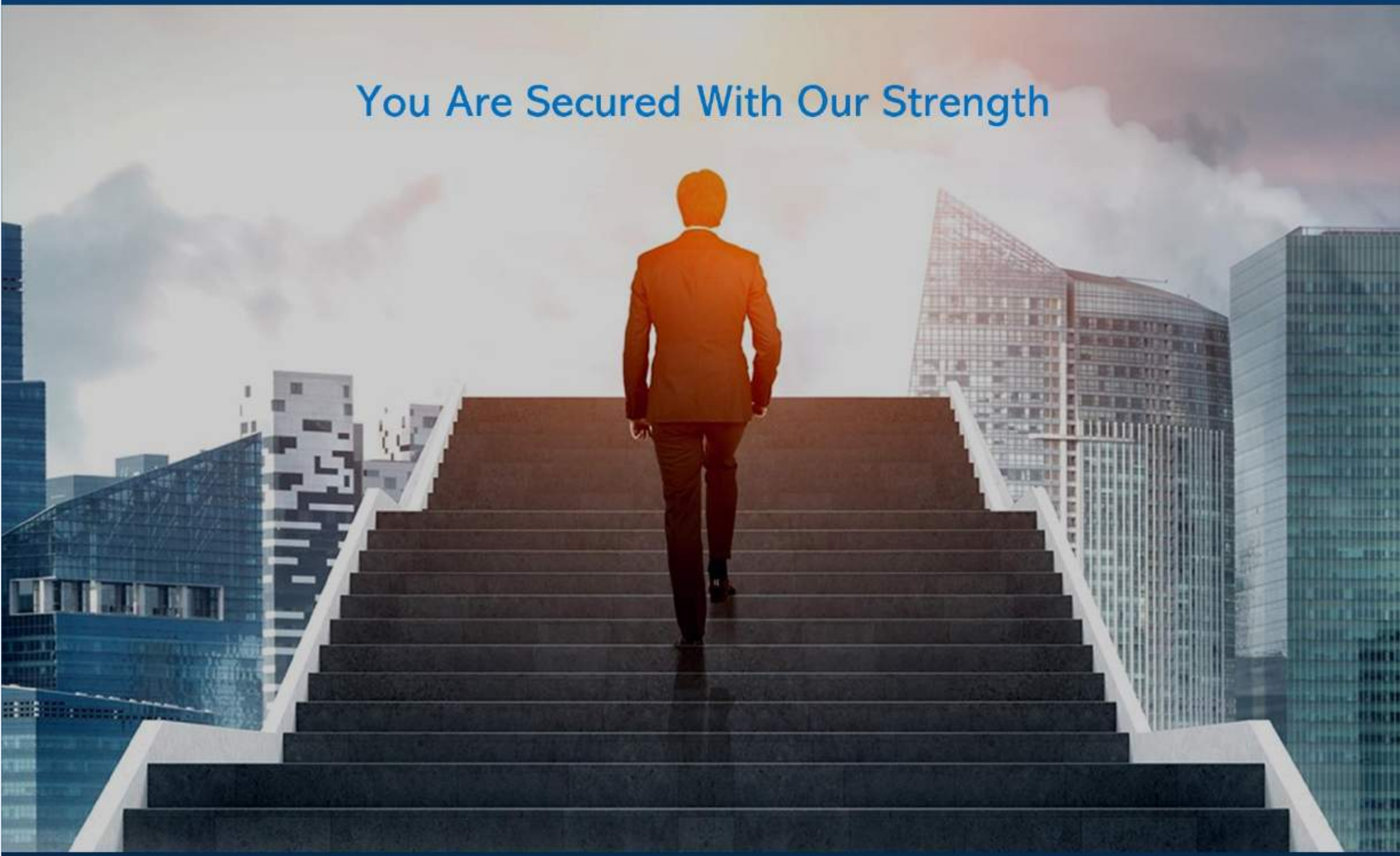
Annual Report 2019



orient INSURANCE LIMITED

An Al-Futtaim group company

Contents

Corporate Information

NAME OF THE COMPANY	ORIENT INSURANCE LIMITED	
REGISTERED OFFICE	NO. 133, NEW BULLERS ROAD, COLOMBO 4	
REGISTRATION NO	PB 4720	
DATE OF INCORPORATION	03 JUNE 2011	
BOARD OF DIRECTORS	MR. OMER HASSAN ELAMIN	CHAIRMAN
	MR. TILAK DE ZOYSA	DEPUTY CHAIRMAN
	MR. SAMUEL S. MATHIAPARANAN	INDEPENDENT NON-EXECUTIVE DIRECTOR
COMPANY SECRETARY	MR. RIHAB THAHA	
AUDITORS	KPMG, CHARTERED ACCOUNTANTS	
BANKERS	HATTON NATIONAL BANK PLC	COMMERCIAL BANK OF CEYLON PLC
	NATIONS TRUST BANK PLC	DFCC BANK PLC
	BANK OF CEYLON	SEYLAN BANK PLC
	PEOPLE'S BANK	NATIONAL DEVELOPMENT BANK PLC
	SAMPATH BANK PLC	STANDARD CHARTERED BANK
NATURE & TYPES OF BUSINESS	GENERAL INSURANCE	
DOMICILE & LEGAL FORM	A limited liability Company incorporated under the Companies Act No.7 of 2007 and licensed by the Insurance Regulatory Commission of Sri Lanka to transact General Insurance business in Sri Lanka.	
NAME OF THE HOLDING COMPANY:	ORIENT INSURANCE PJSC Incorporated in the United Arab Emirates	

Chairman's Message

Orient is considered as one of the fastest growing general insurance companies in Sri Lanka

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 2019.

The year 2019 was a challenging year particularly after the Easter Sunday incidents precipitating a macroeconomic slow down. Sluggish economic conditions that prevailed, resulted slowdown in demand for insurance and drop in premium margins too contributed to the slowdown in the overall growth during the last three quarters of 2019.

- Gross premiums increased by 14.3% to Rs.1.66 billion.

This is remarkable growth while the insurance industry grew at a pace of 5.5%. Growth was due to improved customer service and independence in decision-making in underwriting and claims management together with strong relationships with our business partners which has strengthened our brand

- Profit after tax of Rs.115.4 million was an all-time record with a 13.4% increase over the previous year Rs.101.7 million.

The total equity grew from Rs. 768.8 million to Rs. 886.2 million, an increase of 15.3%. The basic earnings per share increased from Rs.12.33 to Rs.13.98.

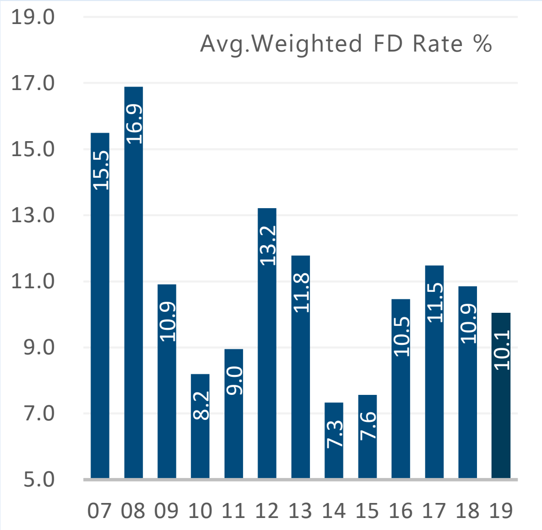
Despite these challenges and with our cautions approach towards focused sectors to have a quality underwriting results, and sustainable quality growth, I am delighted that the company has performed exceptionally well to deliver an excellent results in terms of Revenue and Profit during the year under review. The Company effectively met these challenges, by adopting appropriate strategies to overcome them in a highly competitive market.

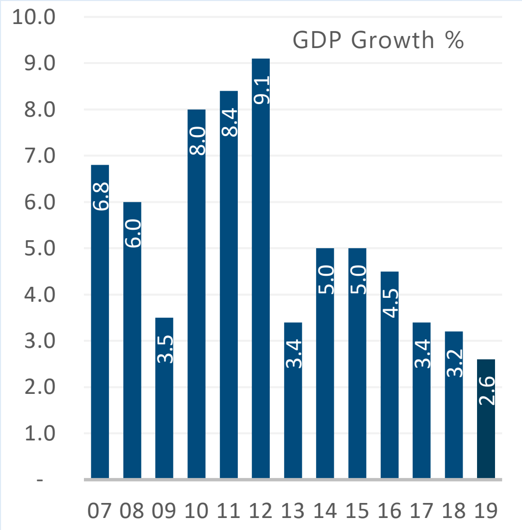
MANAGEMENT DISCUSSION AND ANALYSIS ON MACRO-ECONOMIC ENVIRONMENT

The Sri Lankan economy faced significant challenges in 2019 and expected to continue in 2020. The economy grew at a slow pace of 2.6% in real terms in the first nine months of 2019. The rate of growth for the whole year is likely to be around 2.8% compared with 3.2% growth of the previous year. This is the lowest growth since 2014

The fiscal position deteriorated following the Easter Sunday attacks. The tourism sector was adversely affected, leading to a noticeable decline of 20.5% in tourist arrivals to 1.3 million in the first nine months of 2019.The spillover effects of the Easter Sunday attacks in particular were felt across almost all spheres of economic activity, especially in the second quarter of the year. Consequently, below potential economic growth performance continued through 2019.

The Central Bank of Sri Lanka (CBSL) adopted a relaxed monetary policy by reducing the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) with a view of fueling economic activity. This decision supports a continued reduction in market lending rates, thereby facilitating the envisaged recovery in economic activities The Market lending rates continued to decline during 2019. The average weighted fixed deposit rates of commercial banks reduced from 10.85% in 2018 to 10.05% in 2019.





