in which the related revenues are earned. The re-insurers share of deferred acquisition costs is amortised in the same manner as the unearned premium reserve is amortised.

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 and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. DAC is reviewed for recoverability based on the profitability of the underlying insurance contracts and when the recoverable amount is less than the carrying value, an impairment loss is recognised in the Income Statement

DAC is derecognised when the related contracts are either settled or disposed.

##### **5.22.2 Reinsurance Commissions – Unearned Commission Reserve (UCR)**

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



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

---

#### **5.23 Property, Plant and Equipment**

##### **5.23.1 Recognition and Measurement**

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

##### **Basis of Recognition**

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

##### **Basis of Measurement**

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labour;
- Any other costs directly attributable to bringing the assets to a working condition for their intended use;
- When the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in "other operating income" in the Income Statement.

##### **5.23.2 Subsequent Costs**

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognised in Income Statement as incurred.

##### **5.23.3 Repairs and Maintenance**

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

##### **5.23.4 Depreciation**

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.





## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

The estimated useful lives for the current and comparative periods are as follows:

| Asset Class            | Company               |
|------------------------|-----------------------|
| Office furniture       | 7 years               |
| Furniture and fittings | 4 - 5 years           |
| Computer equipment     | 3 - 5 years           |
| Motor vehicles         | 5 years               |
| ROU Asset              | Over the lease period |



Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

The depreciation rates are determined separately for each significant part of an item of Property, Plant and Equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognized.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in Note 19.

#### 5.23.5 Carrying Amount

The carrying amount of an asset or significant group of assets within the class is assessed annually with its fair value and where the fair value is less than the carrying amount, the asset is written down to its fair value. The consequent adjustment is recognised in the Income Statement.

#### 5.23.6 De-recognition

An item of property, plant and equipment is de- recognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset is de- recognised.

#### 5.24 Intangible Assets

##### Software

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

---

#### **5.25 Impairment of Non-Financial Assets**

The Company 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 Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

#### **5.26 Equity Movements**

##### **Ordinary shares**

The Company has issued ordinary shares that are classified as equity instruments. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

#### **5.27 Insurance Contract Liabilities**

##### **5.27.1 Insurance liabilities**

Insurance contract liabilities include the outstanding claims provision (Reserve for gross outstanding and Incurred But Not Reported (IBNR), and Incurred But Not Enough Reported (IBNER) and the provision for unearned premium and the provision for premium deficiency.

##### **5.27.2 Claims Payable Including IBNR**

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

IBNR reserve is assessed by an independent external Actuary on quarterly basis.

##### **5.27.3 Provision for Unearned Premiums**

The provision for unearned premiums represents that portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract. Provision for unearned premium is calculated on a 1/24 basis except for travel class which is subject to 1/365 basis.

At each reporting date, the Company reviews its unexpired risk and the liability adequacy tested to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums.



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life 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 statement in comprehensive income by setting up a provision for premium deficiency.

#### **5.27.5 Liability Adequacy Test (LAT)**

At the end of each reporting period the Company reviews its unexpired risk and a liability adequacy test is performed as laid out in SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. The calculation uses current estimates of future cash flows after taking account of the investment return expected to arise from assets relating to the relevant non-life insurance technical provisions. If the assessments show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency shall be recognised in the Income Statement by setting up a provision for liability adequacy. Insurance liability adequacy is assessed by an independent external actuary on an annual basis.

#### **5.28 Reinsurance**

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 is recorded gross in the financial position unless a right to offset exists.

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 Company 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 Company will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

#### **5.29 Employee Benefits**

##### **5.29.1 Short-term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### **5.29.2 Defined Contribution Plans**

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

##### **Employees' Provident Fund**

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to Employees' Provident Fund managed by the Central Bank of Sri Lanka.





#### **Employees' Trust Fund**

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee to the Employees' Trust Fund managed by the ETF Fund Board of Sri Lanka.

#### **5.29.3 Defined Benefit Plans**

Gratuity is a defined benefit plan. The Company is liable to pay gratuity in terms of the payment of gratuity Act No. 12 of 1983, according to which a liability to pay gratuity arises only on completion of 5 years of continued service. In order to meet this liability, a provision is carried forward in the statement of financial position as per Sri Lanka Accounting Standard LKAS 19 Employee Benefits. This calculation is performed annually by a qualified independent actuary using the projected unit credit method (PUC).

The initial cost, the gratuity charge for the period is included as an expense/income in the income statement and the gain/loss on change in assumptions after the initial adoption, if any, is included as an expense/income in other comprehensive income.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The obligation is not externally funded.

#### **5.30 Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

#### **As a lessee**

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Company's incremental borrowing rate may use. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'lease liabilities' in the statement of financial position.

#### **Short-term leases and leases of low-value assets**

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **As a lessor**

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies SLFRS 15 to allocate the consideration in the contract.

The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

#### **5.31 Provisions and Contingencies (other than insurance provisions)**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

#### **5.32 Capital Commitments**

Capital commitments of the Company are disclosed in the Note 39 to the financial statements.

#### **5.33 Events Occurring after the Reporting Date**

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the financial statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the financial statements.

#### **5.34 Statement of cash flows**

The cash flow statement has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (LKAS) 7, "Cash Flow Statements."

Interest and dividend received are classified as operating cash flows. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.



## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### 6 Standards issued and not effective for the Company as at reporting date

A number of new standards and amendments to standards which have been issued but not yet effective to the Company as at the reporting date have not been applied in preparing these Financial Statements.

##### 6.1 SLFRS 9 financial instruments and amendments to SLFRS 4 insurance contracts

SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial Instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from LKAS 39.

Based on the proposed amendments to SLFRS 4 'Insurance contracts', the entities whose predominant activity is issuing insurance contracts are permitted to defer the full application of SLFRS 9 until the earlier of 2022 or adoption of SLFRS 17, which is currently expected to be effective from 2023.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- (a) it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss.
- (b) its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1 January 2016, or at a subsequent annual reporting date.

##### 6.1.1 (a). Assessment for qualifying for the temporary exemptions

Based on the above, the Company is permitted to apply the temporary exemption as the Company meets the eligibility criteria as follows;

The Company has not applied SLFRS 9 before; and

The Company's activities are predominantly connected with insurance as the ratio of its liabilities connected with insurance - including investment contracts measured at fair value through profit or loss - compared with total liabilities is greater than 80% but less than 90% and the company does not engage in significant activity unconnected with insurance. Accordingly, the Company qualifies for a pure insurance company.

|   | 31 Dec 21 (Rs'000) | 31 Dec 20 (Rs'000) |
|---|--------------------|--------------------|
| Insurance contract liabilities                        | 1,499,160          | 1,215,934          |
| Reinsurance Payable                                   | 106,739            | 53,106             |
| Deferred commission income                            | 32,493             | 19,970             |
| <b>Liabilities connected with insurance contracts</b> | <b>1,638,392</b>   | <b>1,289,010</b>   |
| <b>Total liabilities</b>                              | <b>2,040,466</b>   | <b>1,596,060</b>   |
| <b>Predominance ratio</b>                             | <b>80%</b>         | <b>81%</b>         |





**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



**6.1.1 (b). Disclosures to provide comparability**

**Financial assets that meet the SPPI Test, Solely Payment of Principal and Interest (excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).**

| <b>Instrument</b>     | <b>Current classification</b> | <b>Carrying value Under LKAS 39 (Rs'000)</b> | <b>Classification under SLFRS 9</b> | <b>Carrying value (Rs'000)</b> | <b>Changes in Carrying value (Rs.000)</b> |
|-----------------------|-------------------------------|--|-------------------------------------|--------------------------------|---|
| Treasury Bills - Repo | L&R                           | 437,560                                      | Amortized Cost                      | 437,560                        | -   |
| Term Deposit          | L&R                           | 1,001,479                                    | Amortized Cost                      | 1,027,333                      | -   |
| Debentures            | L&R                           | 26,840                                       | Amortized Cost                      | 26,840                         | -   |

**Classification - Financial assets**

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. It eliminates the existing LKAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is to hold assets to collect contractual cash flows; and Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value on OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition on the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Under SLFRS 9, derivative embedded in contracts where the host is a financial asset in the scope of SLFRS 9 are not separated. Instead, the hybrid financial instrument as whole is assessed for classification.

**Business model assessment**

The Company will make an assessment of the objective of the business model which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.



## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS



Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

#### Impact assessment

The standard will affect the classification and measurement of financial assets held as follows.

Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under LKAS 39, will also be measured at FVTPL under SLFRS 9.

Loans and receivables measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9.

Held-to-maturity investment securities measured at amortised cost under LKAS 39 will in general also be measured at amortised cost under SLFRS 9.

Debt investment securities that are classified as available-for-sale under LKAS 39 may, under SLFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances.

The majority of the equity investment securities that are classified as available-for-sale under LKAS 39 will be measured at FVTPL under SLFRS 9. However, some of these equity investment securities are held for long-term strategic purposes and will be designated as at FVOCI on initial recognition.

Based on the internal assessment, there would have been no significant impact on the financial statement had the Company adopted SLFRS 9 as at reporting date.

#### Impairment - Financial assets, loan commitments and financial guarantee contracts

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with a forward-looking 'expected credit loss' model. This will be required considerable judgement over how changes in economic factors affect Expected Credit Loss (ECLs), which will be determined on a probability-weighted basis.

The new impairment model applies to Financial Assets that are debt instruments that are not measured at FVTPL.

Under SLFRS 9, no impairment loss is recognised on equity investments.

SLFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Company will recognise loss-allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs.

Debt investment securities that are determined to have low credit risk at the reporting date. The Company considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment-grade"; and

#### 6.2 SLFRS 17 – Insurance Contracts

SLFRS 17 will replace SLFRS 4 on accounting for insurance contracts and will be effective from 1 January 2023.

#### Objective

SLFRS 17 Insurance contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of SLFRS 17 is to ensure that an

## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of Financial Statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

#### Scope

An entity shall apply SLFRS 17 Insurance contracts to:

- Insurance contract, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have their primary purpose as provision of services for a fixed fee. Such issued contracts are in the scope of the Standard, unless an entity chooses to apply to them SLFRS 15 Revenue from Contracts with Customers and provided the following conditions are met:

- the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- the contract compensates customers by providing a service, rather than by making cash payments to the customer; and
- the insurance risk transferred by the contract arises primarily from the customer's use of service rather than from uncertainty over the cost of those services.

#### Recognition

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from a policyholder becomes due; and
- when the group becomes onerous.

SLFRS – 17 specify three measurement approaches;

1. Building Block Approach (BBA)
2. Premium Allocation Approach (PAA)
3. Variable Fee Approach (VFA)



#### Building Block Approach (General Approach) Measurement

On initial recognition, an entity shall measure a group of contracts at the total of:

- a. the amount of fulfilment cash flows ("FCF"), which comprise:
  - estimates of future cash flows;
  - an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows; and
  - a risk adjustment for non-financial risk
- b. the contractual service margin ("CSM").

An entity shall include all the cash flows within the boundary of each contract in the group. The entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts.

The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing and uncertainty of those future cash flows. They should reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices.

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Discount rates**



The discount rates applied to the estimate of cash flows shall:

- a) reflect the time value of money (TVM), the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
- b) be consistent with observable market prices of those financial instruments whose cash flow characteristics are consistent with those of the insurance contracts; and
- c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

**Risk adjustment for non-financial risk**

The estimate of the present value of the future cash flows is adjusted to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk.

**Contractual Service Margin**

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- a) the initial recognition of an amount for the FCF;
- b) the derecognition at that date of any asset or liability recognised for acquisition cash flows; and
- c) any cash flows arising from the contracts in the group at that date.

**Subsequent measurement**

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

- a. the liability for remaining coverage comprising:
  - the FCF related to future services and;
  - the CSM of the group at that date;
- b. the liability for incurred claims, comprising the FCF related to past service allocated to the group at that date.

**Onerous contracts**

An insurance contract is onerous at initial recognition if the total of the FCF, any previously recognised acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. An entity shall recognise a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero.

On subsequent measurement, if a group of insurance contracts becomes onerous (or more onerous), that excess shall be recognised in profit or loss. Additionally, CSM cannot increase and no revenue can be recognised, until the onerous amount previously recognised has been reversed in profit or loss as part of a service expense.

**Premium allocation approach**

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- the entity reasonably expects that this will be a reasonable approximation of the General Model, or
- the coverage period of each contract in the group is one year or less

Where, at the inception of the group, an entity expects significant variances in the FCF during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability



## **ORIENT INSURANCE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortisation of acquisition cash flows, minus the amount recognised as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

#### **Modification and de-recognition**

##### **Modification of an insurance contract**

If the terms of an insurance contract are modified, an entity shall derecognise the original contract and recognise the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The modification is substantive if any of the following conditions are satisfied:

- a. if, had the modified terms been included at contract's inception, this would have led to:
  - exclusion from the Standard's scope;
  - unbundling of different embedded derivatives;
  - redefinition of the contract boundary; or
  - the reallocation to a different group of contracts; or
- b. if the original contract met the definition of a direct par insurance contracts, but the modified contract no longer meets that definition, or vice versa; or
- c. the entity originally applied the PAA, but the contract's modifications made it no longer eligible for it .

##### **De-recognition**

An entity shall de-recognise an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

##### **Presentation in the statement of financial position**

An entity shall present separately in the statement of financial position the carrying amount of groups of:

- insurance contracts issued that are assets;
- insurance contracts issued that are liabilities;
- reinsurance contracts held that are assets; and
- reinsurance contracts held that are liabilities.



##### **Recognition and presentation in the statement(s) of financial performance**

An entity shall disaggregate the amounts recognised in the statement(s) of financial performance into:

- an insurance service result, comprising insurance revenue and insurance service expenses; and
- insurance finance income or expenses.

Income or expenses from reinsurance contracts held shall be presented separately from the expenses or income from insurance contracts issued.

##### **Insurance service result**

An entity shall present in profit or loss revenue arising from the groups of insurance contracts issued, and insurance service expenses arising from a group of insurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Revenue and insurance service expenses shall exclude any investment components. An entity shall not present premiums in the profit or loss, if that information is inconsistent with revenue presented.

##### **Insurance finance income or expenses**

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money; and

## ORIENT INSURANCE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

---

- the effect of changes in assumptions that relate to financial risk; but
- excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM.