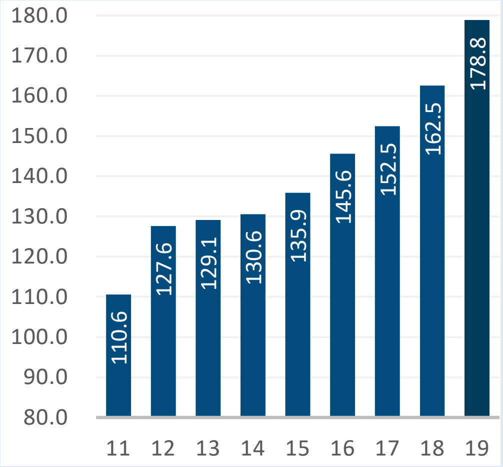
Sri Lanka's trade deficit contracted significantly during the year 2019, with both imports and exports declining. The trade deficit contracted by US dollars 2,436 million to US dollars 7,997 million during 2019 from US dollars 10,343 million in the corresponding period of 2018. A widening of the fiscal deficit is expected in 2020 following the implementation of wide-ranging tax cuts.

The current account deficit (CAD) is expected to narrow to 2.7% of GDP in 2019, compared with 3.2% in 2018, despite much lower tourism earnings, due to the robust performance in industrial goods exports, and a severe contraction in import expenditure.

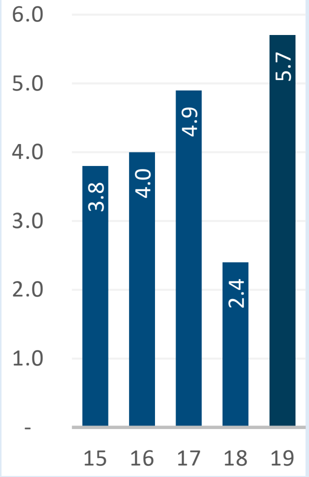
The Government's external financing conditions remain challenging, due to the large share of external debt. With more than 40% of total public debt denominated in foreign currency, the external position is vulnerable to adverse exchange rate movements and shifts in global credit conditions, which could result in a sharp deterioration in the government's access to external financing. However, at the moment, it is believed that the Government has sufficient funds to cover its near-term external debt obligations, partly due the issuance of two international sovereign bonds sized at a combined $4.4 billion in 2019.

The annual average exchange rate of Sri Lanka Rupee depreciated against US$ by 10%, from Rs. 162.5 in 2018 to 178.8 in 2019. The Rupee further weakened during the first three months of 2020.The government has introduced several measures to ease the pressure on the exchange rate and prevent financial market panic due to the COVID-19 pandemic.

Average Exchange Rate USD / Rs.



Inflation: NCPI (Core) Annual Average % Change



Maintaining inflation at stable levels would help improve economic prosperity. The country has experienced single digit levels of inflation for the past five years which is a positive indicator to ensure economic and price stability in the country. The annual average core inflation increased to 5.7 per cent during 2019 from 2.4 per cent in 2018.

The Central Bank is expected to continue to improve its policy framework in this area, with due emphasis on monetary stability for real sector growth. The maintenance of mid-single digit levels of inflation is an essential component of macroeconomic stability.

The adverse consequences of the Easter Sunday terrorist attacks combined with the prevailing political uncertainties and COVID-19 outbreak have substantially weighed down on the performance of the Sri Lankan economy.

Economic impact of COVID-19 Outbreak

The economic implications of COVID-19 are unprecedented. Economies are much more interlinked with each other through supply chains, migration, and vast volumes of international trade. As a result, countries are much more vulnerable to external shocks now than ever before. Under such circumstances, the economic implications of COVID-19 on Sri Lanka, hinge not only on the situation within the country, but also on critical markets such as the United States, Europe, and China. It may well be that the world is yet to experience the worst of the pandemic, and the global economy will see further significant turmoil in the months to come.

A global recession is likely to significantly reduce the demand for Sri Lanka's exports, and lead to considerable job losses. The current crisis will gravely affect the tourism sector. The closing of the Sri Lankan border for foreign passenger arrivals from mid-March, combined with global travel restrictions, will undoubtedly lead to further losses both in the formal tourism sector as well as ancillary informal services.

Despite the uncertainty, there is also an opportunity for countries like Sri Lanka to benefit with trade and supply chain realignment. In this regard, the need for policymakers to provide that conducive environment for export growth.

General Insurance Industry

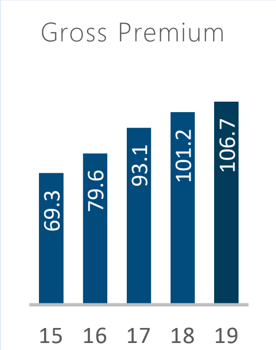
There were 26 insurance companies operating in the market at the end of 2019, consisting of 2 composite insurers, 12 life and 12 General Insurance Companies. The number of companies listed in the Colombo Stock Exchange (CSE) remained at 9, at the end of 2019.

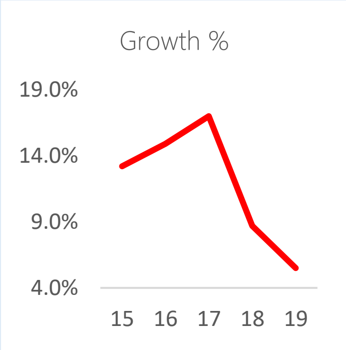
The Sri Lankan insurance industry was able to achieve a growth of 5.5% in terms of overall Gross Written Premium for general insurance business sectors in 2019. The Gross Written Premium for general insurance sector was Rs. 106.7 billion in 2019 compared to Rs.101.2 billion in 2018, recording an increase of Rs. 5.5 billion. The following table depicts the growth of the General Insurance Business over the past 5 years:

In Billions

Yr	GWP	Growth
15	69.3	13.2%
16	79.6	14.9%
17	93.1	17.0%
18	101.2	8.7%
19*	106.7	5.5%

*Estimated





Low level of penetration in the local market, high intensity of competition, economic, political and social volatility are key challenges facing the insurance industry. Based on the data available in the industry, the business mix for the last seven years is as follows:

Class of business	2013	2014	2015	2016	2017	2018*	2019*
Motor	57%	59%	61%	62%	60%	62%	60%
Non-Motor	43%	41%	39%	38%	40%	38%	40%

*Estimated

According to the statistics available, it is estimated that the Gross premium of the motor category grew by 2.6% from Rs. 62.9 billion in 2018 to Rs. 64.6 billion in 2019, whilst Non-motor category grew by 10.1% from Rs. 38.3 billion to Rs. 42.2 billion.

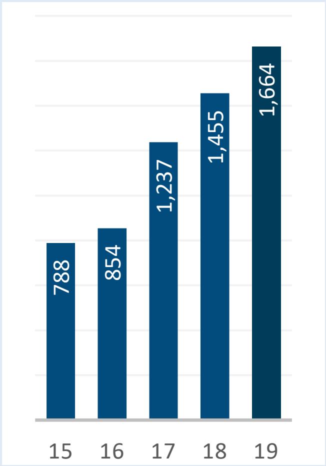
The overall net loss ratio of General Insurance Business estimated to decrease by 3.9%, from 66.2% in 2018 to 63.6% in 2019. The net loss ratio for Motor category is estimated to remain unchanged at 61% for 2018 and 2019.

Performance of the Company

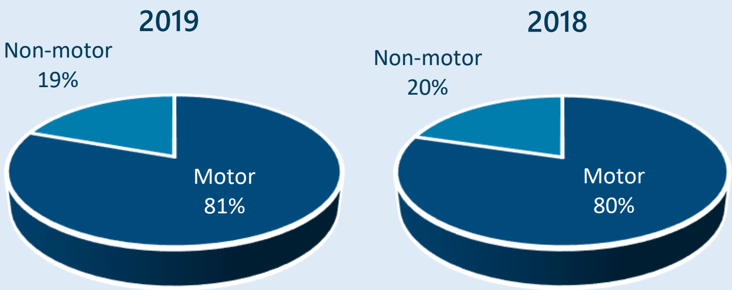
The Company successfully overcame many challenges and I am pleased to note that the Company achieved exceptional results during 2019.

The strategy to achieve a total quality growth has paid dividends. The Company was able to generate a GWP of Rs. 1,664 million during the financial year 2019. This is a growth of 14% over 2018, well above the average industry growth.

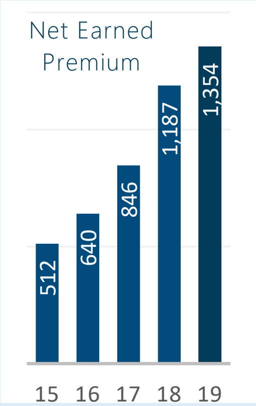
Control over costs, particularly on claims and other expenses also contributed to the achievement of a record profit this year. The business is now well stabilized to take a leading role in the general insurance market in Sri Lanka in the next few years.

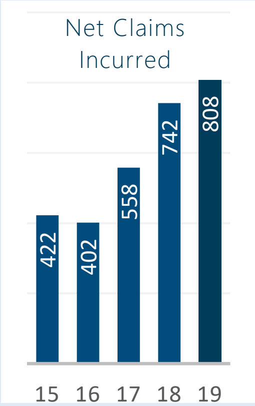


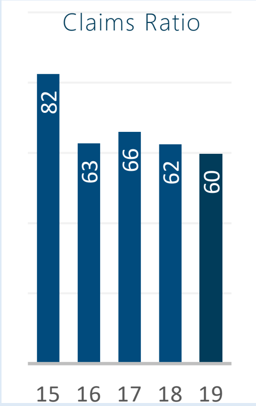
Composition of GWP

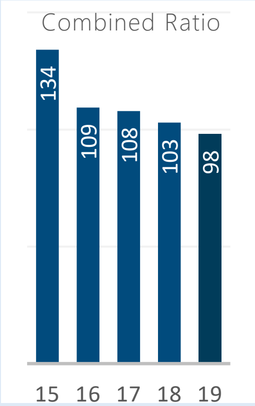


Net earned premium increased from Rs. 1,187.2 million to Rs. 1,353.9 million during 2019, a growth of 14% over 2018. Investment income increased from Rs. 129.8 million to Rs. 143.4 million during 2019. With the increase of business volumes, net claims cost also increased from Rs. 741.7 million to Rs. 807.7 million.









Due to the continuous efforts taken to manage pricing, significant improvements achieved in mitigating the claims ratios over the past few years. The net claims ratio improved from 82% in 2015 to 60% in 2019. This is below the average net claims ratio of the general insurance market which is estimated to be at 63.6% for 2019.

We also took several initiatives to manage our expenses, without compromising our service standards. The net management expense ratio recorded a marginal decrease from 30% in 2018 to 28% in 2019.

The net acquisition cost ratio remained unchanged at 11% in 2019, compared with the 11% in 2018.As a result, the combined ratio, which is a combination of the loss and expense ratio declined from 103% in 2018 to 98% in 2019.

The growth in premiums and earnings and improved combined ratio, resulted an underwriting profit of Rs.26.0 million in 2019 compared to a loss of Rs.35.0 million in 2018.

Despite continuous decrease in the interest rates, the company managed to improve its investment returns during the year under review. The Investment income increased by 10% from Rs.129.78 million in 2018 to Rs.143.40 million in 2019.

With improved underwriting results and increase in investment income resulted in achieving the budgeted Profit for the year. Profit after tax increased by 13% from Rs.101.7 million in 2018 to Rs.115.4 million in 2019

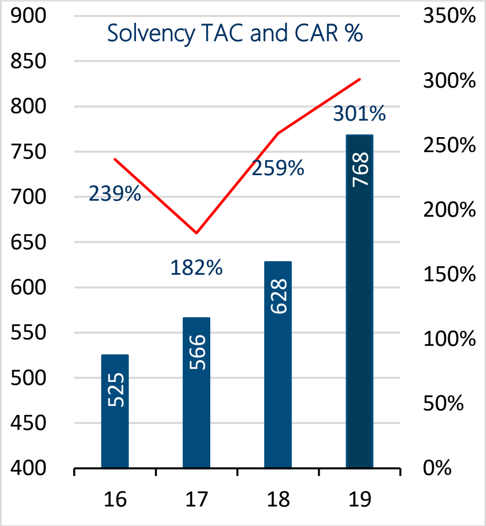
Total equity as at 31 Dec 2019 is Rs. 886.2 million, compared with Rs. 768.8 million in the previous year. Total financial investments of the Company increased, from Rs. 1,289.4 million to Rs. 1,436.5 million, as at the end of the financial year under review, resulting a 11% growth.

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 Capital Available (TAC).

As at 31 December 2019, the Company has complied with the regulatory requirement related to solvency by achieving Rs. 768 million for TAC and 301% for CAR.

Year	TAC	CAR %
2016	525	239%
2017	566	182%
2018	628	259%
2019	768	301%

* TAC in Rs. Million / 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 business conglomerates in the lower gulf, Al-Futtaim Group.

Our parent, Orient Insurance PJSC has secured two ratings 'a +' by A M Best and 'A Strong' by Standard & Poor's. These rating are not only the highest in the UAE insurance market but the only company in UAE that carries such a high combined rating.

The reinsurance arrangements of Orient Insurance Limited beyond the compulsory cessions to National Insurance Trust Fund, have been placed with financially strong, reputed and well rated reinsurers.

Combined with the strength and stability of the holding company, Orient Insurance PJSC 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 professional and industry experts.

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.

In 2018, a Direction on corporate governance was issued to ensure greater transparency in insurance business. With regards to supervisory actions, a procedure for taking enforcement actions on non-compliance with provisions of reporting requirements was initiated by the regulator.

On 4 October 2018, IRCSL exempted our Company from the listing requirements.

Outlook into the Future

The Company aspires to create a unique Market position and differentiates it from the rest by offering a predictable customer service model to all its stakeholders. The Company is well poised to offer comprehensive General Insurance solutions to its customers and contribute to the country by consciously innovating and looking for options to increase the General Insurance penetration in Sri Lanka.

Having secured very strong financial results during the past 4 years, the company continued 2020 under the theme "Delighting Customers" and ventured on a journey of creating positive customer experiences. This strategy is built on the Company's core values of Respect, Integrity, Collaboration and Excellence.

We will continue to work towards implementing the brand values of "Respect," Integrity", "Collaboration" and "Excellence" so that we achieve the positioning of a secured brand among all the stakeholders.

Several measures are planned to focus on enhancing the IT infrastructure (such as online portals, claim management system etc.) to build up a sustainable portfolio by using alternate channels and by providing superior customer service to differentiate ourselves from competition.

One of key priorities this year is to take insurance closer to the doorstep of Sri Lankans with a genuine hope of increasing the Insurance penetration in our country. Moreover, we are focusing on enhancing the Bank Assurance channels, developing Agency cadre and increase our presence in the island by opening few more branches, to reach the SME sectors.

The greatest asset of our Company is our employees. We strive to develop highly motivated employees at all levels, who will contribute effectively and efficiently towards achieving the overall objectives of the Company.

We are confident that we will grow our business with prudent underwriting philosophy and a healthy business mix and continue our sustainable quality growth journey in 2020 and beyond.

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 thank our customers, brokers, business associates, group companies and reinsurers for their valuable support and confidence in our Company.

In conclusion, I thank the Chief Executive Officer, senior management team and all staff members of the Company for their dedication and hard work for another successful year of operations.

Omer Elamin
Chairman
May 2020

Message from the CEO

Highlights of the Company

The year 2019 brought conclusion to a decade that was instrumental to Orient in many ways. For one, the company completed its 8th year since inception in December 2011. During the recent past we relentlessly pursued a set of strategies which would ensure that the company continued its sustainable quality growth journey that would catapult us to be a dominant player in the industry in a short span of time as we were the last insurance company to be approved by the regulator in Sri Lanka.

I am truly delighted with the exceptional performance of the company where we have been able to strengthen the company over years and produce some of the finest results in the market. Our Gross premiums increased by 14.3% to LKR 1.66 Billion in a market which grew only at about 5% in the year 2019. The Sri Lankan General Insurance market is an extremely soft market where fierce price wars and cut-throat premiums are quoted to secure business. In this background I am extremely proud and thankful to my Senior Management team comprising of Mr. Anuradha Siriwardane, Mr. Ameera Hindurangala, Mr. Rihab Thaha and Mr. Rochana Kulatunge for their leadership in this extremely tough market and for the outstanding results handcrafted by them. The Combined Operating Ratio (COR) of the company was at an all-time best of 98% yielding an underwriting profit of LKR 26 Million. Shareholder equity increased to LKR 886 Million, Total Assets to LKR 2,209 and Technical reserves to LKR 885 Million during the year. All these contributed to an excellent solvency position of the company where Total Available Capital (TAC) stood at LKR 768 Million and Capital Adequacy ratio was at 301%.

During the financial year which this report covers, our branch network expanded to include 15 branches with the latest additions in Panadura and Matale. Panadura is a fully fledged branch that adds more luster to our distribution network while Matale is an introductory concept called “area development office” or ADO in short. Further to the 15 branches, the company operates through 19 points of sales (i.e. AMW showrooms) making the total count of our distribution to 34 centers of servicing our clientele. Increasing the number of touchpoints was identified as key to delighting our customers. Orient Insurance is dedicated to bringing insurance closer to the doorsteps of our valued business partners and customers and our branch openings are in pursuit of this objective. The insurance awareness and penetration levels in Sri Lanka are extremely low and Orient Insurance is making a conscious decision and is very keen to take every possible step to educate customers and bring protection closer to them.

From “sustainable quality growth” we shifted our attention this year to “customer delighting” as the main theme for the year. During the year, the idea of the customer was expanded and deepened to include internal and external customers. Our objective was to bring delight to customers covering both internal and external alike. To this effect, we embedded the idea of customer delighting as a core component into our overall strategy. The main discourse within the company was that all customers need to be treated with special courtesy and those who go out of the way in achieving that end would be recognized and rewarded.

Two key top-level positions of the company were replaced this year, Mr. Rochana Kulatunge and Mr. Rihab Thaha assumed office as Senior Vice Presidents for Sales/Distribution and Finance respectively. Rochana counts well over 15 years' experience in sales and marketing in various Senior roles in the insurance industry. Rihab on the other hand brings a unique set of technical and technological skills which he obtained overseas working for our Head Office in UAE – Orient Insurance PJSC. Both of them count many years of experience with Multinationals and the local insurance industry.

Highlights of the Industry

As an industry whole, the year was characterized by intense price wars which continues to date – a pernicious trend. The industry performance dampened by the Easter Sunday terrorist attacks which occurred on 21st April. Travel bans were imposed on Sri Lanka by many countries which had generated foreign income to Sri Lanka and had a drastic effect on the industry. The travel insurance market which is a profitable segment as a whole, have been affected ever since, and Orient who is a key player in the travel insurance market felt the ripple effect generated by this unfortunate occurrence which took place in the year under review of this report.

The fact that almost 70 percent of the industry is dominated by four players poses huge constrictions on the day to day decisions taken by the bottom nine companies for which Orient belongs. This brings greater limitations on our bargaining power with customers and partners alike. But with large companies eying for each other's share, it also gives the rest of the companies a unique opportunity to introduce innovative and flexible products to the market, as large-size players chase for leadership and market share, the marketplace is left with a vacuum for a stable general insurance player characterized by flexibility, innovation, speed, and reliability. We persistently push ourselves to fill that market niche. Orient, being one of the fastest growing General Insurance companies in Sri Lanka maintained the lead in showing that things can be done better if you have right processes and right people and timely actions in place. The Motor Loss Ratio / COR and the overall Company COR is testimony for that.

Unarguably the most talked about development over the year was the impending implementation of IFRS 17 which poses significant challenges to the industry as a whole. Industry wide Gap analysis concluded in the year under review and Group level discussions are taking place to facilitate this implementation smoothly. This will have mix benefits for the industry at large and small-scale standalone companies will find it challenging due to huge capital commitments.

We also saw the emergence of digital trends in the insurance sector. Orient stepped into the digital era by automating timely operations within the Company and introduced easy payment methods in claim-settlements and premium-collections. Technology has advanced the operation of the Company giving the end result to our valued customers. Ease of doing business with Orient has won the trust among existing and new customers thanks to timely investments in technology.

Impact by Covid-19

The pandemic that started in 2019 impacted the year 2020 in an unprecedented way. The real GDP growth is expected to fall to 2 percent this year. Before the COVID-19 crisis, the rising disposable income in the economy was viewed as a hopeful statistic for unsought products such as insurance. But now that situation has completely changed. Doubled with the impact of the depletion of currency against the dollar, this now poses a grim picture in front of us for the coming months. A contraction in the economy is to be expected locally as well as globally. The expected economic downturn will affect the manufacturing, construction, and leisure sectors directly which will in effect have a negative indirect impact on insurance. As the leasing business contracts in the local market with restrictions on imports, we are expecting a standstill in motor insurance new business generation. The current trend in the market in the coming months is to renew policies with existing insurers.