An entity has an accounting policy choice between including all of insurance finance income or expense for the period in profit or loss, or disaggregating it between amount presented in profit or loss and amount presented in other comprehensive income ("OCI").

Under the general model, disaggregating means presenting in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of contracts. On derecognition of the groups amounts remaining in OCI are reclassified to profit or loss.

Under the VFA, for direct par insurance contracts, only where the entity holds the underlying items, disaggregating means presenting in profit or loss as insurance finance income or expenses an amount that eliminates the accounting mismatches with the finance income or expenses arising on the underlying items. On derecognition of the groups, the amounts previously recognised in OCI remain there.

#### Disclosures

An entity shall disclose qualitative and quantitative information about:

- a) the amounts recognised in its financial statements that arise from insurance contracts;
- b) the significant judgements, and changes in those judgements, made when applying IFRS 17; and
- c) the nature and extent of the risks that arise from insurance contracts.

#### Effective date

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial instruments' have also been applied.

#### Transition

An entity shall apply the Standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilise reasonable and supportable information and maximise the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. Under this approach the use of hindsight is permitted, if that is the only practical source of information for the restatement of prior periods.

Under the fair value approach, an entity determines the CSM at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date. Using this approach, on transition there is no need for annual groups.

At the date of initial application of the Standard, those entities already applying IFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the Standard.

Entities can choose not to restate IFRS 9 comparatives with any difference between the previous carrying amount of those financial assets and the carrying amount at the date of initial application recognised in the opening equity at the date of initial application. Any restatements of prior periods must reflect all the requirements of IFRS 9.

The Company has initiated a gap assessment for SLFRS 17 in consultation with external consultants of actuarial and finance.

The following amended standards are not expected to have a significant impact on the Company's financial statements.

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37) - effective for annual reporting periods beginning on or after 1 January 2022.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

---

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12) - effective for annual reporting periods beginning on or after 1 January 2023.
- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to SLFRS 16) – effective for annual reporting periods beginning on or after 1 April 2021.
- Annual Improvements to IFRS Standards 2018–2020 - effective for annual reporting periods beginning on or after 1 January 2022.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16) - effective for annual reporting periods beginning on or after 1 January 2022.
- Reference to Conceptual Framework (Amendments to IFRS 3) - effective for annual periods beginning on or after 1 January 2022.
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1) - effective for annual periods beginning on or after 1 January 2023.
- Disclosure of Accounting Policies (Amendments to LKAS 1 and SLFRS Practice Statement 2) - effective for annual periods beginning on or after 1 January 2023.
- Definition of Accounting Estimates (Amendments to LKAS 8) - effective for annual periods beginning on or after 1 January 2023.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2021,*

**7 GROSS WRITTEN PREMIUM**

Gross written premium (GWP) represents the premium charged by the Company to underwrite risks in order to pay customer claims/ benefits if the event insured against occurs/ specified term is completed. GWP is accounted on an accrual basis.

*For the year ended 31 December,*

|             | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------|-------------------|-------------------|
| Fire        | 164,660           | 120,998           |
| Motor       | 1,666,172         | 1,377,872         |
| Marine      | 17,915            | 15,229            |
| Casualty    | 110,013           | 97,701            |
| Engineering | 75,185            | 34,266            |
| Medical     | 134,939           | 95,074            |
|             | <b>2,168,884</b>  | <b>1,741,140</b>  |

**8 PREMIUM CEDED TO REINSURERS**

Premium ceded to reinsurers represents the premium paid by the Company to its reinsurers in order to manage its underwriting risks. This is accounted on an accrual basis.

*For the year ended 31 December,*

|             | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------|-------------------|-------------------|
| Fire        | 146,416           | 110,449           |
| Motor       | 74,329            | 59,600            |
| Marine      | 12,428            | 10,909            |
| Casualty    | 78,062            | 62,192            |
| Engineering | 67,445            | 29,785            |
|             | <b>378,680</b>    | <b>272,935</b>    |

**9 NET EARNED PREMIUM**

This represents the net earned premium for the financial year subsequent to deduction of reinsurance and net change in unearned premiums.

*For the year ended 31 December,*

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Gross written premium                              | 7    | 2,168,884         | 1,741,140         |
| Premium ceded to reinsurers                        | 8    | (378,680)         | (272,935)         |
| <b>Total net written premium</b>                   |      | <b>1,790,204</b>  | <b>1,468,205</b>  |
| Change in reserve for unearned premium             | 9.1  | (245,251)         | (162,339)         |
| Change in reserve for unearned reinsurance premium | 9.2  | 56,355            | 49,279            |
| <b>Net change in reserve for unearned premium</b>  |      | <b>(188,896)</b>  | <b>(113,060)</b>  |
| <b>Net Earned Premium</b>                          |      | <b>1,601,308</b>  | <b>1,355,145</b>  |

9.1 The change in reserve for unearned premium represents the net portion of the GWP transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.

9.2 The change in reserve for unearned reinsurance premium represents the net portion of the reinsurance premium transferred to the unearned premium reserve during the year to cover the unexpired period of the policies.





**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



For the year ended 31 December 2021,

**10 NET INVESTMENT INCOME**

For the year ended 31 December,

|                                    | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|------------------------------------|------|-------------------|-------------------|
| Interest income                    | 10.1 | 120,583           | 133,680           |
| <b>Total net investment income</b> |      | <b>120,583</b>    | <b>133,680</b>    |

**10.1 Interest income**

**Interest Income from Financial Investments - Loans and Receivables**

|                   |                |                |
|-------------------|----------------|----------------|
| - Term Deposits   | 75,397         | 89,382         |
| - Reverse REPO    | 43,346         | 44,298         |
| - Corporate debts | 1,840          | -              |
|                   | <b>120,583</b> | <b>133,680</b> |

**11 OTHER OPERATING INCOME**

For the year ended 31 December,

|                           | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---------------------------|-------------------|-------------------|
| Policy administration fee | 49,107            | 43,699            |
| Miscellaneous income      | 1,850             | 35                |
| <b>Total other income</b> | <b>50,957</b>     | <b>43,734</b>     |

**12 NET BENEFITS AND CLAIMS**

Net claims incurred reflect the total amount of claims and claims related expenses incurred during the year, net of amounts due from reinsurers. Since claims expenses are based on the information available as at a particular date, the charge for the year include any over or under provisioning with regard to the previous years claims. A provision is also made in respect of claims incurred by policyholders but not informed to insurers as at the reporting date. Such claims are commonly referred to as Incurred But Not Reported (IBNR) claims, and is computed based on internationally accepted actuarial principles.

For the year ended 31 December,

|   | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|------|-------------------|-------------------|
| Gross benefits and claims paid                |      | 879,141           | 665,452           |
| Claims ceded to reinsurers                    |      | (55,727)          | (20,931)          |
| <b>Net insurance benefits and claims paid</b> | 12.1 | <b>823,414</b>    | <b>644,521</b>    |
| Gross change in liabilities                   | 28.1 | 94,330            | 72,804            |
| Change in liabilities ceded to reinsurers     | 28.1 | (51,849)          | (12,915)          |
| <b>Total net benefits and claims</b>          | 12.2 | <b>865,895</b>    | <b>704,410</b>    |

**12.1 Net insurance benefits and claims paid**

For the year ended 31 December,

Rs. ' 000

|                                 | 2021              |                                  |                 | 2020              |                                  |                 |
|---------------------------------|-------------------|----------------------------------|-----------------|-------------------|----------------------------------|-----------------|
|                                 | Gross claims paid | Claims recovered from reinsurers | Net claims paid | Gross claims paid | Claims recovered from reinsurers | Net claims paid |
| Fire                            | 37,569            | 35,911                           | 1,658           | 14,049            | 13,136                           | 913             |
| Motor                           | 725,457           | 7,279                            | 718,178         | 563,060           | 3,121                            | 559,939         |
| Marine                          | 4,858             | 1,873                            | 2,985           | 1,254             | 696                              | 558             |
| Casualty                        | 9,862             | 4,957                            | 4,905           | 15,409            | 2,027                            | 13,382          |
| Engineering                     | 7,736             | 5,707                            | 2,029           | 2,543             | 1,951                            | 592             |
| Medical                         | 97,839            | -                                | 97,839          | 71,787            | -                                | 71,787          |
|                                 | <b>883,321</b>    | <b>55,727</b>                    | <b>827,594</b>  | <b>668,102</b>    | <b>20,931</b>                    | <b>647,171</b>  |
| Recoveries from sale of salvage | (4,180)           | -                                | (4,180)         | (2,650)           | -                                | (2,650)         |
|                                 | <b>879,141</b>    | <b>55,727</b>                    | <b>823,414</b>  | <b>665,452</b>    | <b>20,931</b>                    | <b>644,521</b>  |



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



For the year ended 31 December 2021,

**12 NET BENEFITS AND CLAIMS (Contd.)**

**12.2 Total net benefits and claims**

For the year ended 31 December,

|                        | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|------------------------|-------------------|-------------------|
| Gross claims incurred  | 973,471           | 738,256           |
| Reinsurance recoveries | (107,576)         | (33,846)          |
|                        | <b>865,895</b>    | <b>704,410</b>    |

**13 UNDERWRITING AND NET ACQUISITION COSTS (INCLUDING REINSURANCE)**

For the year ended 31 December,

|   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|-------------------|-------------------|
| Acquisition cost  | 252,706           | 209,772           |
| Net change in reserve for deferred acquisition cost (DAC) | (25,204)          | (18,494)          |
|   | <b>227,502</b>    | <b>191,278</b>    |
| Reinsurance commission income                             | 70,720            | 49,247            |
| Net change in reserve for unearned commission (UER)       | (12,523)          | (3,653)           |
|   | <b>58,197</b>     | <b>45,594</b>     |
| <b>Total underwriting and net acquisition costs</b>       | <b>169,305</b>    | <b>145,684</b>    |

**14 OTHER OPERATING AND ADMINISTRATIVE EXPENSES**

For the year ended 31 December,

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Employee benefits expenses                               | 14.1 | 285,194           | 244,214           |
| Administration and establishment expenses                |      | 179,952           | 168,784           |
| Selling expenses   |      | 40,128            | 37,266            |
| Finance Expenses   | 14.2 | 7,177             | 5,515             |
| <b>Total other operating and administrative expenses</b> |      | <b>512,451</b>    | <b>455,779</b>    |
| <b>14.1 Employee benefits expenses</b>                   |      |                   |                   |
| Staff remuneration                                       |      | 254,677           | 217,625           |
| Defined contribution plan cost - EPF                     | 31.1 | 17,320            | 15,350            |
| Defined contribution plan cost - ETF                     | 31.1 | 4,330             | 3,837             |
| Defined benefit plan cost                                | 31.2 | 5,261             | 6,108             |
| Staff welfare  |      | 1,611             | 703               |
| Training expenses  |      | 1,995             | 591               |
|  |      | <b>285,194</b>    | <b>244,214</b>    |

**14.2 - Finance Expenses**

Finance expense includes the interest charge on lease liability originated from SLFRS 16 implementation.

**15 PROFIT BEFORE TAX**

Profit for the year is stated after charging:

For the year ended 31 December,

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Auditors remuneration                          |      |                   |                   |
| Audit & audit related services                 |      | 945               | 900               |
| Non audit related services                     |      | 527               | 550               |
| Defined contribution plan cost - EPF           | 14.1 | 17,320            | 15,350            |
| Defined contribution plan cost - ETF           | 14.1 | 4,330             | 3,837             |
| Defined benefit plan cost                      | 14.1 | 5,261             | 6,108             |
| Provision for impairment of premium receivable | 22.2 | 8,500             | 11,180            |
| Data processing expenses                       |      | 43,441            | 47,657            |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2021,*



**16 INCOME TAX EXPENSE**

**16.1 Amount recognised in profit or loss**

*For the year ended 31 December,*

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| <b>Current tax expense</b>                         |      |                   |                   |
| Current tax expense for the year                   |      | 52,880            | 60,400            |
| Over provision adjustment from prior year          |      | (6,701)           | (1,639)           |
| <b>Total current tax expense</b>                   | 16.2 | <u>46,179</u>     | <u>58,761</u>     |
| <b>Deferred tax expense</b>                        |      |                   |                   |
| Reversal/(Origination) of deferred tax assets      | 25.1 | 294               | (1,192)           |
| Origination/(Reversal) of deferred tax liabilities | 25.1 | 568               | (722)             |
| <b>Net Deferred tax reversal</b>                   |      | <u>862</u>        | <u>(1,914)</u>    |
| <b>Income Tax Expense</b>                          |      | <u>47,041</u>     | <u>56,847</u>     |

The Company is liable to pay income tax at the rate of 24% (2020 : 28%) of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 and subsequent amendments thereto.

**16.2 Reconciliation of effective Tax rate**

|   | Tax rate   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|------------|-------------------|-------------------|
| Accounting profit before tax from continuing operations |            | 183,938           | 185,813           |
| At the statutory income tax rate of 24% ( 2020 :28% )   | 24%        | 44,145            | 52,028            |
| Aggregated disallowable expenses                        | 13%        | 24,518            | 25,501            |
| Aggregated allowable expenses                           | -9%        | (15,783)          | (17,129)          |
| Over provision adjustment from prior year               | -4%        | (6,701)           | (1,639)           |
| <b>Current Tax Expenses</b>                             | <b>25%</b> | <u>46,179</u>     | <u>58,761</u>     |

**16.2 Amount recognised in OCI**

|  |              |              |
|--|--------------|--------------|
| Remeasurement of defined benefit liability | (291)        | (467)        |
|  | <u>(291)</u> | <u>(467)</u> |

**17 EARNINGS PER SHARE**

**17.1 Basic earnings per share**

The calculation of basic earnings per share was based on the following profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding as at the reporting date.

*For the year ended 31 December,*

|   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|-------------------|-------------------|
| Profit for the period attributable to the owners of the Company | 136,897           | 128,966           |
| Weighted average number of ordinary shares                      | 8,250             | 8,250             |
| <b>Basic Earnings Per Share (Rs.)</b>                           | <u>16.59</u>      | <u>15.63</u>      |

**17.2 Diluted earnings per share**

There was no dilution of ordinary shares outstanding at any time during the year. Therefore, diluted earnings per share is the same as basic earnings per share as shown in Note 17.1

*As at 31 December 2021,*

**18 FINANCIAL INVESTMENTS**

The following provides details of how insurance funds have been invested. The majority of the Company's investments, i.e. 68% are in Bank deposits with Banks and Financial Institutions and Finance Companies. Government securities and Corporate debts are account for a further 32% of investments.