As working from home rules are established, we pride ourselves and truly grateful to our dedicated and committed staff for ensuring continuity of service to all our customers and business partners. At Orient, Business has been as usual from day one of the lockdown thanks to technology and seamless connectivity.

Further, I am greatly indebted to our Board of Directors and our Group President and Chairman - Orient Group of insurance companies, Mr. Omer Elamin for his steadfast leadership, guidance, and continuous support. His proven leadership has brought our Head Office, Orient Insurance PJSC to the No 1 position in the UAE and has been a great strength to us. We in Sri Lanka are fortunate to receive guidance from a leader of such stature and caliber.

My sincere thanks and appreciation to the Chairperson and Director General of Insurance Regulatory Commission of Sri Lanka (IRCSL) for being a catalyst to the industry and for all the assistance given to us in carrying out our operations, The Insurance Ombudsman and our Auditors KPMG.

I would like to end my note by re-emphasizing what I always say to partners, clients, and employees. Orient is here to stay, and we believe that the core of our business is the “customer” and persistently strive to win loyalty through “superior service” and bringing insurance “closer to the doorstep”. “Employees” are invaluable to us, and we assist and encourage them to grow and realize their potential. With this dual commitment in place, Orient is managed and driven by its inherent values of RESPECT, INTEGRITY, COLLABORATION, EXCELLENCE. This is what makes Orient the “rising star” in Sri Lanka’s general insurance sector.

Tanuj Edward
Chief Executive Officer
May 2020

Directors' 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.

Thilak de Zoysa

Vice Chairman / Non-Executive Director (Member of the Board since May 2011)

A well-known figure in the Sri Lankan business community, Tilak de Zoysa, FCMI (UK) FPRI (SL), Honorary Consul for Croatia and Global Ambassador for HelpAge International was conferred the title of "Deshabandu" by His Excellency the President of Sri Lanka in recognition of his services to the country and was the recipient of "The Order of the Rising Sun - Gold Rays with Neck Ribbon" conferred by His Majesty the Emperor of Japan.

He is also a Recipient of the 'LMD lifetime achievers' Award 2017.

He is also the Vice Chairman of CEAT Kelani Holdings (Pvt) Ltd., Orient Insurance Ltd. and serves on the Boards of several listed and Private Companies which include TAL Lanka Hotels PLC (Taj), TAL Hotels and Resorts Ltd, Nawaloka Hospitals PLC, Associated Electrical Corporation Ltd., INOAC Polymer Lanka (Pvt) Ltd., Cinnovation INC., and Varun Beverages Lanka (Pvt) Ltd (Pepsi).

Mr. Tilak de Zoysa was the past Chairman of the Colombo YMBA, the Ceylon Chamber of Commerce, the National Chamber of Commerce of Sri Lanka, HelpAge International (UK) and served as a Member of the Monetary Board of Sri Lanka (2003-2009).

S. S. Mathiaparanan

Independent Non-Executive Director (Member of the Board since May 2017)

Mr. Mathiaparanan is one of the outstanding insurance professionals in the country with a long-standing career spanning over 60 years in the insurance field.

He is a Chartered Insurer by profession and possesses the qualifications of the associateship of the Chartered Insurance Institute (ACII) London and the Associateship of the Insurance Institute of India (AIII).

He has undergone an advanced course in General Insurance at the Swiss Insurance Centre in Zurich, Switzerland on a scholarship awarded by the Government of Switzerland.

He had the privilege of participating in familiarization programs with Sedgewicks Insurance Brokers in London, one of the largest Insurance Brokers and with Munich Reinsurance company in Munich, Germany, one of the leading Reinsurers in the world.

He commenced his career with Colombo Life Assurance Ltd and Colombo Assurance Ltd., who were leading Ceylonese Insurers at the time. With the Nationalization of Insurance business, he was one of the few people selected for the establishment of the Insurance Corporation of Ceylon (now Sri Lanka Insurance) in the year 1961. While holding an important position at SLIC after serving them for 23 years, he had a stint abroad with the National Insurance Company Bsc(c) in Bahrain as their Technical Manager, where he contributed much for the progress of the company and the Bahrain Insurance Industry. On his return to the Island he has held various positions of importance. He was responsible for the establishment of the Co-operative Insurance Company for and on behalf of the National Co-operative Council of Sri Lanka and was its founder Chief Executive Officer. Similarly, he was the first General Manager of the Life Insurance Corporation (Lanka) Ltd., established by the life Insurance Corporation of India, from where he retired from active participation in Insurance, after a half century of service.

Mr. Mathiaparanan has served the Insurance industry by holding honorary positions such as President of the Insurance Association of Sri Lanka and President of the Sri Lanka Insurance Institute. And a few years ago, Mr. Mathiaparanan was honoured as a recipient of the 'Hall of Fame' organized by the Sri Lanka Insurance Institute.

Group Portrait of Senior Management

Seated	:	Tanuj Edward	Chief Executive Officer
Standing from Left	:	Ameera Hindurangala	SVP Motor Division
	:	Rihab Thaha	SVP Finance
	:	Anuradha Siriwardena	SVP Non-Motor Division
	:	Rochana Kulatunge	SVP Sales & Distribution

Key Reports 2019

orient

WE ARE DEDICATED AS ALWAYS TO
FULFILL THE TRUST YOU HAVE PLACED
IN US, WITH A SMILE!

WORKING TO KEEP YOU SAFE!

Financial Highlights

	2019	2018	Change
	Rs. Mn	*Rs. Mn*	*%*
RESULTS FOR THE YEAR			
Gross Written Premium	1,664.0	1,455.4	14%
Investment and other income	186.4	162.8	14%
Profit before Tax	169.4	94.7	79%
Profit after Tax	115.4	101.7	13%
Basic Earnings per share (Rs)	14.0	12.3	13%
Retention ratio (%)	86.4	84.8	2%
Loss ratio (%)	59.7	62.5	-4%
Combined ratio (%)	98.1	103.0	-5%
FINANCIAL POSITION AT YEAR END			
Total Assets	2,208.7	2,007.1	10%
Equity	886.2	768.8	15%
Investments	1,426.5	1,289.4	11%
STATUTORY REQUIREMENTS			
Capital Adequacy Ratio (CAR) %	301	259	16%

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 2019 to the shareholders of the Company.

- ## 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

There were no significant changes in the nature of principal activities of the company during the financial year under review. The principal activity of the company, which is insurance remained unchanged. 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.

Performance Review

Orient recorded Profit after Tax of Rs.115 million.

2019 has been an excellent year for the company. The company recorded a strong growth in Gross Written Premiums (GWP) and Profitability. The Gross Written Premiums increased by 14%, from Rs.1.46 billion in 2018 to Rs.1.66 billion in 2019.

The Profit after tax increased by 13%, from Rs. 101.73 million in 2018 to Rs. 115.36 in 2019. The other comprehensive income increased by 17%, from Rs. 99.95 million in 2018 to Rs. 117.39 million in 2019.This was due to improved underwriting results as well as an increase in investment income.

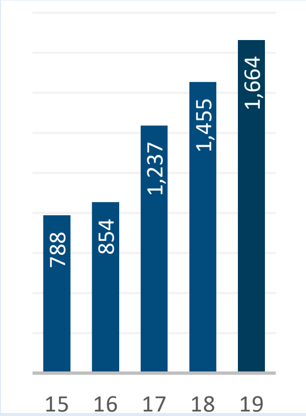
For the first time, the Company made a complete turnaround to an underwriting profit of Rs. 26 million compared to the underwriting loss of Rs. 35.04 in 2018. This was mainly due to improvement in combined ratio. Both claims and expense ratios contributed to this positive development

Premium ceded to reinsurers amounted to 14% of GWP in 2019, compared with 15% reported in 2018. This was mainly due to increase in retail lines where reinsurance outgo is lower.

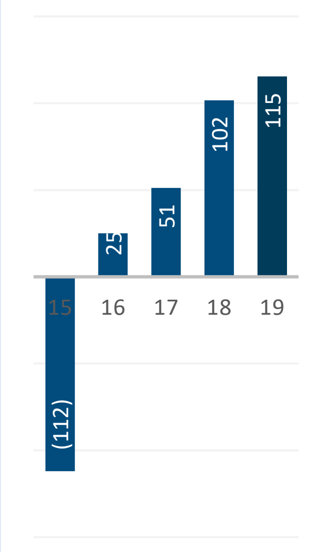
Net earned premium increased by 14%, from Rs.1.19 billion in 2018 to Rs.1.35 billion in 2019. Insurance benefits and claims increased by 9% from Rs. 741.72 million in 2018 to Rs. 807.75 million in 2019. This was mainly due to increased business volumes.

Underwriting and net acquisition costs increased by 13%, from Rs. 128.28 million in 2018 to Rs. 144.68 million in 2019, mainly due to increase in insurance commission expenses on account of new business and renewal premiums generated during the year

GROSS WRITTEN PREMIUM



PROFIT AFTER TAX

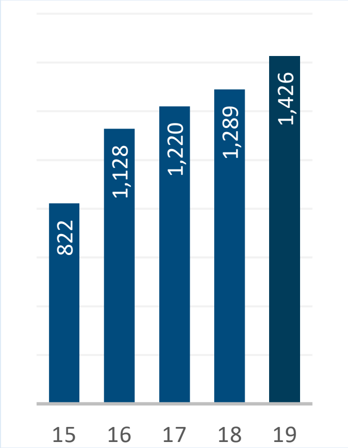


Despite downward trends in the interest rates throughout the year, the company was able to maximize the investment returns during the year. Investment income increased by 10% from Rs 129.78 million in 2018 to Rs. 143.40 million in 2019.

The investment portfolio includes government securities and bank deposits. The investments increased by 11%, from Rs. 1.29 billion in 2018 to Rs. 1.43 billion in 2019.