The Company's financial instruments are summarised by the following categories:

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

As at 31 December 2021,

**18 FINANCIAL INVESTMENTS (Contd.)**

| Note  | 2021                        |                         | 2020                        |                         |
|---|-----------------------------|-------------------------|-----------------------------|-------------------------|
|   | Carrying Value<br>Rs. ' 000 | Fair Value<br>Rs. ' 000 | Carrying Value<br>Rs. ' 000 | Fair Value<br>Rs. ' 000 |
| Loans and receivables (L&R)                 | 18.1                        | 1,465,879               | 1,465,879                   | 1,827,619               |
| <b>Total financial investments</b>          |                             | <b>1,465,879</b>        | <b>1,827,619</b>            | <b>1,827,619</b>        |
| <b>18.1 Loans and receivables (L&amp;R)</b> |                             |                         |                             |                         |
|   | Note                        | 2021<br>Rs. '000        | 2020<br>Rs. '000            |                         |
| Bank deposit                                |                             |                         |                             |                         |
| - Licensed Commercial Banks                 |                             |                         | 789,042                     | 806,756                 |
| - Licensed Finance Companies                |                             |                         | 212,437                     | 220,577                 |
| Reverse repurchase agreements               |                             |                         | 437,560                     | 800,286                 |
| Corporate debts                             |                             |                         | 26,840                      | -                       |
|   | 18.1 (a)                    | <b>1,465,879</b>        | <b>1,827,619</b>            |                         |

**18.1 (a) Impairment of L&R Financial Investments**

At the reporting date, there were no L&R financial investments that were overdue and impaired.

**18.1 (b) Net movement of L&R Financial Investments**

|                                | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|--------------------------------|------------------|------------------|
| As at 01 January               | 1,827,619        | 1,426,470        |
| Purchases during the year      | 2,570,141        | 6,935,438        |
| Maturities during the year     | (3,049,569)      | (6,538,732)      |
| Net change in accrued interest | 117,688          | 4,443            |
| As at 31 December              | <b>1,465,879</b> | <b>1,827,619</b> |

**19 PROPERTY, PLANT AND EQUIPMENT**

|   | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|---|------------------|------------------|
| Property, plant and equipment owned (Note 19.1) | 33,725           | 21,091           |
| Right-of-use assets (Note 19.2)                 | 104,988          | 25,166           |
|   | <b>138,713</b>   | <b>46,257</b>    |

**19.1 Property, plant and equipment owned**

| Rs. '000  | Office equipment | Furniture and fittings | Computer equipment | Motor Vehicle | Total          |
|---|------------------|------------------------|--------------------|---------------|----------------|
| <b>Cost</b>   |                  |                        |                    |               |                |
| Balance as at 1 January 2020                          | 9,080            | 19,987                 | 34,611             | 22,660        | 86,338         |
| Additions during the year                             | 2,069            | 3,194                  | 2,029              | -             | 7,292          |
| Write off during the year                             | -                | -                      | (2,099)            | -             | (2,099)        |
| <b>Balance as at 31 December 2020</b>                 | <b>11,149</b>    | <b>23,181</b>          | <b>34,541</b>      | <b>22,660</b> | <b>91,531</b>  |
| Balance as at 1 January 2021                          | 11,149           | 23,181                 | 34,541             | 22,660        | 91,531         |
| Additions during the year                             | 2,238            | 4,245                  | 18,936             | -             | 25,419         |
| Write off during the year                             | -                | -                      | (2,950)            | -             | (2,950)        |
| <b>Balance as at 31 December 2021</b>                 | <b>13,387</b>    | <b>27,426</b>          | <b>50,527</b>      | <b>22,660</b> | <b>114,000</b> |
| <b>Accumulated depreciation and impairment losses</b> |                  |                        |                    |               |                |
| Balance as at 1 January 2020                          | 6,529            | 11,643                 | 22,642             | 15,403        | 56,217         |
| Depreciation for the year                             | 1,444            | 2,390                  | 5,843              | 6,636         | 16,313         |
| Write off during the year                             | -                | -                      | (2,090)            | -             | (2,090)        |
| <b>Balance as at 31 December 2020</b>                 | <b>7,973</b>     | <b>14,033</b>          | <b>26,395</b>      | <b>22,039</b> | <b>70,440</b>  |
| Balance as at 1 January 2021                          | 7,973            | 14,033                 | 26,395             | 22,039        | 70,440         |
| Depreciation for the year                             | 1,762            | 2,590                  | 7,821              | 605           | 12,778         |
| Write off during the year                             | -                | -                      | (2,943)            | -             | (2,943)        |
| <b>Balance as at 31 December 2021</b>                 | <b>9,735</b>     | <b>16,623</b>          | <b>31,273</b>      | <b>22,644</b> | <b>80,275</b>  |
| <b>Carrying value</b>                                 |                  |                        |                    |               |                |
| As at 31 December 2021                                | <b>3,652</b>     | <b>10,803</b>          | <b>19,254</b>      | <b>16</b>     | <b>33,725</b>  |
| As at 31 December 2020                                | <b>3,176</b>     | <b>9,148</b>           | <b>8,146</b>       | <b>621</b>    | <b>21,091</b>  |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*As at 31 December 2021,*

**19 PROPERTY, PLANT AND EQUIPMENT (Contd.)**

**19.1 Title restriction on property, plant and equipment**

There are no restrictions that existed on the title of the PPE of the Company as at the reporting date. (2020-No Title Restriction)

**19.2 Right-of-use assets**

The Company leases buildings. Information about leases for which the Company is a lessee is presented below.

|   | <b>Building</b> |                 |
|---|-----------------|-----------------|
|   | <b>2021</b>     | <b>2020</b>     |
|   | <b>Rs. '000</b> | <b>Rs. '000</b> |
| Balance as at 1 January                         | 25,166          | 39,708          |
| Additions from entering to new lease agreements | 107,266         | 10,025          |
| leases cancelled/terminated early etc           | -               | (362)           |
| Depreciation charge for the year                | (27,444)        | (24,205)        |
| <b>Balance as at 31 December</b>                | <b>104,988</b>  | <b>25,166</b>   |

**19.3 Acquisition of property, plant and equipment during the year**

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 25.4 million (2020 - 7.3 million) which the Company has fully paid for.

**19.4 Capitalisation of borrowing costs**

There were no borrowing costs relating to property, plant and equipment capitalised during the year.

**19.5 Impairment of property, plant and equipment**

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31 December 2021. Based on the assessment, no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment.

**19.6 Fully depreciated property, plant and equipment**

The initial cost of fully depreciated property, plant and equipment which are still in use as at the reporting date is as follows;

*As at 31 December,*

|                        | <b>2021</b>      | <b>2020</b>      |
|------------------------|------------------|------------------|
|                        | <b>Rs. ' 000</b> | <b>Rs. ' 000</b> |
| Computer equipment     | 20,044           | 16,660           |
| Office equipment       | 5,454            | 4,875            |
| Furniture and fittings | 9,785            | 6,268            |
| Motor Vehicle          | 22,427           | -                |
| <b>Total</b>           | <b>57,710</b>    | <b>27,803</b>    |

**19.7 Property, plant and equipment pledged as security**

None of the property, plant and equipment have been pledged as securities as at the reporting date.

**19.8 Temporarily idle property, plant and equipment**

There are no temporarily idle property, plant and equipment as at the reporting date.

**19.9 Compensation from third parties for items of property, plant and equipment**

There were no compensation received or receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.





**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



As at 31 December 2021,

**20 INTANGIBLE ASSETS**

As at 31 December,

|   | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|---|------------------|------------------|
| <b>Computer software</b>                              |                  |                  |
| <b>Cost</b>   |                  |                  |
| Balance as at 1 January                               | 28,121           | 24,584           |
| Additions   | 2,938            | 3,537            |
| <b>Balance as at 31 December</b>                      | <b>31,059</b>    | <b>28,121</b>    |
| <b>Accumulated amortisation and impairment losses</b> |                  |                  |
| Balance as at 1 January                               | 24,477           | 24,122           |
| Amortisation  | 1,037            | 355              |
| <b>Balance as at 31 December</b>                      | <b>25,514</b>    | <b>24,477</b>    |
| <b>Carrying amount as at 31 December</b>              | <b>5,545</b>     | <b>3,644</b>     |

**20.1 Acquisition of intangible assets during the year**

During the financial year, the Company acquired intangible assets to the aggregate value of Rs. 2.9 million (2020 - 3.5 million) which the Company has fully paid for.

**20.1 Fully amortized intangible assets in use**

Intangible assets include fully amortized computer software which are in use of normal business activities having gross carrying amounts of Rs. 24.07 million (2020 - Rs. 23.82 million)

**20.2 Assessment of impairment of Intangible Assets**

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at 31 December 2021. Based on the assessment, no impairment indicators were identified.

**20.3 Capitalisation of Borrowing Costs**

There were no borrowing costs related to Intangible Assets capitalised during the year. (2020 - Nil)

**21 REINSURANCE RECEIVABLE**

As at 31 December

|  | Note | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|--|------|------------------|------------------|
| Reinsurance receivable on outstanding claims   | 21.1 | 91,750           | 55,829           |
| Incurred But Not Reported (IBNR) - Reinsurance |      | 39,415           | 23,487           |
|  |      | 131,165          | 79,316           |
| Reinsurance receivable on settled claims       | 21.2 | 1,651            | 3,987            |
| <b>Total reinsurance receivables</b>           |      | <b>132,816</b>   | <b>83,303</b>    |

**21.1** The reinsurance portion of the Outstanding Claims have not been materialised, since these insurance claims have not been paid as at the reporting date.

**21.2** Reinsurance receivable on settled claims are accounted on a net basis of reinsurer wise gross reinsurance receivable less gross reinsurance payable on the basis of that offsetting reflects the substance of the transaction and based on the grounds that the settlements are made on a net basis. Net reinsurer receivable balances as at the reporting date are classified as reinsurance receivables on settled claims.

Following breakup shows the gross receivable and payable components,

|                          | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|--------------------------|------------------|------------------|
| Gross receivable balance | 140,338          | 89,947           |
| Gross payable balance    | (7,522)          | (6,644)          |
|                          | <b>132,816</b>   | <b>83,303</b>    |

**21.3 Impairment of reinsurance receivables**

As at 31 December 2021, there were no impairment loss recorded for reinsurance receivables.

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*As at 31 December 2021,*

**22 PREMIUM RECIEVABLE**

*As at 31 December,*

|  | Note   | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|--|--------|------------------|------------------|
| Premium Receivables                      | 22.1   | 624,142          | 467,583          |
| Less - Impairment of premium receivables | 22.2   | (24,639)         | (16,139)         |
|  |        | <u>599,503</u>   | <u>451,444</u>   |
| <b>22.1 Premium receivable from</b>      |        |                  |                  |
| Leasing agents                           | 22.1.1 | 237,544          | 221,679          |
| Brokers                                  | 22.1.1 | 254,822          | 208,721          |
| Travel agents                            | 22.1.1 | 16,941           | 3,565            |
| Other                                    | 22.1.2 | 114,835          | 33,618           |
|  |        | <u>624,142</u>   | <u>467,583</u>   |

**22.1.1** Premium receivable balances for leasing agents, brokers and travel agents are accounted on a net basis of agent wise gross premium receivable less payable for individual agent on the basis of offsetting reflects the substance of the transaction and based on the grounds that the settlements are made on a net basis. Net receivable balances as at the reporting date are classified as premium receivable.

Following breakup shows the gross receivable and payable component of each type of agent,

*As at 31 December 2021,*

|                | Receivables<br>portion | Payable<br>portion | Net     |
|----------------|------------------------|--------------------|---------|
| Leasing agents | 248,537                | (10,993)           | 237,544 |
| Broker agents  | 271,864                | (17,042)           | 254,822 |
| Travel Agent   | 19,221                 | (2,280)            | 16,941  |

*As at 31 December 2020,*

|                | Receivables<br>portion | Payable<br>portion | Net     |
|----------------|------------------------|--------------------|---------|
| Leasing agents | 258,579                | (36,900)           | 221,679 |
| Broker agents  | 220,233                | (11,512)           | 208,721 |
| Travel Agent   | 5,162                  | (1,597)            | 3,565   |

**21.1.2** Premium receivable balances from other are accounted on a gross basis since it doesn't qualify the conditions of LKAS 01, para 33 for offsetting.

**22.2 Impairment of premium receivables**

|                           |               |               |
|---------------------------|---------------|---------------|
| Balance as at 1 January   | 16,139        | 4,959         |
| Provision during the year | 8,500         | 11,180        |
| Balance as at 31 December | <u>24,639</u> | <u>16,139</u> |

**22.3 Collateral details**

The Company does not hold any collateral as security against potential default by a policy holder or intermediaries.

**22.4 Risk management initiatives relating to premium receivables**

There is lower concentration of credit risk with respect to premium receivable as the Company has a large number of dispersed debtors. Refer to Note 36.2.1 to the financial statements.



ORIENT INSURANCE LIMITED  
NOTES TO THE FINANCIAL STATEMENTS



As at 31 December 2021,

23 RECEIVABLES AND OTHER ASSETS

As at 31 December,

|   | Note | 2021<br>Rs. '000 | 2020<br>Rs. '000 |
|---|------|------------------|------------------|
| <b>Financial assets</b>                   |      |                  |                  |
| Refundable deposits                       |      | 7,637            | 8,694            |
|   |      | <u>7,637</u>     | <u>8,694</u>     |
| <b>Non financial assets</b>               |      |                  |                  |
| WHT tax recoverable                       |      | -                | 36,550           |
| Prepayments                               |      | 2,257            | 1,956            |
| Other receivables                         |      | 2,521            | 3,078            |
|   |      | <u>4,778</u>     | <u>41,584</u>    |
| <b>Total receivables and other assets</b> |      | <u>12,415</u>    | <u>50,278</u>    |

23.1 Refer Note 36 to the financial statements for risk management initiatives relating to other financial assets.

24 DEFERRED ACQUISITION COST (DAC)

|                                  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|----------------------------------|------|-------------------|-------------------|
| Balance as at 1 January          |      | 113,579           | 95,085            |
| Acquisition cost during the Year | 13   | 252,706           | 209,772           |
| Amortisation for the Year        |      | (227,502)         | (191,278)         |
| <b>Balance as at 31 December</b> |      | <u>138,783</u>    | <u>113,579</u>    |

25 DEFERRED TAX

As at 31 December,

|                               |      | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------------------------|------|-------------------|-------------------|
| Deferred tax liabilities      | 25.2 | (1,788)           | (1,220)           |
| Deferred tax assets           | 25.3 | 4,633             | 5,218             |
| <b>Net deferred tax asset</b> |      | <u>2,845</u>      | <u>3,998</u>      |

25.1 The movements on the deferred tax account is as follows:

Deferred tax liabilities

|   |  |              |              |
|---|--|--------------|--------------|
| Balance at the beginning of the year                                  |  | 1,220        | 1,942        |
| <b>Recognised in profit or loss</b>                                   |  |              |              |
| Originated/ (Reversed) during the year - Recognised in Profit or Loss |  | 742          | (722)        |
| Effect of change in tax rates (Note 25.4)                             |  | (174)        | -            |
| Total amount originated/ (Reversed) during the year in profit or loss |  | <u>568</u>   | <u>(722)</u> |
| <b>Balance at the end of the year</b>                                 |  | <u>1,788</u> | <u>1,220</u> |

Deferred tax assets

|   |  |              |              |
|---|--|--------------|--------------|
| Balance at the beginning of the year                                  |  | 5,218        | 4,493        |
| <b>Recognised in profit or loss</b>                                   |  |              |              |
| Originated during the year - Recognised in Profit or Loss             |  | 451          | 1,192        |
| Effect of change in tax rates   |  | (745)        | -            |
| Total amount (Reversed)/ originated during the year in profit or loss |  | <u>(294)</u> | <u>1,192</u> |
| <b>Recognised in OCI</b>  |  |              |              |
| Actuarial gain  |  | (291)        | (467)        |
| <b>Balance at the end of the year</b>                                 |  | <u>4,633</u> | <u>5,218</u> |



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



As at 31 December 2021,

**25 DEFERRED TAX (Contd.)**

As at 31 December,

| Rs. ' 000                            | 2021                 |              | 2020                 |              |
|--------------------------------------|----------------------|--------------|----------------------|--------------|
|                                      | Temporary difference | Tax effect   | Temporary difference | Tax effect   |
| <b>25.2 Deferred tax liabilities</b> |                      |              |                      |              |
| Right of use asset                   | 104,988              | 25,197       | 25,166               | 7,046        |
| Lease liability                      | (100,249)            | (24,060)     | (20,945)             | (5,865)      |
| Property, plant and equipment        | 2,712                | 651          | 134                  | 38           |
|                                      | <u>7,451</u>         | <u>1,788</u> | <u>4,355</u>         | <u>1,220</u> |
| <b>25.3 Deferred tax assets</b>      |                      |              |                      |              |
| Employee benefits                    | 20,518               | 4,924        | 20,304               | 5,685        |
| Actuarial gain                       | (1,211)              | (291)        | (1,667)              | (467)        |
|                                      | <u>19,307</u>        | <u>4,633</u> | <u>18,637</u>        | <u>5,218</u> |
| <b>Net deferred tax liabilities</b>  | <u>11,856</u>        | <u>2,845</u> | <u>14,282</u>        | <u>3,998</u> |
| Tax rate                             |                      | <u>24%</u>   |                      | <u>28%</u>   |

**25.4 Proposed changes to income tax rates**

As per the notice (PN/IT/2020-03) issued by Inland Revenue Department on 12th February 2020, "Implementation of proposed changes to the Inland Revenue Act, No. 24 of 2017", the income tax rates applicable to the Company was reduced from 28% to 24% with effect from 1st January 2020. As such the Company had not adjusted its deferred tax asset in the financial statements as at the reporting date as of 31st December 2020. Subsequent to the approval for the said amendment by the Parliament in 2021, company applied the tax rate 24% for the year ended 2020 and recognized over provision of tax reversal amounting Rs 6.7 Mn in 2021.

**26 CASH AND CASH EQUIVALENTS**

As at 31 December,

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| <b>Cash and cash equivalents</b>       |      |                   |                   |
| Cash at bank                           |      | 22,390            | 31,770            |
| Cash in hand                           |      | 356               | 488               |
| Short term investments                 | 26.1 | 675,358           | -                 |
| <b>Total cash and cash equivalents</b> |      | <u>698,104</u>    | <u>32,258</u>     |

26.1 Short term investments includes investment in Repos which are to be matured within 3 months.

**26.2 Fair value of cash and cash equivalents**

The carrying amounts disclosed above reasonably approximate fair value as at the reporting date.

**27 STATED CAPITAL**

|                 | 2021             |                | 2020             |                |
|-----------------|------------------|----------------|------------------|----------------|
|                 | Number of shares | Rs. '000       | Number of shares | Rs. '000       |
| Ordinary Shares | 8,250,000        | <u>825,000</u> | 8,250,000        | <u>825,000</u> |

**Ordinary Shares**

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.



As at 31 December 2021,

## 28 INSURANCE CONTRACT LIABILITIES

As at 31 December,

|                                       | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---------------------------------------|------|-------------------|-------------------|
| Outstanding claims provision (Gross)  | 28.2 | 505,688           | 411,358           |
| Provision for unearned premiums (Net) | 28.3 | 993,472           | 804,576           |
|                                       |      | <b>1,499,160</b>  | <b>1,215,934</b>  |

### 28.1 Movement in insurance contract liabilities

The Company enters into reinsurance agreements in order to mitigate insurance risks as outlined in Note 38.1.3 Financial risk review. Although positions are managed on a net basis by management, insurance disclosures have been made on both gross and net basis in order to provide a comprehensive set of disclosures.

As at 31st December

|                                  |      | 2021                                 |                  |                  | 2020                                 |                  |                  |
|----------------------------------|------|--------------------------------------|------------------|------------------|--------------------------------------|------------------|------------------|
| Rs. ' 000                        | Note | Insurance<br>Contract<br>Liabilities | Re<br>insurance  | Net              | Insurance<br>Contract<br>Liabilities | Re<br>insurance  | Net              |
| Provision for reported claims    |      | 412,103                              | (91,750)         | 320,353          | 347,170                              | (55,829)         | 291,341          |
| Incurred But Not Reported (IBNR) |      | 93,585                               | (39,415)         | 54,170           | 64,188                               | (23,487)         | 40,701           |
| Outstanding claims provision     | 28.2 | <b>505,688</b>                       | <b>(131,165)</b> | <b>374,523</b>   | <b>411,358</b>                       | <b>(79,316)</b>  | <b>332,042</b>   |
| Provision for unearned premiums  | 28.3 | 1,160,693                            | (167,221)        | 993,472          | 915,442                              | (110,866)        | 804,576          |
| <b>Total</b>                     |      | <b>1,666,381</b>                     | <b>(298,386)</b> | <b>1,367,995</b> | <b>1,326,800</b>                     | <b>(190,182)</b> | <b>1,136,618</b> |

### 28.2 Outstanding claims provision

The movement in the outstanding claims provision is as follows:

As at 31 December,

|   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|-------------------|-------------------|
| <b>Provision for reported claims</b>    |                   |                   |
| Balance as at 1 January                 | 291,341           | 235,290           |
| Claims incurred during the year         | 852,426           | 700,572           |
| Claims paid during the year             | (823,414)         | (644,521)         |
| <b>Balance as at 31 December</b>        | <b>320,353</b>    | <b>291,341</b>    |
| <b>Incurred But not reported (IBNR)</b> |                   |                   |
| Balance as at 1 January                 | 40,701            | 36,863            |
| Increase/(decrease) in IBNR             | 13,469            | 3,838             |
| <b>Balance as at 31 December</b>        | <b>54,170</b>     | <b>40,701</b>     |
|   | <b>374,523</b>    | <b>332,042</b>    |

#### 28.2.1 Valuation of IBNR

The Incurred but not reported claims has been actuarially computed by Mr. Shariq Sikander, FSA, CERA, for and on behalf of SHMA Consulting DMCC (Dubai). The Valuation of IBNR was certified on 20 January 2022 for the above purpose.

### 28.3 Provision for unearned premiums

The reserve for net unearned premium indicates the amount of premium which is attributable to policies written as at 31 December 2021, but covering periods after 31 December 2021.

As at 31st December,

|                                  | 2021                 |                 |                | 2020                 |                 |                |
|----------------------------------|----------------------|-----------------|----------------|----------------------|-----------------|----------------|
| Rs. ' 000                        | Unearned<br>Premiums | Re<br>insurance | Net            | Unearned<br>Premiums | Re<br>insurance | Net            |
| Balance as at 1 January          | 915,442              | 110,866         | 804,576        | 753,103              | 61,587          | 691,516        |
| Premiums written in the year     | 2,168,884            | 378,680         | 1,790,204      | 1,741,140            | 272,935         | 1,468,205      |
| Premiums earned during the year  | (1,923,633)          | (322,325)       | (1,601,308)    | (1,578,801)          | (223,656)       | (1,355,145)    |
| <b>Balance as at 31 December</b> | <b>1,160,693</b>     | <b>167,221</b>  | <b>993,472</b> | <b>915,442</b>       | <b>110,866</b>  | <b>804,576</b> |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*As at 31 December 2021,*

**28 INSURANCE CONTRACT LIABILITIES (Contd.)**

**28.3 Liability adequacy test (LAT)**

A Liability Adequacy Test ("LAT") for insurance contract liability was carried out by Mr. Shariq Sikander, FSA, CERA, for and on behalf of SHMA Consulting DMCC (Dubai) as at 31 December 2021 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31 December 2021. No additional provision was required against the LAT as at 31 December 2021.

**28.4 Technical reserves**

*As at 31 December*

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Insurance contract liabilities                                   | 28   | 1,499,160         | 1,215,934         |
| Deferred acquisition cost (net)                                  |      | (106,290)         | (93,609)          |
| Reinsurance receivable on outstanding claims (Exclusive of IBNR) | 21   | (91,750)          | (55,829)          |
| Reinsurance receivable on outstanding claims IBNR/ IBNER         | 21   | (39,415)          | (23,487)          |
|  |      | <u>1,261,705</u>  | <u>1,043,009</u>  |

**29 REINSURANCE PAYABLES**

*As at 31 December ,*

|                     | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---------------------|------|-------------------|-------------------|
| Reinsurance Payable | 29.1 | 106,739           | 53,106            |
|                     |      | <u>106,739</u>    | <u>53,106</u>     |

29.1 Reinsurance payables are accounted on a net basis of reinsurer wise gross reinsurance payable less gross reinsurance receivable on the basis of that offsetting reflects the substance of the transaction and based on the grounds that the settlements

Following breakup shows the gross payable and receivable compenents,

|                          |                |               |
|--------------------------|----------------|---------------|
| Gross payable balance    | 163,283        | 103,111       |
| Gross receivable balance | (56,545)       | (50,005)      |
|                          | <u>106,739</u> | <u>53,106</u> |

**30 DEFERRED REVENUE**

This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires.

*As at 31 December,*

|                            | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|----------------------------|------|-------------------|-------------------|
| Balance as at 1 January    |      | 19,970            | 16,317            |
| Commission income          | 13   | 70,720            | 49,247            |
| Recognised during the year |      | (58,197)          | (45,594)          |
|                            |      | <u>32,493</u>     | <u>19,970</u>     |

**31 EMPLOYEE BENEFITS**

The Company had 247 employees (full-time equivalents) as of 31 December 2021. Personnel and other related costs incurred for the year ended 31 December 2021 was Rs. 285 million (2020- Rs. 244 million) which include staff remuneration of Rs. 254.6 million (2020- 217.6 million) as of 31 December 2021.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*As at 31 December 2021,*

**28 INSURANCE CONTRACT LIABILITIES (Contd.)**

**28.3 Liability adequacy test (LAT)**

A Liability Adequacy Test ("LAT") for insurance contract liability was carried out by Mr. Shariq Sikander, FSA, CERA, for and on behalf of SHMA Consulting DMCC (Dubai) as at 31 December 2021 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31 December 2021. No additional provision was required against the LAT as at 31 December 2021.

**28.4 Technical reserves**

*As at 31 December*

|  | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|------|-------------------|-------------------|
| Insurance contract liabilities                                   | 28   | 1,499,160         | 1,215,934         |
| Deferred acquisition cost (net)                                  |      | (106,290)         | (93,609)          |
| Reinsurance receivable on outstanding claims (Exclusive of IBNR) | 21   | (91,750)          | (55,829)          |
| Reinsurance receivable on outstanding claims IBNR/ IBNER         | 21   | (39,415)          | (23,487)          |
|  |      | <u>1,261,705</u>  | <u>1,043,009</u>  |

**29 REINSURANCE PAYABLES**

*As at 31 December ,*

|                     | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---------------------|------|-------------------|-------------------|
| Reinsurance Payable | 29.1 | 106,739           | 53,106            |
|                     |      | <u>106,739</u>    | <u>53,106</u>     |

**29.1** Reinsurance payables are accounted on a net basis of reinsurer wise gross reinsurance payable less gross reinsurance receivable on the basis of that offsetting reflects the substance of the transaction and based on the grounds that the settlements

Following breakup shows the gross payable and receivable components,

|                          |                |               |
|--------------------------|----------------|---------------|
| Gross payable balance    | 163,283        | 103,111       |
| Gross receivable balance | (56,545)       | (50,005)      |
|                          | <u>106,739</u> | <u>53,106</u> |

**30 DEFERRED REVENUE**

This represents the income relating to acquisition of reinsurance contracts and are released to income as the insurance contract expires.

*As at 31 December,*

|                            | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|----------------------------|------|-------------------|-------------------|
| Balance as at 1 January    |      | 19,970            | 16,317            |
| Commission income          | 13   | 70,720            | 49,247            |
| Recognised during the year |      | (58,197)          | (45,594)          |
|                            |      | <u>32,493</u>     | <u>19,970</u>     |

**31 EMPLOYEE BENEFITS**

The Company had 247 employees (full-time equivalents) as of 31 December 2021. Personnel and other related costs incurred for the year ended 31 December 2021 was Rs. 285 million (2020- Rs. 244 million) which include staff remuneration of Rs. 254.6 million (2020- 217.6 million) as of 31 December 2021.