Improved profitability resulted in equity increasing from Rs. 768.78 million in 2018 to Rs. 886.15 million in 2019. This is an exceptional achievement, considering the very competitive market environment

INVESTMENTS



Key Financial Highlights:

In Rs. Mn	2015	2016	2017	2018	2019	Growth 19 vs 18
Gross Written Premium	788	854	1,237	1,455	1,664	14%
Net Earned Premium	512	640	846	1,187	1,354	14%
Total Benefits, Claims and Expenses	422	402	558	742	808	9%
Investment and Other Income	63	91	132	130	143	10%
Profit/(loss) Before Tax	(112)	31	66	95	169	79%
Income Tax (Expense) / Income	-	(6)	(15)	7	(54)	-874%
Profit/(loss) After Tax	(112)	25	51	102	115	13%
Total Comprehensive Income / (loss)	(111)	25	51	100	117	17%

Share Capital:

The Stated Capital of the Company as at 31st December 2019 was Rs. 825,000,000 represented by issued and fully paid 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, its 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 its 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 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 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).

Orient Insurance Ltd's operations 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 statues applicable to the Company and Company's compliance with section 7.10 of the Listing Rules of the Colombo Stock Exchange.

The Primary statues 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*

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	Not 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

With regards to section 7.10.5 and 7.10.6, the remuneration and audit committees of our parent company (Orient Insurance PJSC – UAE) served these functions for our company. However, we are in the process of establishing these committees locally.

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.

Directors' 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. Omer Elamin - 4/4
Mr. Tilak De Zoysa - 4/4
Mr. S. S. Mathiaparanan - 4/4

Investment Committee Meetings:

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. Mathiaparanan	- 4/4
Mr. Tilak De Zoysa	- 4/4

Directors' Remuneration and Other Benefits:

Details of the fees paid to the Directors during the financial year are given in Note. 37 to the Financial Statements.

Directors' Retirement:

In accordance with Article No. 83 of the Articles of Association of the Company, Directors appointed to the office of Chairman and Deputy Chairman are not subject to retirement by rotation. Mr. S. S. Mathiaparanan, Independent Non-Executive Director of the Company, retires and not eligible for re-appointment at the Annual General Meeting. The Directors proposed to appoint a new Independent Director in place of Mr. S.S. Mathiaparanan.

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 General Insurance 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 December 2019 and therefore, is in compliance with the above mentioned statutory requirement. Total net assets of the Company amounted to Rs. 886.2 mill (2018 - Rs. 768.8 mill) as at the reporting date of 31 December 2019.

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 31st December 2020. 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: 15th April 2020

Orient Insurance Limited

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Ninth GENERAL MEETING of ORIENT INSURANCE LIMITED ("the Company") will be held on 11th June 2020 commencing at 11.30 a.m. at No. 133, New Bullers Road, 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 31st December 2019 and the Report of the Auditors thereon.
3. To appoint Mr. Tilak De Zoysa, who has reached the age of 73 years as a Director of the Company, in terms of Section 211 of the Companies Act No. 07 of 2007, by passing the following Resolution:
   "IT IS HEREBY RESOLVED:
   To re-elect Mr. Tilak De Zoysa, who has reached the age of 73 as a Director and the Deputy Chairman in terms of Section 211 of the Companies Act No. 07 of 2007 and it is specifically declared that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not apply to the said Mr. Tilak De Zoysa"
4. To note the retirement of Mr. S. S. Mathiaparanan who has reached the age of 82 years as a Director of the Company, retiring in terms of Section 210 of the Companies Act No. 07 of 2007, by passing the following Resolution:
   "IT IS HEREBY RESOLVED:
   Mr. S. S. Mathiaparanan will not be seeking re-election and will retire as Director of the Company on 11th June 2020 at the close of the Annual General Meeting
5. To appoint Mr. G.L. Priya Aponso, as an Independent Non-executive Director of the Company, in terms of Section 204 of the Companies Act No. 07 of 2007 and also under Sections 77 (ii) of the Articles of Association of the Company, by passing the following Resolution:
   "IT IS HEREBY RESOLVED:
   Subject to the approval of the Insurance Board of Sri Lanka, Mr. G.L. Priya Aponso who is 65 years of age be appointed as an Independent Non-executive Director to the Board of Directors of the Company, in terms of Section 204 of the Companies Act No. 7 of 2007 and under Sections 77 (ii) of the Articles of Association of the Company
6. To re-appoint the Auditors for the financial year 2020 and authorise 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, 11th May 2020

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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, New Bullers Road, 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 11th June 2020 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 2019 and to receive the Report of the Auditors.	☐	☐
2. To appoint KPMG as Auditors and authorise the Directors to determine their remuneration.	☐	☐
3. To reappoint Mr. Tilak De Zoysa as a Director and the Deputy Chairman of the Company.	☐	☐
4. To appoint Mr. Priya Aponso as an Independent Non-Executive Director of the Company.	☐	☐
5. To transact any other business of which due notice shall be given	☐	☐

* 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 & Nineteen.

……………………………… ………………………………..

Signature Seal

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.

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.

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.

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

End of Section One

SECTION TWO:

Audited Financials 2019

KPMG

ORIENT INSURANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2019

Dynamic
Audit
Underpinned by

Quality integrity and insight

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 2019, and the income statement, 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 2019, 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) 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

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.

KPMG

Colombo, Sri Lanka
26 February 2020

ORIENT INSURANCE LIMITED
INCOME STATEMENT

For the year ended 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Gross Written Premium	8	1,664,016	1,455,381
Net Change in Reserve for Unearned Premium		(81,785)	(53,993)
Gross Earned Premium		**1,582,231**	**1,401,388**
Premiums Ceded to Reinsurers	9	(225,941)	(221,067)
Net Change in Reserve for Unearned Reinsurance Premium		(2,374)	6,931
Net Earned Premium	10	**1,353,916**	**1,187,252**
Other Revenue			
Net Investment Income	11	143,403	129,784
Other Operating Income	12	42,999	33,029
Total Other Revenue		**186,402**	**162,813**
Total Net Revenue		**1,540,318**	**1,350,065**
Net Benefits, Claims and Expenses			
Net Insurance Benefits and Claims	13	807,747	741,720
Underwriting and Net Acquisition Cost	14	144,681	128,284
Other Operating and Administrative Expenses	15	389,288	374,004
Depreciation and amortisation		29,173	11,316
Total Benefits, Claims and Expenses		**1,370,889**	**1,255,323**
Profit Before Taxation	16	169,429	94,742
Income Tax Reversal/(Expense)	17	(54,074)	6,985
Profit for the year		**115,355**	**101,727**
Earnings per share			
Basic Earnings per share (Rs)	17	**13.98**	**12.33**

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

KPMG Chartered Accountants

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

For the year ended 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Profit for the year	115,355	101,727
Other Comprehensive Income		
Items that will never be reclassified to profit or loss		
Actuarial (Loss)/ Gain on defined benefit plan	2,318	(1,826)
Related Tax	(649)	511
	1,669	(1,315)
Items that are or may be reclassified to profit or loss		
Net change in fair value of available for sale financial assets	490	(647)
Related tax	(137)	181
	353	(466)
Other comprehensive income for the year, net of tax	2,022	(1,781)
Total comprehensive income	117,377	99,946

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

KPMG Chartered Accountants

ORIENT INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Financial Investments	19	1,426,470	1,289,364
Property Plant and Equipment	20	69,829	29,967
Intangible Assets	21	462	464
Reinsurance Receivables	22	77,824	91,064
Premium Receivables	23	371,980	336,740
Receivables and Other Assets	24	80,464	102,164
Deferred acquisition cost	25	95,085	88,296
Deferred Tax Assets	26	2,551	17,252
Cash and Cash Equivalents	27	84,000	51,808
Total Assets		**2,208,665**	**2,007,119**
Equity and Liabilities			
Equity			
Stated Capital	28	825,000	825,000
Retained Earnings		61,154	(55,870)
Reserves	29	-	(353)
Total Equity		**886,154**	**768,777**
Liabilities			
Insurance Contract Liabilities	30	1,030,070	920,682
Reinsurance Payable	31	26,396	75,156
Deferred Revenue	32	16,317	17,172
Employee Benefits	34	16,040	13,770
Other Liabilities	33	128,357	155,363
Lease Liabilities	36	32,772	-
Current Tax Liabilities	35	31,536	29,536
Amount due to related parties	37	12,445	24,090
Bank Overdraft	27	28,578	2,572
Total Liabilities		**1,322,511**	**1,238,342**
Total Equity and Liabilities		**2,208,665**	**2,007,119**

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

....
Tilak De Zoysa
Director

KPMG Chartered Accountants

26 February 2020
Colombo

ORIENT INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended,

Rs. '000	Stated capital	Available for sale reserve	Retained earnings	Total
Balance as at 1 January 2018	**825,000**	**113**	**(156,282)**	**668,831**
Profit for the year	-	-	101,727	101,727
Other comprehensive income for the year, net of tax				
Actual Gain/(Loss) on retirement benefit obligation	-	-	(1,315)	(1,315)
Net change in available for sale financial assets	-	(466)	-	(466)
Total other comprehensive income	-	**(466)**	**(1,315)**	**(1,781)**
Total comprehensive income for the year	-	**(466)**	**100,412**	**99,946**
Balance as at 31 December 2018	**825,000**	**(353)**	**(55,870)**	**768,777**
Balance as at 1 January 2019	**825,000**	**(353)**	**(55,870)**	**768,777**
Profit for the year	-	-	115,355	115,355
Other comprehensive income for the year, net of tax				
Actual Gain/(Loss) on retirement benefit obligation	-	-	1,669	1,669
Net change in available for sale financial assets	-	353	-	353
Total other comprehensive income	-	**353**	**1,669**	**2,022**
Total comprehensive income for the year	-	**353**	**117,024**	**117,377**
Balance as at 31 December 2019	**825,000**	-	**61,154**	**886,154**