As at 31 December 2021,

### 31 EMPLOYEE BENEFITS (Contd.)

#### 31.1 Defined contribution plans

Following contributions have been made for employee provident fund and employee trust fund during the year.

As at 31 December,

|   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|-------------------|-------------------|
| <b>Employees' Provident fund (EPF)</b>            |                   |                   |
| Employer's contribution (12%)                     | 17,320            | 15,350            |
| Employee's contribution (8%)                      | 11,547            | 10,233            |
| <b>Employees' trust fund (ETF)</b>                |                   |                   |
| Employer's contribution (3%)                      | 4,330             | 3,837             |
| <b>31.2 Movement in present value of gratuity</b> |                   |                   |
| Balance as at 1 January                           | 18,637            | 16,040            |
| <b>Included in profit or loss:</b>                |                   |                   |
| Interest Cost                                     | 1,356             | 1,739             |
| Current Service Cost                              | 3,905             | 4,369             |
|   | <u>5,261</u>      | <u>6,108</u>      |
| <b>Benefits paid</b>                              |                   |                   |
| Benefits paid                                     | (3,380)           | (1,844)           |
|   | <u>(3,380)</u>    | <u>(1,844)</u>    |
| <b>Included in Other Comprehensive Income:</b>    |                   |                   |
| Actuarial gain                                    | (1,211)           | (1,667)           |
| Present Value Obligation as at 31 December        | <u>19,307</u>     | <u>18,637</u>     |
| <b>31.3 Principal actuarial assumptions used</b>  | <b>2021</b>       | <b>2020</b>       |
| Discount rate                                     | 10.5%             | 8%                |
| Salary increase                                   | 9%                | 7%                |
| Retirement Age                                    | 60 Years          | 60 Years          |
| Expected future working life time                 | 11.17 Years       | 9.79 Years        |

Assumptions regarding future mortality are based on published statistics and mortality tables. The actuarial valuations regarding above were carried out as at reporting date by Mr. Rahim Feroz Ali (ASA) for and on behalf of SHMA Consulting DMCC (Dubai). The valuation report was certified on 20 January 2022 for the above purpose.

#### 31.4 Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amount shown below:

| Rs. ' 000            |    | 2021     |          | 2020     |          |
|----------------------|----|----------|----------|----------|----------|
|                      |    | Increase | Decrease | Increase | Decrease |
| Discount rate        | 1% | (17,330) | 21,643   | (16,954) | 20,604   |
| Future salary growth | 1% | 21,654   | (17,288) | 20,556   | (16,964) |

### 32 OTHER LIABILITIES

|  | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--|-------------------|-------------------|
| <b>Other financial liabilities</b>     |                   |                   |
| Agency commission payable              | 121,819           | 102,305           |
| Other liabilities                      | 4,920             | 3,043             |
|  | <u>126,739</u>    | <u>105,348</u>    |
| <b>Other non financial liabilities</b> |                   |                   |
| Government levies                      | 12,547            | 9,074             |
| Staff related provisions               | 30,000            | 26,934            |
| Accruals and provisions                | 58,690            | 36,930            |
|  | <u>101,237</u>    | <u>72,938</u>     |
|  | <u>227,976</u>    | <u>178,286</u>    |



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*As at 31 December 2021,*

**33 Lease liabilities**

*For the year ended 31 December,*

|                               | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------------------------|-------------------|-------------------|
| Lease liabilities (Note 33.1) | 100,249           | 20,945            |
|                               | <u>100,249</u>    | <u>20,945</u>     |

**33.1 Lease liabilities**

|   |                |               |
|---|----------------|---------------|
| Balance as at the beginning of the year         | 20,945         | 32,772        |
| Additions from entering to new lease agreements | 89,405         | 10,025        |
| Leases cancelled/terminated                     | -              | (362)         |
| Interest expense for the year                   | 7,177          | 5,515         |
| Repayment during the year                       | (17,278)       | (27,005)      |
| <b>Balance at the end of the year</b>           | <u>100,249</u> | <u>20,945</u> |

14.2

**33.2 Amounts recognised in profit or loss related to leases**

*For the year ended 31 December,*

|                                     | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------------------------------|-------------------|-------------------|
| Interest on lease liabilities       | 7,177             | 5,515             |
| Depreciation of right-of-use assets | 27,444            | 24,205            |
|                                     | <u>34,621</u>     | <u>29,720</u>     |

**33.3 Amounts recognised in statement of cash flows**

The Company has classified:

- cash payments for the principal portion of lease payments as financing activities;
- cash payments for the interest portion as operating activities consistent with the presentation of interest payments chosen by the Company
- short-term lease payments and payments for leases of low-value assets as operating activities.

The Company has not restated the comparative information.

|                               | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|-------------------------------|-------------------|-------------------|
| Total cash outflow for leases | (17,278)          | (27,005)          |

**34 CURRENT TAX LIABILITIES**

|   | Note | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|------|-------------------|-------------------|
| Balance as at the beginning of the year   |      | 62,085            | 31,536            |
| Provision made for the year               | 16.1 | 52,880            | 60,400            |
| Over provision adjustment from prior year | 16.1 | (6,701)           | (1,639)           |
| Self assessment payments                  |      | (39,592)          | -                 |
| Set off against liability                 |      |                   |                   |
| - ESC                                     |      | -                 | (10,463)          |
| - WHT                                     |      | (36,551)          | (4,095)           |
| - Notional Tax                            |      | -                 | (13,654)          |
| <b>Balance as at the end of the year</b>  |      | <u>32,121</u>     | <u>62,085</u>     |







For the year ended 31 December 2021,

### 35 RELATED PARTY DISCLOSURES

#### 35.1 Parent and ultimate controlling party

The Company's immediate controlling party is Orient Insurance PJSC.

#### 35.2 Transactions with key management personnel (KMPs)

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities directly or indirectly. Accordingly, the KMP include members of the Board of Directors of the Company and its parent Orient Insurance PJSC and ultimate parent company Al-Futtaim Company LLC (including Executive and Non-Executive Directors) and Chief Executive Officer.

#### 35.3 Compensation of KMPs

|                                | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--------------------------------|-------------------|-------------------|
| Short term employment benefits | 28,883            | 26,691            |
| Post employment benefits       | 973               | 580               |
|                                | <b>29,856</b>     | <b>27,271</b>     |

The short term employment benefits include only the directors fees and emoluments paid to executive directors. Where applicable such fees are paid directly to the companies that the Directors represent. There are no short-term, long-term, post - employment, terminal and share-based payments linked to the remuneration of the directors and no ex-gratia payments were made to directors during the year.

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2021.

#### 35.4 Transactions with Related Parties

Details of related party transactions are reported below.

| Company   | Relationship           | Nature of the transaction                             | Transactions during the year |           | Balance as at 31 December |           |
|---|------------------------|---|------------------------------|-----------|---------------------------|-----------|
|   |                        |   | 2021                         | 2020      | 2021                      | 2020      |
|   |                        |   | Rs. ' 000                    | Rs. ' 000 | Rs. ' 000                 | Rs. ' 000 |
| Al Futtaim Group - UAE                          | Ultimate Parent        | Services obtained by the Company                      | 34,589                       | 30,473    | (22,421)                  | (27,097)  |
|   |                        | Amount paid to Parent Company                         | (39,265)                     | (15,821)  |                           |           |
| AMW Capital Leasing PLC                         | Common ultimate parent | Fixed deposits  | (8,140)                      | (3,310)   | 212,437                   | 220,577   |
|   |                        | Insurance premium due in respect of customer policies | -                            | -         | 26,629                    | 32,692    |
|   |                        | Lease payments  | -                            | (6,810)   | -                         | -         |
|   |                        | Insurance premium income in respect of own policies   | 1,250                        | 1,174     | -                         | -         |
|   |                        | Vehicle hire charges paid                             | -                            | -         | -                         | -         |
|   |                        | Claim expenses paid                                   | -                            | -         | -                         | -         |
|   |                        | Commission expense paid                               | (20,159)                     | (23,108)  | -                         | -         |
| Associated Motorways (Pvt) Limited              | Common ultimate parent | Insurance premium due in respect of own policies      | -                            | -         | 475                       | (1,197)   |
|   |                        | Insurance premium income                              | 20,810                       | 28,932    | -                         | -         |
|   |                        | Claim expenses paid - Own policies                    | (4,338)                      | (6,018)   | -                         | -         |
|   |                        | Motor vehicle repair charges paid relating to claims  | (21,114)                     | (29,181)  | -                         | -         |
| Associated Motor (Lanka) Company Limited        | Common ultimate parent | Insurance premium due in respect of own policies      | -                            | -         | 59                        | (5)       |
|   |                        | Insurance premium income                              | 1,159                        | 1,091     |                           |           |
|   |                        | Claim expenses paid                                   | (136)                        | -         |                           |           |
| Associated Property Development Private Limited | Common ultimate parent | Insurance premium due in respect of own policies      | -                            | -         | -                         | -         |
|   |                        | Insurance premium income                              | 376                          | -         |                           |           |
|   |                        | Claim expenses paid                                   | -                            | -         |                           |           |
|   |                        |   |                              |           | 217,179                   | 224,970   |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

---

*For the year ended 31 December 2021,*

**36 RISK MANAGEMENT**

This note presents information about Company's exposure to financial risks and management of capital.

**36.1 Business Risk**

The Company being in the insurance industry, business risk is the insurance risk that the Company is exposed to as a result of the insurance contracts undertaken. The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty regarding the amount of the resulting claim. Therefore, the objective 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 guidelines, as well as the use of reinsurance arrangements.

The risks faced by the Company and the manner in which these risks are managed by management are summarised below:

**36.1.1 Governance framework**

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

**36.1.2 Risk management framework**

The Company's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Managing Director and other members of the senior management.

The senior management meets regularly to approve any commercial, regulatory and organisational decisions. The Managing Director under the authority delegated from the board of directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

**36.1.3 Capital management framework**

The primary objective of the Company's capital management is to comply with the regulatory requirements in Sri Lanka to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2021 and 31 December 2020

**36.1.4 Regulatory framework**

Regulators are primarily interested in protecting the rights of the policyholders and the public shareholders and monitor them closely to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company is subject to regulatory requirements within Sri Lanka where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

---

*For the year ended 31 December 2021,*

**36 RISK MANAGEMENT (Cont)**

**36.1.5 Asset Liability Management Framework (ALM)**

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Company manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts.

The principal technique of the company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. The executive management actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Managing Director regularly monitors the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance liabilities.

The risks faced by the Company and the way these risks are mitigated by management are summarised below:

**a) Insurance risk**

The principal risk the Company 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 and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The above 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, as well as the use of reinsurance arrangements

**Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors. The Group underwrites mainly property, marine, motor, engineering, miscellaneous accident and medical 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.

**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.

**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.

**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.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2021,*

**36 RISK MANAGEMENT (Cont.)**

**36.1.5 Asset Liability Management Framework (ALM) (Cont)**

**Miscellaneous Accident**

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third-party liability and professional indemnity, the extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

**Medical**

In medical insurance, the main risk elements are illness and accidents and related healthcare costs.

The Company has adequate reinsurance arrangements to protect its financial viability against such claims for all the above classes except medical insurance where the risk is fully retained by the company

**Geographical concentration of risks**

The insurance risk arising from insurance contracts is primarily concentrated mainly in Sri Lanka. The geographical concentration of risks is similar to last year.

**36.1.6 Estimation for claim reserve**

Following table summarizes the outstanding claims position as at 31 December.

| Rs. ' 000                        | 2021           |                  |                |
|----------------------------------|----------------|------------------|----------------|
|                                  | Gross Claim    | Reinsurance      | Net            |
| Provision for reported claims    | 412,103        | (91,750)         | 320,353        |
| Incurred But Not Reported (IBNR) | 93,585         | (39,415)         | 54,170         |
| <b>Total</b>                     | <b>505,688</b> | <b>(131,165)</b> | <b>374,523</b> |

| Rs. ' 000                        | 2020           |                 |                |
|----------------------------------|----------------|-----------------|----------------|
|                                  | Gross Claim    | Reinsurance     | Net            |
| Provision for reported claims    | 347,170        | (55,829)        | 291,341        |
| Incurred But Not Reported (IBNR) | 64,188         | (23,487)        | 40,701         |
| <b>Total</b>                     | <b>411,358</b> | <b>(79,316)</b> | <b>332,042</b> |

The table below shows the sensitivity of net profit before tax (PBT) and the sensitivity of net assets (NA) as a result of adverse development in the net loss ratio by one percentage point. Such an increase could arise from either higher frequency of the occurrence of the insured events or from an increase in the severity of resulting claims or from a combination of frequency and severity.

The sensitivities do not indicate a probability of such an event and do not consider any non-linear effects of reinsurance. Based on the assumptions applied in the presentation of the sensitivity analysis in the table below, each additional percentage point increase in the loss ratio would lead to a linear impact on net profit before tax and net assets.