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

KPMG Chartered Accountants

ORIENT INSURANCE LIMITED
STATEMENT OF CASH FLOW

For the year ended	Note	2019 Rs. ' 000	2018 Rs. ' 000
Profit before tax		169,429	94,742
Adjustment for:			
Depreciation and amortisation	15	29,173	11,316
(Reversal)/ Provision for impairment of premium receivable	22	(2,200)	4,588
Provision for employee benefits	33	5,138	3,758
Interest on lease liability	36	5,443	-
Loss on disposal of property plant & equipment		-	9
Profit before working capital changes		**206,983**	**114,413**
Net change in operational assets			
Net change in reinsurance assets		13,240	(13,795)
Net change in premium receivables		(35,240)	(43,079)
Net change in accrued interest		2,281	(1,418)
Net change in receivables and other assets		(6,828)	(15,004)
Net change in operational liabilities			
Net change in other liabilities		(27,006)	47,261
Net change in insurance contract liabilities		109,388	104,430
Net change in related party payables		(11,645)	15,640
Net change in reinsurance payables		(48,760)	(45,686)
Cash generated in operating activities		**202,413**	**162,762**
Gratuity paid		(550)	(533)
Income tax self assesment payments		(8,253)	-
Net cash from operating activities		**193,610**	**162,229**
Cash flows from investing activities			
Acquisition of investments		(4,328,173)	(4,373,717)
Maturity proceeds of investments		4,183,833	4,293,652
Acquisition of intangible assets	20	(125)	(1,760)
Acquisition of property, plant and equipment	19	(12,042)	(18,086)
Net cash used in investing activities		**(156,507)**	**(99,911)**
Cash flows from financing activities			
Repayment of lease liabilities	36	(30,916)	-
Net cash used in financing activities		**(30,916)**	-
Net increase / (decrease) in cash and cash equivalents		6,186	62,318
Cash and cash equivalents as at 1 January		49,236	(13,083)
Cash and cash equivalents as at 31 December		**55,422**	**49,236**

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

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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 2019 is 206 (2018– 181)

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 2019 were authorized for issue by the Directors on 26 February 2020.

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 is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

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.
Available for sale financial assets	Fair Value	19
Net defined benefit assets/ (liabilities)	Actuarially valued and recognized at the present value	34

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.

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

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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

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.

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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.

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.

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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.

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 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.

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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.

5.18.4 Economic Service Charge (ESC)

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

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.

5.18.6 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognized at the time the liability to pay the related dividend is recognized.

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.

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) and
- Available for sale (AFS) financial assets as appropriate.

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 5.21.1, have been met.

(b) Available for sale financial assets (AFS)

Available-for-sale financial assets are financial assets that are designated as available for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for sale equity instruments are recognised in Income Statement and Statement of Profit or Loss and Other Comprehensive Income and presented within equity in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in Income Statement and Statement of Profit or Loss and Other Comprehensive Income is transferred to the Income Statement.

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

There classification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity. Available for sale financial assets comprise of long term unquoted equity investments, investments in reverse repos' and investments in treasury bills and bonds.

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

Interest Bearing Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the Income Statement.

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.

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 finance 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.

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. When revalued assets are sold, any related amount included in the revaluation surplus reserves are transferred to retained earnings.

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.

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

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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 20.

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.

The residual values of assets that are not insignificant are reassessed annually. Depreciation on revaluation of a class of assets is based on the remaining useful life of the assets at the time of the revaluation.

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.

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, and incurred and not enough reported - IBNR/ 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.

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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.

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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 in 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

As explained in note 7, the Company has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

POLICY APPLICABLE FROM 1 JANUARY 2019

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.

This policy is applied to contracts entered into, on or after 1 January 2019.

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 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 'loans and borrowings' in the statement of financial position.

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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, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

POLICY APPLICABLE BEFORE 1 JANUARY 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- — fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- — the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - – the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - – the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - – facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

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 41 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.

6 New Accounting Standards

6.1 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.

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

— Amendments to References to Conceptual Framework in SLFRS Standards.

— Definition of a Business (Amendments to SLFRS 3).

— SLFRS 17 Insurance Contracts.

SLFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 introduces a new measurement model for insurance contracts and becomes effective in 2022.

6.1.1 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 2022.

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 April 2016, or at a subsequent annual reporting date.

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

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

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1. The Company has not applied SLFRS 9 before; and
2. 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-19 (Rs'000)	31-Dec-18 (Rs'000)
Insurance contract liabilities	1,030,071	920,681
Reinsurance Payable	26,396	75,156
Deferred revenue	16,317	17,172
Liabilities connected with insurance	1,072,784	1,013,009
Total liabilities	**1,322,611**	**1,238,342**
Predominance ratio	**81%**	**82%**

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).

Instrument	Current classification	Carrying value Under LKAS 39 (Rs'000)	Classification under SLFRS 9	Carrying value (Rs'000)	Changes in Carrying value (Rs.000)
Reverse repo	L&R	676,908	Amortized Cost	676,908	-
Fixed deposits	L&R	749,562	Amortized Cost	749,562	-

All other financial assets (that meet the definition of held for trading or managed and evaluated on a fair value basis)

Instrument	Current classification	Carrying value/Fair value Under LKAS 39 (Rs'000)	Classification under SLFRS 9	Fair value (Rs'000)	Changes in fair value (Rs'000)
Treasury bills	AFS	-	FVOCI	-	-

i. 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.

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.

ii. 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

- Other financial instruments for which credit risk has not increased significantly since 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.

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7 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Company has initially applied SLFRS 16 Leases from 1 January 2019.

The Company applied SLFRS 16 using the modified retrospective approach, under which Right Of Use of underlying asset (ROU asset) and lease liability were recognised at equal amounts as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

7.1 Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 - Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5.30.

On transition to SLFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

7.2 As a lessee

The Company previously classified leases as operating leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under SLFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases.

Leases classified as operating leases under LKAS 17

Previously, the Company classified property leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

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7 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Contd.)

7.3 Impact on financial statements

7.3.1 Impact on transition

On transition to SLFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities. The impact on transition is summarised below.

	As at 1 January 2019 Rs. '000
Right-of-use asset – property, plant and equipment	54,833
Lease liability	56,211

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 14.17%.

8 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	2019 Rs. ' 000	2018 Rs. ' 000
Fire	101,588	89,370
Motor	1,341,700	1,161,380
Marine	17,188	23,468
Casualty	101,246	110,163
Engineering	34,226	26,834
Medical	68,068	44,166
	1,664,016	1,455,381

9 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	2019 Rs. ' 000	2018 Rs. ' 000
Fire	94,829	86,813
Motor	58,497	53,184
Marine	12,304	15,692
Casualty	30,614	40,289
Engineering	29,698	25,089
	225,941	221,067

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10 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	2019 Rs. ' 000	2018 Rs. ' 000
Gross written premium	8	1,664,016	1,455,381
Premium ceded to reinsurers	9	(225,941)	(221,067)
Total net written premium		**1,438,075**	**1,234,314**
Change in reserve for unearned premium	10.1	(81,785)	(53,993)
Change in reserve for unearned reinsurance premium	10.2	(2,374)	6,931
Net change in reserve for unearned premium		**(84,159)**	**(47,061)**
Net Earned Premium		**1,353,916**	**1,187,252**

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.

11 NET INVESTMENT INCOME

For the year ended 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Interest income	11.1	143,403	129,784
Total net investment income		**143,403**	**129,784**

10.1 Interest income

Interest Income from Financial Investments - Available For Sale		
- Treasury Bills	5,346	22,903
	5,346	**22,903**
Interest Income from Financial Investments - Loans and Receivables		
- Fixed Deposits	99,550	84,716
- Reverse REPO	36,723	21,434
- Savings Accounts	1,784	731
	138,057	**106,881**
	143,403	**129,784**

12 OTHER OPERATING INCOME

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	2019 Rs. ' 000	2018 Rs. ' 000
Policy administration fee	38,474	33,029
Miscellaneous income	4,525	-
Total other income	**42,999**	**33,029**

13 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.

13 NET BENEFITS AND CLAIMS (Contd.)

For the year ended 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Gross benefits and claims paid		797,782	732,520
Claims ceded to reinsurers		(39,927)	(33,943)
Net insurance benefits and claims paid	13.1	**757,855**	**698,577**
Gross change in liabilities		25,229	57,368
Change in liabilities ceded to reinsurers		24,663	(14,225)
Total net benefits and claims	13.2	**807,747**	**741,720**

13.1 Net insurance benefits and claims paid

For the year ended 31 December Rs. ' 000	2019 Gross claims paid	2019 Claims recovered from reinsurers	2019 Net claims paid	2018 Gross claims paid	2018 Claims recovered from reinsurers	2018 Net claims paid
Fire	21,602	20,621	981	24,464	20,033	4,431
Motor	688,234	1,763	686,471	648,444	4,200	644,244
Marine	4,114	2,164	1,950	9,945	4,213	5,732
Casualty	31,822	13,198	18,624	17,623	1,545	16,077
Engineering	2,578	2,181	397	4,961	3,952	1,009
Medical	52,231	-	52,231	33,597	-	33,597
	800,581	**39,927**	**760,654**	**739,034**	**33,943**	**705,091**
Recoveries from sale of salvage	(2,799)	-	(2,799)	(6,514)	-	(6,514)
	797,782	39,927	757,855	732,520	33,943	698,577

13.2 Total net benefits and claims

For the year ended 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Gross claims incurred	823,011	789,888
Reinsurance recoveries	(15,264)	(48,168)
	807,747	741,720

14 UNDERWRITING AND NET ACQUISITION COSTS (INCLUDING REINSURANCE)

For the year ended 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Acquisition cost	209,640	190,018
Net change in reserve for deferred acquisition cost (DAC)	(6,789)	(9,308)
	202,851	**180,710**
Reinsurance commission income	57,315	54,990
Net change in reserve for unearned commission (UER)	855	(2,564)
	58,170	**52,426**
Total underwriting and net acquisition costs	**144,681**	**128,284**

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15 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

For the year ended 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Employee benefits expenses	15.1	214,668	216,482
Administration and establishment expenses		138,339	136,987
Selling expenses		30,838	20,535
Finance Expenses	15.2	5,443	-
Total other operating and administrative expenses		**389,288**	**374,004**

15.1 Employee benefits expenses

	2019	2018
Staff remuneration	189,439	195,559
Defined contribution plan cost - EPF	14,647	12,682
Defined contribution plan cost - ETF	3,662	3,171
Defined benefit plan cost	5,138	3,758
Staff welfare	838	721
Training expenses	944	590
	214,668	**216,482**

15.2 - Finance Expenses

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

16 PROFIT BEFORE TAX

For the year ended 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Auditors remuneration		
Audit & audit related services	900	900
Non audit related services	550	200
Depreciation	29,047	9,721
Amortisation	126	1,595
Defined contribution plan cost - EPF	14,647	12,682
Defined contribution plan cost - ETF	3,662	3,171
Defined benefit plan cost	5,138	3,758
Directors Fee	400	400
Provision for impairment of premium receivable	(2,200)	4,588

17 INCOME TAX EXPENSE

17.1 Amount recognised in profit or loss

For the year ended 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Current tax expense			
Current tax expense for the year		38,857	4,687
Under provision adjustment from prior year		1,302	989
		40,159	5,676
Deferred tax expense			
Reversal/(Origination) of deferred tax assets	26	11,973	(12,661)
Origination of deferred tax liabilities		1,942	-
Net Deferred tax reversal		13,915	(12,661)
Income Tax Reversal/(Expense)		**54,074**	**(6,985)**

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The Company is liable for Income tax at the rate of 28% on profit in respect of IRD Act No 24 of 2017 which came into effect from 1 April 2018. A provision has been made in these Financial Statements on account of income taxes in view of adjusted taxable profits of the Company.