Sensitivity of PBT and net assets due to increase in net claim ratio

|                          | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|--------------------------|-------------------|-------------------|
| (+/-) 1% in claims ratio |                   |                   |
| Net impact to PBT        | (16,013)          | (13,551)          |
| Impact to Net Assets     | (12,170)          | (9,757)           |







For the year ended 31 December 2021,

### 36 RISK MANAGEMENT (Contd.)

#### 36.1.6 Estimation for claim reserve (Contd.)

The following analysis is performed for possible movements in Net Claims Outstanding with all other assumptions held constant, showing the impact on net liabilities, Profit before Tax and equity. It should be noted that movements in these assumptions are non-linear

Sensitivity of PBT and net assets due to increase of Net Claim Outstanding

|   | 2021<br>Rs. ' 000 | 2020<br>Rs. ' 000 |
|---|-------------------|-------------------|
| (+/-) 1% in Change in Net Claim Outstanding |                   |                   |
| Net impact to PBT                           | 3,745             | 3,320             |
| Impact to Net Assets                        | 2,846             | 2,391             |

#### Claims Development Table

The following table reflects the cumulative incurred claims for each successive accident year at each statement of financial position date, together with cumulative payments to date:

As at 31 December 2021,

|                                 | Before 2018<br>Rs. ' 000 | 2018<br>Rs. ' 000 | 2019<br>Rs. ' 000 | 2020<br>Rs. ' 000 | 2021<br>Rs. ' 000 | Total<br>Rs. ' 000 |
|---------------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Accident year</b>            |                          |                   |                   |                   |                   |                    |
| At the end of accident year     |                          | 814,704           | 847,765           | 747,652           | 1,011,305         |                    |
| One year later                  |                          | 775,713           | 821,910           | 679,907           |                   |                    |
| Two years later                 |                          | 781,408           | 817,139           |                   |                   |                    |
| Three years later               |                          | 782,225           |                   |                   |                   |                    |
| Four years later                | 2,399,377                |                   |                   |                   |                   |                    |
| Current estimate of cumulative  | 2,399,377                | 782,225           | 817,139           | 679,907           | 1,011,305         |                    |
| At the end of accident year     |                          | (609,013)         | (634,604)         | (500,958)         | (696,626)         |                    |
| One year later                  |                          | (761,344)         | (784,016)         | (659,230)         |                   |                    |
| Two years later                 |                          | (765,139)         | (798,676)         |                   |                   |                    |
| Three years later               |                          | (769,141)         |                   |                   |                   |                    |
| Four years later                | (2,354,177)              |                   |                   |                   |                   |                    |
| Cumulative payments to date     | (2,354,177)              | (769,141)         | (798,676)         | (659,230)         | (696,626)         |                    |
| <b>Gross outstanding claims</b> | <b>45,200</b>            | <b>13,084</b>     | <b>18,463</b>     | <b>20,677</b>     | <b>314,679</b>    | <b>412,103</b>     |

As at 31 December 2020,

Rs. ' 000

|                                 | Before 2018<br>Rs. ' 000 | 2018<br>Rs. ' 000 | 2019<br>Rs. ' 000 | 2020<br>Rs. ' 000 | 2021<br>Rs. ' 000 | Total<br>Rs. ' 000 |
|---------------------------------|--------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Accident year</b>            |                          |                   |                   |                   |                   |                    |
| At the end of accident year     |                          | 644,632           | 814,704           | 847,765           | 747,652           |                    |
| One year later                  |                          | 598,550           | 775,713           | 821,910           |                   |                    |
| Two years later                 |                          | 587,425           | 781,408           |                   |                   |                    |
| Three years later               |                          | 590,126           |                   |                   |                   |                    |
| Four years later                | 1,804,782                |                   |                   |                   |                   |                    |
| Current estimate of cumulative  | 1,804,782                | 590,126           | 781,408           | 821,910           | 747,652           |                    |
| At the end of accident year     |                          | (467,130)         | (609,013)         | (634,604)         | (500,958)         |                    |
| One year later                  |                          | (574,760)         | (761,344)         | (784,016)         |                   |                    |
| Two years later                 |                          | (578,994)         | (765,139)         |                   |                   |                    |
| Three years later               |                          | (583,704)         |                   |                   |                   |                    |
| Four years later                | (1,764,891)              |                   |                   |                   |                   |                    |
| Cumulative payments to date     | (1,764,891)              | (583,704)         | (765,139)         | (784,016)         | (500,958)         |                    |
| <b>Gross outstanding claims</b> | <b>39,891</b>            | <b>6,422</b>      | <b>16,269</b>     | <b>37,894</b>     | <b>246,694</b>    | <b>347,170</b>     |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021,

**36 FINANCIAL RISK REVIEW (Contd)**

**36.1.6 Estimation for claim reserve (Contd.)**

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

**36.1.7 Re insurance risk**

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsures.

As at 31 December 2021, 55% of our reinsurance receivables were due from reinsurers with a rating of "A-" or better and from the National Insurance Trust Fund (NITF). There were no collateral against reinsurance receivables as at reporting date. The ratings of reinsurer's and their related rating agencies are as follows:

| Reinsurers   | Rating | Rating Agency |
|--|--------|---------------|
| Lloyd's Syndicate - AMLIN 2001                             | A      | AM Best       |
| Royal and Sun Allianz Insurance Plc (RSA)                  | A      | AM Best       |
| Berkley Re Singapore                                       | A+     | AM Best       |
| American Home Assurance Company                            | A      | Fitch         |
| Liberty - Singapore (Facultative Placements)               | A      | S&P           |
| Lloyd's Syndicate MRS 457 - Munich Re Syndicate Limited    | A      | AM Best       |
| Starr International Insurance Singapore Pte Ltd            | A      | AM Best       |
| Abu Dhabi National Insurance Company (ADNIC)               | A      | S&P           |
| AIG General Insurance - Dubai                              | A+     | Fitch         |
| Lloyd's Agora Syndicate 3268                               | A      | AM Best       |
| New Re - Reinsurance Company                               | A+     | AM Best       |
| ZEP Re - Reinsurance Company                               | B++    | AM Best       |
| Lloyd's Syndicate AES 1225 AEGIS London                    | A      | AM Best       |
| Lloyd's Syndicate ARG 2121 Argenta Syndicate 2121 ARG      | A      | AM Best       |
| Lloyd's Syndicate AFB 2623 Beazley Syndicates AFB          | A      | AM Best       |
| Lloyd's Syndicate HAM 3334 Hamilton Underwriting Limited   | A      | AM Best       |
| Lloyd's Syndicate CNP 4444 Canopus Managing Agents Limited | A      | AM Best       |
| Berkshire Hathaway Specialty Insurance Company             | AA+    | S&P           |
| Solarelle Insurance Pvt Ltd                                | N/A    | N/A           |
| Asian Reinsurance Corporation                              | B+     | AM Best       |
| Soglasie Insurance   | B+     | Fitch         |
| Uzbekhinvest   | B      | AM Best       |
| International General Insurance Company UK Ltd, LIRMA B275 | A      | AM Best       |
| The New India Assurance Co. Ltd                            | B++    | AM Best       |
| Lloyd's Travelers Re                                       | A      | AM Best       |
| Markel   | A      | AM Best       |
| Lloyd's Inigo  | A      | AM Best       |
| NITF   | N/A    | N/A           |
| Korian Re  | A      | AM Best       |
| Sirius International (Nasco)                               | A-     | AM Best       |
| GIC  | B++    | AM Best       |
| Saudi Re   | A-     | S&P           |
| Africa Re  | A      | AM Best       |
| Oman Re  | BB+    | Fitch         |
| Emirates   | A-     | AM Best       |







For the year ended 31 December 2021,

36 FINANCIAL RISK REVIEW (Contd)

36.1.7 Re insurance risk (Cont)

| Reinsurers            | Rating | Rating Agency |
|-----------------------|--------|---------------|
| Qatar Re              | A      | AM Best       |
| Swiss Reinsurance Co. | AA-    | S&P           |
| Gulf-Re               | A      | AM Best       |
| ARIG                  | B++    | AM Best       |
| Hannover Re           | A+     | AM Best       |
| Mapfre Re             | A      | AM Best       |
| Scor Global           | A+     | AM Best       |
| Echo Re               | A-     | S&P           |
| Arch Re Ltd           | A+     | AM Best       |
| Trust Re              | B++    | AM Best       |
| R&V                   | A+     | S&P           |
| Generali              | A      | AM Best       |
| SCR RE                | B++    | AM Best       |
| Milli Re              | B      | AM Best       |
| Halvetia              | A+     | S&P           |
| Partner-Re            | A+     | AM Best       |
| Barents Re            | A      | AM Best       |

36.1.6 Concentration Risk

Concentration risk within the insurance business based on the Gross Written Premium is as follows,

| Rs. ' 000                     |                       | 2021           |                     |     |  |
|-------------------------------|-----------------------|----------------|---------------------|-----|--|
| Class                         | Gross Written Premium | Reinsurance    | Net Written Premium | %   |  |
| Fire                          | 164,660               | 146,416        | 18,244              | 1%  |  |
| Motor                         | 1,666,172             | 74,329         | 1,591,843           | 89% |  |
| Marine                        | 17,915                | 12,428         | 5,487               | 0%  |  |
| Casualty                      | 110,013               | 78,062         | 31,951              | 2%  |  |
| Engineering                   | 75,185                | 67,445         | 7,740               | 0%  |  |
| Medical                       | 134,939               | -              | 134,939             | 8%  |  |
|                               | <u>2,168,884</u>      | <u>378,680</u> | <u>1,790,204</u>    |     |  |
| Motor / Non Motor Composition |                       |                |                     |     |  |
| Motor                         | 1,666,172             | 74,329         | 1,591,843           | 89% |  |
| Non Motor                     | 502,712               | 304,351        | 198,361             | 11% |  |
|                               | <u>2,168,884</u>      | <u>378,680</u> | <u>1,790,204</u>    |     |  |
| Rs. ' 000                     |                       | 2020           |                     |     |  |
| Class                         | Gross Written Premium | Reinsurance    | Net Written Premium | %   |  |
| Fire                          | 120,998               | 110,449        | 10,549              | 1%  |  |
| Motor                         | 1,377,872             | 59,600         | 1,318,272           | 90% |  |
| Marine                        | 15,229                | 10,909         | 4,320               | 0%  |  |
| Casualty                      | 97,701                | 62,192         | 35,509              | 2%  |  |
| Engineering                   | 34,266                | 29,785         | 4,481               | 0%  |  |
| Medical                       | 95,074                | -              | 95,074              | 6%  |  |
|                               | <u>1,741,140</u>      | <u>272,935</u> | <u>1,468,205</u>    |     |  |
| Motor / Non Motor Composition |                       |                |                     |     |  |
| Motor                         | 1,377,872             | 59,600         | 1,318,272           | 90% |  |
| Non Motor                     | 363,268               | 213,335        | 149,933             | 10% |  |
|                               | <u>1,741,140</u>      | <u>272,935</u> | <u>1,468,205</u>    |     |  |



For the year ended 31 December 2021,

36 FINANCIAL RISK REVIEW (Contd)

36.2 Credit risk

Credit risk' is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Company is exposed to credit risk on securities issued by third parties. The debt security investments are broadly categorized into investments in government securities and investments in corporate debt securities.

36.2.1 Credit Quality analysis

The tables below set out information about the credit quality of financial investments (government securities and deposits with Banks and Financial Institutional) and the allowance for impairment loss held by the Company against the assets.

| 2021                            |                       |                           |                  |      |
|---------------------------------|-----------------------|---------------------------|------------------|------|
| Rs. ' 000                       | Loans and receivables | Cash and cash equivalents | Total            | (%)  |
| Maximum exposure to credit risk | 1,465,878             | 698,104                   | 2,163,982        | 0%   |
| Carrying amount                 | 1,465,878             | 698,104                   | 2,163,982        |      |
| AAA                             | -                     | 277                       | 277              | 0%   |
| AA+ to AA -                     | 299,055               | 25,216                    | 324,271          | 15%  |
| A+ to A-                        | 676,424               | (3,396)                   | 673,028          | 31%  |
| BBB+ to BBB-                    | 52,839                | 294                       | 53,133           | 2%   |
| CCC                             | -                     | -                         | -                | 0%   |
| Government guaranteed           | 437,560               | 675,358                   | 1,112,918        | 51%  |
| Not rated                       | -                     | 355                       | 355              | 0%   |
| <b>Total</b>                    | <b>1,465,878</b>      | <b>698,104</b>            | <b>2,163,982</b> |      |
| Neither past due nor impaired   | 1,465,878             | 698,104                   | 2,163,982        |      |
| AAA                             | -                     | 277                       | 277              | 0%   |
| AA+ to AA -                     | 299,055               | 25,216                    | 324,271          | 15%  |
| A+ to A-                        | 676,424               | (3,396)                   | 673,028          | 31%  |
| BBB+ to BBB-                    | 52,839                | 294                       | 53,133           | 2%   |
| CCC                             | -                     | -                         | -                | 0%   |
| Government guaranteed           | 437,560               | 675,358                   | 1,112,918        | 51%  |
| Not rated                       | -                     | 355                       | 355              | 0%   |
| <b>Total</b>                    | <b>1,465,878</b>      | <b>698,104</b>            | <b>2,163,982</b> |      |
| Past due but not impaired       | Nil                   | Nil                       | Nil              |      |
| Impaired                        | Nil                   | Nil                       | Nil              |      |
| 2020                            |                       |                           |                  |      |
| Rs. ' 000                       | Loans and receivables | Cash and cash equivalents | Total            | (%)  |
| Maximum exposure to credit risk | 1,827,619             | 32,258                    | 1,859,877        | 100% |
| Carrying amount                 | 1,827,619             | 32,258                    | 1,859,877        |      |
| AAA                             | -                     | 143                       | 143              | 0%   |
| AA+ to AA -                     | 108,609               | 402                       | 109,011          | 6%   |
| A+ to A-                        | 698,148               | 31,062                    | 729,210          | 39%  |
| BBB+ to BBB-                    | 220,577               | -                         | 220,577          | 12%  |
| CCC                             | -                     | 163                       | 163              | 0%   |
| Government guaranteed           | 800,286               | -                         | 800,286          | 43%  |
| Not rated                       | -                     | 488                       | 488              | 0%   |
| <b>Total</b>                    | <b>1,827,619</b>      | <b>32,258</b>             | <b>1,859,877</b> |      |



For the year ended 31 December 2021,

36 FINANCIAL RISK REVIEW (Contd)

36.2.1 Credit Quality analysis (Contd)

|                               |                  |               |                  |
|-------------------------------|------------------|---------------|------------------|
| Neither past due nor impaired | 1,827,619        | 32,258        | 1,859,877        |
| AAA                           | -                | 143           | 143              |
| AA+ to AA -                   | 108,609          | 402           | 109,011          |
| A+ to A-                      | 698,148          | 31,062        | 729,210          |
| BBB+ to BBB-                  | 220,577          | -             | 220,577          |
| CCC                           | -                | 163           | 163              |
| Government guaranteed         | 800,286          | -             | 800,286          |
| Not rated                     | -                | 488           | 488              |
| <b>Total</b>                  | <b>1,827,619</b> | <b>32,258</b> | <b>1,859,877</b> |
| Past due but not impaired     | Nil              | Nil           | Nil              |
| Impaired                      | Nil              | Nil           | Nil              |

The following table provides information relating to credit risk exposure of other financial assets:

| Rs'000                           | 2021                          |                       | 2020                          |                       |
|----------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                                  | Reinsuranc<br>e<br>receivable | Premium<br>receivable | Reinsuran<br>ce<br>receivable | Premium<br>receivable |
| Maximum exposure to credit risk  | 93,401                        | 599,503               | 59,816                        | 451,444               |
| Neither past due nor<br>impaired | 12,509                        | 364,182               | 2,811                         | 295,518               |
| <i>Past due but not impaired</i> |                               |                       |                               |                       |
| 61-90 days                       | (309)                         | 82,083                | 3,445                         | 64,998                |
| 90-180 days                      | 7,488                         | 114,950               | 16,509                        | 82,654                |
| 180 days +                       | 73,713                        | 62,927                | 37,051                        | 24,413                |
| <b>Total</b>                     | <b>80,892</b>                 | <b>259,960</b>        | <b>57,005</b>                 | <b>172,065</b>        |
| <b>Impaired</b>                  | <b>-</b>                      | <b>(24,639)</b>       | <b>-</b>                      | <b>(16,139)</b>       |
| <b>Total</b>                     | <b>93,401</b>                 | <b>599,503</b>        | <b>59,816</b>                 | <b>451,444</b>        |

Credit risk relating to reinsurance receivable

There were no collateral against reinsurance receivables as at reporting date.

Credit risk of reinsurance receivables by rating class have been illustrated below in order to ensure that Company has significant control over managing them.

Credit risk relating to reinsurance receivable

| Rs.Mn                      | 2021              |                |                |     | 2020              |               |               |     |
|----------------------------|-------------------|----------------|----------------|-----|-------------------|---------------|---------------|-----|
|                            | On paid<br>claims | On reserve     | Total          | %   | On paid<br>claims | On reserve    | Total         | %   |
| AAA                        | -                 | -              | -              | 0%  | -                 | -             | -             | 0%  |
| AA                         | -                 | 1,786          | 1,786          | 3%  | 9                 | -             | 9             | 0%  |
| AA -                       | 583               | 1,965          | 2,548          | 4%  | 1,677             | 13,873        | 15,549        | 26% |
| A +                        | 526               | 17,145         | 17,671         | 30% | 127               | 4,497         | 4,624         | 8%  |
| A                          | 12                | 8,506          | 8,518          | 14% | 451               | 5,996         | 6,448         | 11% |
| A -                        | 21                | 3,651          | 3,672          | 6%  | 1,413             | 7,136         | 8,549         | 14% |
| BBB +                      | -                 | -              | -              | 0%  | -                 | 1,907         | 1,907         | 3%  |
| BB+                        | -                 | 145            | 145            | 0%  | 66                | 718           | 784           | 1%  |
| BBB-                       | -                 | -              | -              | 0%  | -                 | 1,316         | 1,316         | 2%  |
| B+                         | 25                | 9,750          | 9,775          | 16% | 2                 | -             | 2             | 0%  |
| NITF                       | -                 | 16,877         | 16,877         | 28% | -                 | 14,623        | 14,623        | 24% |
| Unrated                    | 484               | 31,925         | 32,409         | 54% | 242               | 5,763         | 6,005         | 10% |
| <b>Total</b>               | <b>1,651</b>      | <b>91,750</b>  | <b>93,401</b>  |     | <b>3,987</b>      | <b>55,829</b> | <b>59,816</b> |     |
| IBNR                       |                   | 39,415         | 39,415         |     |                   | 23,487        | 23,487        |     |
| <b>Total RI Receivable</b> | <b>1,651</b>      | <b>131,165</b> | <b>132,816</b> |     | <b>3,987</b>      | <b>79,316</b> | <b>83,303</b> |     |



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**



For the year ended 31 December 2021,

**36 FINANCIAL RISK REVIEW (Contd)**

**36.2.1 Credit Quality analysis (Contd)**

|                               |                  |               |                  |
|-------------------------------|------------------|---------------|------------------|
| Neither past due nor impaired | 1,827,619        | 32,258        | 1,859,877        |
| AAA                           | -                | 143           | 143              |
| AA+ to AA -                   | 108,609          | 402           | 109,011          |
| A+ to A-                      | 698,148          | 31,062        | 729,210          |
| BBB+ to BBB-                  | 220,577          | -             | 220,577          |
| CCC                           | -                | 163           | 163              |
| Government guaranteed         | 800,286          | -             | 800,286          |
| Not rated                     | -                | 488           | 488              |
| <b>Total</b>                  | <b>1,827,619</b> | <b>32,258</b> | <b>1,859,877</b> |
| Past due but not impaired     | Nil              | Nil           | Nil              |
| Impaired                      | Nil              | Nil           | Nil              |

The following table provides information relating to credit risk exposure of other financial assets:

| Rs'000                           | 2021                          |                       | 2020                          |                       |
|----------------------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                                  | Reinsuranc<br>e<br>receivable | Premium<br>receivable | Reinsuran<br>ce<br>receivable | Premium<br>receivable |
| Maximum exposure to credit risk  | 93,401                        | 599,503               | 59,816                        | 451,444               |
| Neither past due nor<br>impaired | 12,509                        | 364,182               | 2,811                         | 295,518               |
| <i>Past due but not impaired</i> |                               |                       |                               |                       |
| 61-90 days                       | (309)                         | 82,083                | 3,445                         | 64,998                |
| 90-180 days                      | 7,488                         | 114,950               | 16,509                        | 82,654                |
| 180 days +                       | 73,713                        | 62,927                | 37,051                        | 24,413                |
| <b>Total</b>                     | <b>80,892</b>                 | <b>259,960</b>        | <b>57,005</b>                 | <b>172,065</b>        |
| <b>Impaired</b>                  | <b>-</b>                      | <b>(24,639)</b>       | <b>-</b>                      | <b>(16,139)</b>       |
| <b>Total</b>                     | <b>93,401</b>                 | <b>599,503</b>        | <b>59,816</b>                 | <b>451,444</b>        |

**Credit risk relating to reinsurance receivable**

There were no collateral against reinsurance receivables as at reporting date.

Credit risk of reinsurance receivables by rating class have been illustrated below in order to ensure that Company has significant control over managing them.

**Credit risk relating to reinsurance receivable**

| Rs.Mn                      | 2021              |                |                |     | 2020              |               |               |     |
|----------------------------|-------------------|----------------|----------------|-----|-------------------|---------------|---------------|-----|
|                            | On paid<br>claims | On reserve     | Total          | %   | On paid<br>claims | On reserve    | Total         | %   |
| AAA                        | -                 | -              | -              | 0%  | -                 | -             | -             | 0%  |
| AA                         | -                 | 1,786          | 1,786          | 3%  | 9                 | -             | 9             | 0%  |
| AA -                       | 583               | 1,965          | 2,548          | 4%  | 1,677             | 13,873        | 15,549        | 26% |
| A +                        | 526               | 17,145         | 17,671         | 30% | 127               | 4,497         | 4,624         | 8%  |
| A                          | 12                | 8,506          | 8,518          | 14% | 451               | 5,996         | 6,448         | 11% |
| A -                        | 21                | 3,651          | 3,672          | 6%  | 1,413             | 7,136         | 8,549         | 14% |
| BBB +                      | -                 | -              | -              | 0%  | -                 | 1,907         | 1,907         | 3%  |
| BB+                        | -                 | 145            | 145            | 0%  | 66                | 718           | 784           | 1%  |
| BBB-                       | -                 | -              | -              | 0%  | -                 | 1,316         | 1,316         | 2%  |
| B+                         | 25                | 9,750          | 9,775          | 16% | 2                 | -             | 2             | 0%  |
| NITF                       | -                 | 16,877         | 16,877         | 28% | -                 | 14,623        | 14,623        | 24% |
| Unrated                    | 484               | 31,925         | 32,409         | 54% | 242               | 5,763         | 6,005         | 10% |
| <b>Total</b>               | <b>1,651</b>      | <b>91,750</b>  | <b>93,401</b>  |     | <b>3,987</b>      | <b>55,829</b> | <b>59,816</b> |     |
| IBNR                       |                   | 39,415         | 39,415         |     |                   | 23,487        | 23,487        |     |
| <b>Total RI Receivable</b> | <b>1,651</b>      | <b>131,165</b> | <b>132,816</b> |     | <b>3,987</b>      | <b>79,316</b> | <b>83,303</b> |     |

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2021,*

**36 FINANCIAL RISK REVIEW (Contd)**

**36.2.1 Credit Quality analysis (Contd)**

*Credit risk relating to premiums receivable*

| Rs'000                   | 2021         |            |               |                | 2020         |            |               |                |
|--------------------------|--------------|------------|---------------|----------------|--------------|------------|---------------|----------------|
|                          | Upto 30 Days | 31-60 Days | Above 60 Days | Total          | Upto 30 Days | 31-60 Days | Above 60 Days | Total          |
| <b>Total Receivables</b> | 227,180      | 137,002    | 259,960       | <b>624,142</b> | 167,590      | 127,928    | 172,065       | <b>467,583</b> |

**Credit risk relating to cash and cash equivalents**

The Company held cash and cash equivalents of Rs. 698 million as at 31 December 2021. The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better.

**36.2.2 Collateral of debt securities**

Reverse repo investments which fall under government securities is backed by treasury bills and bonds which are provided as collateral. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable. A haircut of 13% is maintained at all times. As at the Reporting date, Company holds treasury bills worth Rs. 495,741,624/- as collateral for reverse repo investments amounting to Rs.437,560,087/-.

**36.2.3 Concentrations of credit risk**

The Company actively manages its investment mix to ensure that there is no significant concentration of credit risk. The Company monitors concentrations of credit risk by sector and instruments. An analysis of concentrations of credit risk from financial investments is shown below.

**By instrument:**

*As at 31 December,*

|  | Note | 2021             | %           | 2020             | %           |
|--|------|------------------|-------------|------------------|-------------|
|  |      | Rs. ' 000        |             | Rs. ' 000        |             |
| Government securities and related institutions | 18.1 | 437,560          | 30%         | 800,286          | 44%         |
| Fixed deposits and other deposits              | 18.1 | 1,001,479        | 68%         | 1,027,333        | 56%         |
| Corporate debt instruments                     | 18.1 | 26,840           | 2%          | -                | 0%          |
| <b>Total</b>                                   |      | <b>1,465,879</b> | <b>100%</b> | <b>1,827,619</b> | <b>100%</b> |

**36.3 Liquidity risk**

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. In respect of catastrophic / unexpected large claim events there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

**36.3.1 Maturity analysis for financial assets and financial liabilities**

The table below summarises the maturity profiles of non derivative financial assets and financial liabilities based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contracts liabilities and reinsurance receivables, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premium reserve, deferred acquisition expenses and the reinsurers' share of unearned premiums have been excluded from the analysis as they are not contractual obligations.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021,

**36 FINANCIAL RISK REVIEW (Contd)**

**36.3.1 Maturity analysis for financial assets and financial liabilities (Contd.)**

| Rs'000                                | 2021             |                  |                |              |                  | Total            |
|---------------------------------------|------------------|------------------|----------------|--------------|------------------|------------------|
|                                       | Carrying amount  | Up to one year   | 1 - 5 years    | Over 5 years | No Maturity Date |                  |
| <b>Financial assets</b>               |                  |                  |                |              |                  |                  |
| Loans and receivables                 | 1,465,879        | 1,112,470        | 353,409        | -            | -                | 1,465,879        |
| Reinsurance receivable                | 132,816          | 132,816          | -              | -            | -                | 132,816          |
| Premiums receivable                   | 599,503          | 599,503          | -              | -            | -                | 599,503          |
| Other financial assets                | 7,637            | 7,637            | -              | -            | -                | 7,637            |
| Cash and cash equivalents             | 698,104          | 698,104          | -              | -            | -                | 698,104          |
| <b>Total undiscounted assets</b>      | <b>2,903,939</b> | <b>2,550,530</b> | <b>353,409</b> | <b>-</b>     | <b>-</b>         | <b>2,903,939</b> |
| <b>Financial liabilities</b>          |                  |                  |                |              |                  |                  |
| Insurance contract liabilities        | 1,499,160        | 1,499,160        | -              | -            | -                | 1,499,160        |
| Reinsurance payable                   | 106,739          | 106,739          | -              | -            | -                | 106,739          |
| Other financial liabilities           | 126,739          | 126,739          | -              | -            | -                | 126,739          |
| Lease Liabilities                     | 100,249          | 1,986            | 98,263         | -            | -                | 100,249          |
| Amount due to related parties         | 22,421           | 22,421           | -              | -            | -                | 22,421           |
| <b>Total undiscounted liabilities</b> | <b>1,855,308</b> | <b>1,757,045</b> | <b>98,263</b>  | <b>-</b>     | <b>-</b>         | <b>1,855,308</b> |
| <b>Total liquidity excess</b>         | <b>1,048,631</b> | <b>793,485</b>   | <b>255,146</b> | <b>-</b>     | <b>-</b>         | <b>1,048,631</b> |

**36.3.1 Maturity analysis for financial assets and financial liabilities (Contd)**

|                                       | 2020               |                   |                 |                 |                        |                  |
|---------------------------------------|--------------------|-------------------|-----------------|-----------------|------------------------|------------------|
| Rs'000                                | Carrying<br>amount | Up to one<br>year | 1 - 5 years     | Over 5<br>years | No<br>Maturity<br>Date | Total            |
| <b>Financial assets</b>               |                    |                   |                 |                 |                        |                  |
| Loans and receivables                 | 1,827,619          | 1,824,601         | 3,018           | -               | -                      | 1,827,619        |
| Reinsurance receivable                | 83,303             | 83,303            | -               | -               | -                      | 83,303           |
| Premiums receivable                   | 451,444            | 451,444           | -               | -               | -                      | 451,444          |
| Other financial assets                | 8,694              | 8,694             | -               | -               | -                      | 8,694            |
| Cash and cash equivalents             | 32,258             | 32,258            | -               | -               | -                      | 32,258           |
| <b>Total undiscounted assets</b>      | <b>2,403,318</b>   | <b>2,400,300</b>  | <b>3,018</b>    | <b>-</b>        | <b>-</b>               | <b>2,403,318</b> |
| <b>Financial liabilities</b>          |                    |                   |                 |                 |                        |                  |
| Insurance contract liabilities        | 1,215,934          | 1,215,934         | -               | -               | -                      | 1,215,934        |
| Reinsurance payable                   | 53,106             | 53,106            | -               | -               | -                      | 53,106           |
| Other financial liabilities           | 105,348            | 105,348           | -               | -               | -                      | 105,348          |
| Lease Liabilities                     | 20,945             | 6,982             | 13,963          | -               | -                      | 20,945           |
| Amount due to related parties         | 27,097             | 27,097            | -               | -               | -                      | 27,097           |
| <b>Total undiscounted liabilities</b> | <b>1,422,430</b>   | <b>1,408,467</b>  | <b>13,963</b>   | <b>-</b>        | <b>-</b>               | <b>1,422,430</b> |
| <b>Total liquidity excess</b>         | <b>980,888</b>     | <b>991,833</b>    | <b>(10,945)</b> | <b>-</b>        | <b>-</b>               | <b>980,888</b>   |