17 INCOME TAX EXPENSE (Contd.)

17.2 Reconciliation of accounting profit to income tax expense

	2019 Rs. ' 000	2018 Rs. ' 000
Accounting profit before tax from continuing operations	169,429	94,742
Aggregated disallowable expenses	51,979	21,184
Aggregated allowable expenses	(37,848)	(9,338)
Statutory deductions - Tax loss (Note 17.4.1)	(44,783)	(89,845)
Taxable profit	**138,777**	**16,743**
Statutory tax rate		
- Tax rate 28%	38,857	4,687
Current tax expense	**38,857**	**4,687**

17.3 Amount recognised in OCI

	2019 Rs. ' 000	2018 Rs. ' 000
Available for sale investment securities	(137)	181
Remeasurement of defined benefit liability	(649)	511
	(786)	**692**

17.4 Analysis of Tax Losses

For the year ended 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Balance as at 1 January	43,412	133,257
Adjustment In respect of Prior Years	1,371	-
Tax loss utilised during the year	(44,783)	(89,845)
Balance as at 31 December	-	**43,412**

18 EARNINGS PER SHARE

Basic earnings per share

18.1 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	2019 Rs. ' 000	2018 Rs. ' 000
Profit for the period attributable to the owners of the Company	115,355	101,727
Weighted average number of ordinary shares	8,250	8,250
Basic Earnings Per Share (Rs.)	**13.98**	**12.33**

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 18.1

19 FINANCIAL INVESTMENTS

The following provides details of how insurance funds have been invested. The majority of the Company's investments, i.e. 53% are in Bank deposits with Banks and Financial Institutions and Finance Companies. Government securities are account for a further 47% of investments.

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

	Note	2019 Carrying Value Rs. ' 000	2019 Fair Value Rs. ' 000	2018 Carrying Value Rs. ' 000	2018 Fair Value Rs. ' 000
Loans and receivables (L&R)	19.1	1,426,470	1,426,470	1,060,749	1,060,749
Available for sale financial assets (AFS)	19.2	-	-	228,615	228,615
Total financial investments		**1,426,470**	**1,426,470**	**1,289,364**	**1,289,364**

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19 FINANCIAL INVESTMENTS (Contd.)

19.1 Loans and receivables (L&R)

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Bank deposit			
- Licensed Commercial Banks	19.1 (a)	525,675	355,149
- Licensed Finance Companies		223,887	220,363
Reverse repurchase agreements		676,908	485,237
		1,426,470	1,060,749

19.1 (a) Impairment of L&R Financial Investments

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

19.2 Available for sale financial assets (AFS)

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Treasury bills	19.2 (a)	-	228,615
		-	228,615

19.2 (a) Impairment of AFS Financial Investments

At the reporting date, there were no AFS financial investments that were overdue and impaired.

20 PROPERTY, PLANT AND EQUIPMENT

	2019 Rs. '000	2018 Rs. '000
Property, plant and equipment owned (Note 20.1)	30,121	29,967
Right-of-use assets (Note 20.2)	39,708	-
	69,829	29,967

20.1 Property, plant and equipment owned

Rs. '000	Office equipment	Furniture and fittings	Computer equipment	Motor Vehicle	Total 2019	Total 2018
Cost						
Balance as at 1 January	7,928	17,712	25,996	22,660	74,296	56,830
Additions during the year	1,152	2,275	8,615	-	12,042	18,086
Disposed during the year	-	-	-	-	-	(620)
Balance as at 31 December	9,080	19,987	34,611	22,660	86,338	74,296
Accumulated depreciation and impairment losses						
Balance as at 1 January	5,395	9,466	18,597	10,871	44,329	35,228
Depreciation for the year	1,134	2,177	4,045	4,532	11,888	9,721
Disposed during the year	-	-	-	-	-	(620)
Balance as at 31 December	6,529	11,643	22,642	15,403	56,217	44,329
Carrying value						
As at 31 December 2019	2,551	8,344	11,969	7,257	30,121	
As at 31 December 2018	2,533	8,246	7,399	11,789		29,967

20.1 Title restriction on property, plant and equipment

None

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20 PROPERTY, PLANT AND EQUIPMENT (Contd.)

20.2 Right-of-use assets

As explained in note 5.3 and 7, the Company adopted SLFRS 16 first time on 1 January 2019. Accordingly, a Right of use asset recognised in the statement of financial position for the fisrt time.

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

	Building Rs. '000
Balance as at 1 January 2019	54,833
Additions from entering to new lease agreements	2,034
Depreciation charge for the year	(17,159)
Balance as at 31 December 2019	**39,708**

20.3 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. 12 million which the Company has fully paid for.

20.4 Capitalisation of borrowing costs

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

20.5 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 2019. 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.

20.6 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	2019 Rs. ' 000	2018 Rs. ' 000
Computer equipment	16,988	15,336
Office equipment	4,391	4,160
Furniture and fittings	4,816	3,549
Total	**26,195**	**23,045**

20.7 Property, plant and equipment pledged as security

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

20.8 Temporarily idle property, plant and equipment

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

20.9 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.

21 INTANGIBLE ASSETS

	2019 Rs. '000	2018 Rs. '000
Computer software		
Cost		
Balance as at 1 January	24,459	22,699
Additions	125	1,760
Balance as at 31 December	**24,584**	**24,459**
Accumulated amortisation and impairment losses		
Balance as at 1 January	23,996	22,401
Amortisation	126	1,595
Balance as at 31 December	**24,122**	**23,996**
Carrying amount as at 31 December	**462**	**464**

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21 INTANGIBLE ASSETS (Contd.)

21.1 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. 22.58 Mn.

21.2 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at 31st December 2019. Based on the assessment, no impairment indicators were identified.

21.3 Capitalisation of Borrowing Costs

There were no borrowing costs related to Intangible Assets capitalised during the year. (2018 - Nil)

22 REINSURANCE RECIEVABLE

As at 31 December	2019 Rs. '000	2018 Rs. '000
Reinsurance receivable on outstanding claims	43,167	77,045
Reinsurance receivable on settled claims	11,423	-
Incurred But Not Reported (IBNR) - Reinsurance	23,234	14,018
	77,824	91,064
Impairment of reinsurance receivables	-	-
Total reinsurance receivables	77,824	91,064

22.1 Impairment of reinsurance receivables

As at 31 December 2019, there were no impairment loss recorded for reinsurance receivables.

23 PREMIUM RECIEVABLE

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Premium Receivables		376,939	343,900
Less - Impairment of premium receivables	23.1	(4,959)	(7,159)
		371,980	336,740

23.1 Impairment of premium receivables

As at 31 December	2019 Rs. '000	2018 Rs. '000
Balance as at 1 January	7,159	2,571
Provision/ (reversal) during the year	(2,200)	4,588
Balance as at 31 December	4,959	7,159

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23.2 Collateral details

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

23.3 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 38.1.4 to the financial statements.

24 RECEIVABLES AND OTHER ASSETS

As at 31 December	Note	2019 Rs. '000	2018 Rs. '000
Financial assets			
Refundable deposits		5,512	5,245
		5,512	**5,245**
Non financial assets			
Taxes recoverable	24.1	66,071	82,154
Prepayments		1,169	8,231
Other receivables		7,712	6,534
		74,952	**96,919**
Total receivables and other assets		**80,464**	**102,164**

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
24.1 Taxes recoverable		
Notional tax recoverable	13,654	24,463
WHT recoverable	41,954	36,888
ESC recoverable	10,463	20,804
	66,071	**82,154**

24.2 Refer Note 38 to the financial statements for risk management initiatives relating to other financial assets.

25 DEFERRED ACQUISITION COST (DAC)

	2019 Rs. ' 000	2018 Rs. ' 000
Balance as at 1 January	88,296	78,988
Acquisition cost during the Year	209,640	190,018
Amortisation for the Year	(202,851)	(180,710)
Balance as at 31 December	**95,085**	**88,296**

26 DEFERRED TAX

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Deferred tax liabilities	(1,942)	-
Deferred tax assets	4,493	17,252
	2,551	**17,252**

The movements on the deferred tax account is as follows:

	2019	2018
Deferred tax liabilities		
Balance at the beginning of the year	-	44
Recognised in profit or loss		
Originated during the year - Recognised in Profit or Loss	1,942	-
Recognised in OCI		
Reversal recognized during the year in OCI	-	(44)
Balance at the end of the year	**1,942**	**-**
Deferred tax assets		
Balance at the beginning of the year	17,252	3,943
Recognised in profit or loss		
(Reversed)/Originated during the year - Recognised in Profit or Loss	(11,973)	12,661
(Reversed)/Originated during the year - Recognised in OCI - Actuarial loss / (gain)	(649)	511
(Reversed)/Originated during the year - Recognised in OCI - AFS	(137)	137
Balance at the end of the year	**4,493**	**17,252**

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26 DEFERRED TAX (Contd.)