**Maturity Analysis of Undiscounted Financial Liabilities**

Undiscounted value of Reinsurance Creditors, Bank Overdraft and Other Financial Liabilities are same as the carrying value considered under the maturity analysis as mentioned above. Undiscounted value of the Lease creditors and the maturity of undiscounted lease creditors of the Company are as follows;





**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021,

**36 FINANCIAL RISK REVIEW (Contd)**

**Maturity Analysis of Undiscounted Financial Liabilities (Contd.)**

| As at 31st December 2021, | Carrying Value | Undiscounted Value |                         |                     |                      |          |
|---------------------------|----------------|--------------------|-------------------------|---------------------|----------------------|----------|
|                           |                | Less Than One Year | One Year to Three Years | Three to Five Years | More than Five Years | Total    |
|                           | Rs. '000       | Rs. '000           | Rs. '000                | Rs. '000            | Rs. '000             | Rs. '000 |
| Lease Liabilities         | 100,249        | 2,021              | 8,622                   | 111,657             | -                    | 122,300  |

| As at 31st December 2020, | Carrying Value | Undiscounted Value |                         |                     |                      |          |
|---------------------------|----------------|--------------------|-------------------------|---------------------|----------------------|----------|
|                           |                | Less Than One Year | One Year to Three Years | Three to Five Years | More than Five Years | Total    |
|                           | Rs. '000       | Rs. '000           | Rs. '000                | Rs. '000            | Rs. '000             | Rs. '000 |
| Lease Liabilities         | 20,945         | 4,282              | 9,460                   | 12,300              | -                    | 26,041   |

**Financial assets pledged as collateral**

There were no financial assets pledged as collateral during the year ended 31 December 2021.

**36.4 Market risk**

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. The Company has assessed the market risk under main two categories namely;

- Currency risk
- Interest rate risk

The table below sets out the allocation of assets and liabilities subject to market risk.

**36.4.1 Exposure to interest rate risk**

The following is a summary of the Company's interest rate gap position on non-trading portfolios.

| Rs'000                    |                 | 2021               |            |             |           |                   |  |
|---------------------------|-----------------|--------------------|------------|-------------|-----------|-------------------|--|
|                           | Carrying amount | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | More than 5 years |  |
| Loans and receivables     | 1,465,879       | 716,908            | 53,501     | 342,061     | 353,409   | -                 |  |
| Cash and cash equivalents | 698,104         | 698,104            | -          | -           | -         | -                 |  |
| Rs'000                    |                 | 2020               |            |             |           |                   |  |
|                           | Carrying amount | Less than 3 months | 3-6 months | 6-12 months | 1-5 years | More than 5 years |  |
| Loans and receivables     | 1,827,619       | 1,277,558          | 262,963    | 284,080     | 3,018     | -                 |  |
| Cash and cash equivalents | 32,258          | 32,258             | -          | -           | -         | -                 |  |

The Company's investment portfolio is analysed based on the types of interest rates are as follow:

| Instruments                | 2021                |                        |                      | 2020                |                        |                      |
|----------------------------|---------------------|------------------------|----------------------|---------------------|------------------------|----------------------|
|                            | Fixed Interest Rate | Variable Interest Rate | Non-Interest bearing | Fixed Interest Rate | Variable Interest Rate | Non-Interest bearing |
| Government Securities      | 437,560             | -                      | -                    | 800,286             | -                      | -                    |
| Fixed deposits             | 1,001,479           | -                      | -                    | 1,027,333           | -                      | -                    |
| Corporate debt instruments | 26,840              | -                      | -                    | -                   | -                      | -                    |
| <b>Total</b>               | <b>1,465,879</b>    | <b>-</b>               | <b>-</b>             | <b>1,827,619</b>    | <b>-</b>               | <b>-</b>             |





For the year ended 31 December 2021,

### 36 FINANCIAL RISK REVIEW (Contd.)

#### 36.4.2 Exposure to currency risks

As at the reporting date, net currency exposures representing the Company's equity were as follows.

Foreign currency exposures other than in respect of foreign operations

#### Foreign Currency Deposits

| Rs'000       | 2021                       |               |            | 2020                       |               |            |
|--------------|----------------------------|---------------|------------|----------------------------|---------------|------------|
|              | Amount in Foreign Currency | Exchange rate | LKR amount | Amount in Foreign Currency | Exchange rate | LKR amount |
| USD Deposits | \$ 285                     | 202.86        | 57,804     | \$ 257                     | 185.00        | 47,609     |

#### Sensitivity analysis

The table below shows the estimated impact on profitability and equity due to fluctuation of exchange rates on the USD bank balances.

Sensitivity of PBT and equity to changes in exchange rates

| Change in variables | Impact on Profit Before Tax |            |
|---------------------|-----------------------------|------------|
|                     | 2021<br>Rs                  | 2020<br>Rs |
| (+) 1%              | 578                         | 476        |
| (-) 1%              | (578)                       | (476)      |

### 37 DETERMINATION OF FAIR VALUES

This note explains the methodology for valuing our financial assets and liabilities and provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

#### 37.1 Valuation Models

The Company measures fair values using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 18 for financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### 37.2 Valuation Framework

The Company has an established control framework with respect to the measurement of fair values. The Company has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements carried out by the treasury division, which include :

- \* Verification of observable pricing;
- \* Re-performance of model valuations;
- \* Quarterly calibration and back-testing of models against observed market transactions;
- \* Analysis and investigation of significant daily valuation movements; and
- \* Review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3.

When third party information, such as broker quotes or pricing services, is used to measure fair value, Product Control assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS.

**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

*For the year ended 31 December 2021,*

**37.3 Fair Value Hierarchy**

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

**Level 1**

Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2**

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

**Level 3**

Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**37.4 Fair values of financial assets and liabilities not carried at fair value**

*As at 31 December,*

| As at 31 December,             |      | 2021             |                  | 2020             |                  |
|--------------------------------|------|------------------|------------------|------------------|------------------|
| Rs. ' 000                      | Note | Fair Value       | Carrying Value   | Fair Value       | Carrying Value   |
| <b>Loans and receivables :</b> |      |                  |                  |                  |                  |
| Reverse repos                  | 18.1 | 437,560          | 437,560          | 800,286          | 800,286          |
| Fixed term deposit             | 18.1 | 1,001,479        | 1,001,479        | 1,027,333        | 1,027,333        |
| Debentures                     | 18.1 | 26,453           | 26,840           | -                | -                |
|                                |      | <b>1,465,492</b> | <b>1,465,879</b> | <b>1,827,619</b> | <b>1,827,619</b> |

**37.4.1 Fixed term deposit**

The fair values of fixed term deposits with remaining maturity of less than one year and variable rate loans and advances are estimated to approximate their carrying amounts. For fixed rate term deposits with remaining maturity of more than one year, the fair values are estimated based on discounted cash flows using market rates of term deposits of similar credit risks and maturity.

**37.4.2 Reverse Repos**

The fair values of money market placements and reverse repurchase agreements with remaining maturity of less than one year also approximate their carrying amounts due to the relatively short maturity of the financial instruments.

**37.4.3 Debentures**

Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the Colombo Stock Exchange (CSE) is used in arriving at the fair value of debentures.



**ORIENT INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021,

**37 DETERMINATION OF FAIR VALUES (Contd.)**

**37.5 Other Financial Assets**

Other financial assets which are not recorded at fair value in the statement of financial position are listed below.

|                                 | Note | 2021             |                  | 2020           |                |
|---------------------------------|------|------------------|------------------|----------------|----------------|
|                                 |      | Fair Value       | Carrying Value   | Fair Value     | Carrying Value |
| <b>Other financial assets :</b> |      |                  |                  |                |                |
| Reinsurance receivables         | 21   | 132,816          | 132,816          | 83,303         | 83,303         |
| Premium receivables             | 22   | 599,503          | 599,503          | 451,444        | 451,444        |
| Refundable deposits             | 23   | 7,637            | 7,637            | 8,694          | 8,694          |
| Cash and cash equivalent        | 26   | 698,104          | 698,104          | 32,258         | 32,258         |
|                                 |      | <b>1,438,060</b> | <b>1,438,060</b> | <b>575,699</b> | <b>575,699</b> |

The carrying amount of cash and bank balances approximate fair values due to the relatively short maturity of the financial instruments. For other receivables the carrying values have been considered as the fair value due to uncertainty of the timing of the cash flows.

**37.7 Other Financial Liabilities**

Carrying values of financial liabilities have been considered as the fair value, due to uncertainty of the timing of the cash flow.

|                                      | Note | 2021           |                | 2020           |                |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
|                                      |      | Fair Value     | Carrying Value | Fair Value     | Carrying Value |
| <b>Other financial liabilities :</b> |      |                |                |                |                |
| Reinsurance payables                 | 29   | 106,739        | 106,739        | 53,106         | 53,106         |
| Agency commission payables           | 32   | 121,819        | 121,819        | 102,305        | 102,305        |
| Other financial liabilities          | 32   | 4,920          | 4,920          | 3,043          | 3,043          |
| Lease Liabilities                    | 33   | 100,249        | 100,249        | 20,945         | 20,945         |
|                                      |      | <b>333,727</b> | <b>333,727</b> | <b>179,399</b> | <b>179,399</b> |

**38 Comparative figures**

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

**39 Capital Commitments and contingent liabilities**

There were no significant capital commitments as at the reporting date.

**39.1 Litigation and claims**

There have been no material Contingent liabilities outstanding as at the reporting date except for the below;

**39.1.1 Case No CHC 354/2018/MR.**

The independent Loss Adjuster engaged by the Company has confirmed that the above mentioned case is pending in Commercial High Court. Next court hearing date is 7 March 2022.

A policyholder ("plaintiff") had filed an action against the Company on 6 June 2018 in Commercial High Court Colombo, for losses and damages for rejecting claims relating to liability insurance policy taken from the Company. The Company has denied the claim of the plaintiff and is defending the matter in consultation with the Loss Adjuster. The outcome of this cannot be assessed as at reporting date. Based on the internal assessment carried out by the Board and confirmation provided by an independent Loss Adjuster, no provision was required to be made in the financial statements as at reporting date.





For the year ended 31 December 2021,



### 39 Capital Commitments and contingent liabilities (Contd.)

#### 39.2 Assessments on Income Tax

The Department of Inland Revenue has raised an assessment on income tax for the year of assessment 2017/2018, assessing the Company to pay an additional income tax liability of Rs. 0.9 million along with a penalty, totaling to Rs. 1.2 million. The Company has lodged an appeal in consultation with the Company's Tax Consultant with the Commissioner General of Inland Revenue against the said assessment.

#### 39.3 Assessments on VAT

The Company has received Notice of Assessments for the years 2016, 2017, 2018 and 2019 where by the Department of Inland Revenue has disallowed some of the claimed input tax. The Company has duly appealed for the assessments in consultation with the Company's Tax Consultant.

#### 39.4 Assessments on VAT and NBT on Financial Services

The Company has received Notice of Assessments for the years 2016 and 2017 on VAT and NBT on Financial Services from the Department of Inland Revenue.

The Company has duly appealed against the Assessment to the Tax Appeal Commission. The decision is pending from Tax Appeals Commission.

### 40 Events after the reporting date

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements other than mentioned below,

#### Proposed Surcharge Tax

The Bill governing the imposition and administration of the Surcharge Tax was published in the Gazette on 07 February 2022. The Surcharge Tax was proposed in the Budget 2022, as a one-time tax. Surcharge Tax is payable by any individual, partnership, company, or each company of a group of companies (holding and subsidiaries) subject to the taxable income threshold as specified in the Bill. There shall be levied a Surcharge Tax any individual, partnership or company, whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds rupees two thousand million, for the year of assessment commenced on April 1, 2020, at the rate of twenty-five per centum on the taxable income of such individual, partnership or company, for such year of assessment. The proposed surcharge tax has not been accounted for in these financial statements of the Company as the said Bill is not considered to be substantively enacted as per LKAS - 12 as at the Reporting date. Even if it is legislated the Company will not meet the threshold set.

### 41 COVID-19 Pandemic and Related Implications

The COVID 19 pandemic has affected businesses globally as well as locally. Following this outbreak, the business operations and activities of the Company were temporary impacted. In the backdrop of the developments which followed by various challenges faced by many sectors in the economy and the restrictions brought on people's movements due to COVID 19, the Company's operations were also affected considerably. The Company carried out an exercise to identify and ascertain the emerging risks attributable to COVID 19, its impact and consequences. Accordingly, a response plan has been activated intensifying the work from home concept aimed at maintaining the financial impact at a minimal level. The Company has taken various precautionary measures to protect employees, their families, and the eco system in which they interact based on instructions issued by the Government, while at the same time ensuring business continuity. The Company's operations will continue in compliance with health and safety guidelines issued by the Government of Sri Lanka and Insurance Regulatory Commission of Sri Lanka (IRCSL).

The Board is regularly monitoring the impact of COVID 19 on profitability and liquidity of the Company. The Board is of the view that the Company has adequate liquidity position considering the cash in hand and other liquid investments. Accordingly, the Company will not have any limitations in meeting the future obligations and ensuring business continuity.

### 42 Director's Responsibility

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





## **Orient Insurance Limited**

Address: 133, Bauddhaloka Mawatha, Colombo 04.

Tel: 0112030300 | Fax: 0112555589

Website: [www.orientinsurance.lk](http://www.orientinsurance.lk)

Email: [info@orientinsurance.lk](mailto:info@orientinsurance.lk)