As at 31 December	2019		2018	
Rs. ' 000	Temporary difference	Tax effect	Temporary difference	Tax effect
Deferred tax liabilities				
Right of use asset	39,708	11,118	-	-
Lease liability	(32,772)	(9,176)	-	-
	6,936	1,942	-	-
Deferred tax assets				
Property, plant and equipment	498	139	3,942	1,104
Employee benefits	18,358	5,140	11,944	3,344
Actuarial loss	(2,318)	(649)	1,826	511
Carried forward tax losses	-	-	43,412	12,155
Changes in AFS reserve - Loss	(490)	(137)	490	137
Net deferred tax liabilities	16,048	4,493	61,613	17,252

27 CASH AND CASH EQUIVALENTS

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Cash and cash equivalents		
Cash at bank	83,482	51,318
Cash in hand	518	489
Total cash and cash equivalents	84,000	51,808
Bank overdrafts		
Bank overdraft	28,578	2,572
	55,422	49,236

26.1 Fair value of cash and cash equivalents

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

28 STATED CAPITAL

	2019		2018	
	Number of shares	Rs. '000	Number of shares	Rs. '000
Ordinary Shares	8,250,000	825,000	8,250,000	825,000

29 RESERVES

	Note	2019 Rs. ' 000	2018 Rs. ' 000
Reserve for available for sale financial instruments	28.1	-	(353)
Total reserves		-	(353)

29.1 Reserve for available for sale financial instruments

	2019	2018
Balance as at 1st January	(353)	113
Reailised gain on Available for sale assets - gross	490	-
Unrealised gain on Available for sale assets - gross	-	(647)
Related tax	(137)	181
Balance as at 31 December	-	(353)

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30 INSURANCE CONTRACT LIABILITIES

As at 31 December	Note	2019 Rs. ' 000	2018 Rs. ' 000
Outstanding claims provision (Gross)	30.1	338,554	313,325
Provision for unearned premiums (Net)	30.2	691,516	607,357
		1,030,070	920,682

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 Rs. ' 000	Note	2019 Insurance Contract Liabilities	2019 Reinsurance	2019 Net	2018 Insurance Contract Liabilities	2018 Reinsurance	2018 Net
Provision for reported claims		278,457	(43,167)	235,290	270,758	(77,045)	193,713
Incurred But Not Reported (IBNR)		60,097	(23,234)	36,863	42,567	(14,018)	28,549
Outstanding claims provision	30.1	**338,554**	**(66,401)**	**272,153**	**313,325**	**(91,064)**	**222,261**
Provision for unearned premiums	30.2	753,103	(61,587)	691,516	671,318	(63,961)	607,357
Total		**1,091,657**	**(127,988)**	**963,669**	**984,643**	**(155,025)**	**829,618**

30.1 Outstanding claims provision

The movement in the outstanding claims provision is as follows;

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Provision for reported claims		
Balance as at 1 January	270,758	227,535
Claims incurred during the year	(790,083)	775,743
Claims paid during the year	797,782	(732,520)
Balance as at 31 December	**278,457**	**270,758**
Incurred But not reported (IBNR)		
Balance as at 1 January	28,549	23,591
Increase/(decrease) in IBNR	8,314	4,957
Balance as at 31 December	**36,863**	**28,549**
	315,320	**299,307**

30.1.1 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 13 February 2020 for the above purpose.

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30 INSURANCE CONTRACT LIABILITIES (Contd.)

30.2 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 2019, but covering periods after 31 December 2019.

As at 31st December Rs. ' 000	2019			2018		
	Insurance Contract Liabilities	Reinsurance	Net	Insurance Contract Liabilities	Reinsurance	Net
Balance as at 1 January	671,318	63,961	607,357	617,325	57,030	560,296
Premiums written in the year	1,664,016	225,941	1,438,075	1,455,381	221,067	1,234,314
Premiums earned during the year	(1,582,231)	(228,315)	(1,353,916)	(1,401,388)	(214,136)	(1,187,253)
Balance as at 31 December	**753,103**	**61,587**	**691,516**	**671,318**	**63,961**	**607,357**

30.3 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 31st December 2019 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 31st December 2019. No additional provision was required against the LAT as at 31st December 2019.

30.4 Technical reserves

As at 31 December 2018	2019 Rs. ' 000	2018 Rs. ' 000
Insurance contract liabilities	1,030,070	920,682
Deferred acquisition cost (net)	(78,768)	(71,124)
Reinsurance receivable on outstanding claims (Exclusive of IBNR)	(43,167)	(77,045)
	908,135	**772,513**

31 REINSURANCE PAYABLES

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Balance as at 1 January	75,156	120,842
Originated during the year	(225,941)	(221,067)
Utilised during the year	177,181	175,381
	26,396	**75,156**

32 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	2019 Rs. ' 000	2018 Rs. ' 000
Balance as at 1 January	17,172	14,608
Commission income	57,315	54,990
Recognised during the year	(58,170)	(52,426)
	16,317	**17,172**

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33 OTHER LIABILITIES

	2019 Rs. ' 000	2018 Rs. ' 000
Other financial liabilities		
Agency commission payable	73,385	81,480
Other liabilities and accruals	16,278	29,168
	89,663	110,647
Other non financial liabilities		
Government levies	17,526	8,040
Other staff related provisions	21,168	36,676
	38,694	44,716
	128,357	155,363

34 Employee Benefits

The Company had 206 employees (full-time equivalents) as of 31 December 2019. Personnel and other related costs incurred for the year ended 31 December 2019 was Rs. 215 million (2018- Rs. 216 Mn) which include staff remuneration of Rs. 190 million (2018- 195 Mn) as of 31 December 2019.

34.1 Defined contribution

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

As at 31 December	2019 Rs. ' 000	2018 Rs. ' 000
Employees' Provident fund		
Employer's contribution (12%)	14,647	12,682
Employee's contribution (8%)	9,765	8,455
Employees' trust fund (ETF)		
Employer's contribution (3%)	3,662	3,171

34.2 Movement in present value of gratuity

	2019	2018
Balance as at 1 January	13,770	8,719
Included in profit or loss:		
Interest Cost	1,619	845
Current Service Cost	3,519	2,913
	5,138	3,758
Benefits paid		
Benefits paid	(550)	(533)
	(550)	(533)
Included in Other Comprehensive Income:		
Actuarial Loss/ (Gain)	(2,318)	1,826
Present Value Obligation as at 31 st December	16,040	13,770

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34.3 Principal actuarial assumptions used	2019	2018
Discount rate	11.50%	12.00%
Salary increase	10.00%	10.50%
Retirement Age	60 Years	60 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. Naseer Ahmad (ASA) for and on behalf of SHMA Consulting DMCC (Dubai). The valuation report was certified on 16 January 2020 for the above purpose.

34 Employee Benefits (contd)

34.4 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		2019		2018	
		Increase	Decrease	Increase	Decrease
Discount rate	1%	14,777	17,506	12,806	14,889
Future salary growth	1%	17,549	14,721	14,924	12,760

35 CURRENT TAX LIABILITIES

	2019 Rs. ' 000	2018 Rs. ' 000
Balance as at 1 January	29,536	23,860
Provision made for the year	38,857	4,687
Under provision adjustment from prior year	1,302	989
Self assesment payments	(8,253)	-
Set off against liability		
- ESC		-
- WHT	(29,906)	-
Balance as at 31 December	**31,536**	**29,536**

36 Lease liabilities

	2019 Rs. ' 000	2018 Rs. ' 000
Lease liabilities (2018: operating lease liabilities) (Note 36.1)	32,772	-
	32,772	-

36.1 Lease liabilities

Balance as at the beginning of the year	-	-
Recognition of lease liability on initial application of SLFRS 16 (Note 7.1)	56,211	-
Additions from entering to new lease agreements	2,034	-
Interest expense for the year	5,443	-
Repayment during the year	(30,916)	-
Balance at the end of the year	**32,772**	-

37 RELATED PARTY DISCLOSURES

37.1 Parent and ultimate controlling party

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

37.2 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.

37.3 Compensation of KMPs

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	2019 Rs. ' 000	2018 Rs. ' 000
Short term employment benefits	24,255	22,362
Post employment benefits	674	631
Independent Director Fee	400	400
	25,329	**23,393**

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. Further, the Company does not provide any non-cash benefit to the KMPs.

The Directors of the Company and their immediate relatives do not have substantial shareholdings in the Company as at 31 December 2019.

37 RELATED PARTY DISCLOSURES (Contd)

37.4 Transactions with Related Parties

Details of related party transactions are reported below.

Company	Relationship	Nature of the transaction	Transactions during the year 2019 Rs. ' 000	Transactions during the year 2018 Rs. ' 000	Balance as at 31 December 2019 Rs. ' 000	Balance as at 31 December 2018 Rs. ' 000
Al Futtaim Group - UAE	Ultimate Parent	Services obtained by the Company	20,507	16,772	(12,445)	(24,090)
		Amount paid to Parent Company	(32,151)	(1,132)		
AMW Capital Leasing PLC	Common ultimate parent	Fixed deposits	3,524	519	223,887	220,363
		Insurance premium due in respect of customer policies	-	-	38,477	45,292
		Lease Liability	1,555	1,363	6,810	8,366
		Insurance premium income in respect of own policies	1,490	1,126	-	-
		Vehicle hire charges paid	2,574	2,574	-	-
		Claims expenses paid	-	1,154	-	-
		Commission expense paid	25,123	20,476	-	-
Associated Motorways (Pvt) Limited	Common ultimate parent	Insurance premium due in respect of own policies	-	-	837	1,253
		Insurance premium due in respect of customer policies	-	-	-	239
		Insurance premium income	37,572	27,591	-	-
		Claim expenses paid	52,075	23,294	-	-

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38 FINANCIAL RISK REVIEW

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

38.1 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.

38.1.1 Insurance contracts

Following table summarizes the outstanding claims position as at 31st December,

Rs. ' 000	2019		
	Gross Claim	**Reinsurance**	**Net**
Provision for reported claims	278,457	(43,167)	321,624
Incurred But Not Reported (IBNR)	60,097	(23,234)	83,331
Total	**338,554**	**(66,401)**	**404,955**

Rs. ' 000	2018		
	Gross Claim	**Reinsurance**	**Net**
Provision for reported claims	270,758	77,045	193,712
Incurred But Not Reported (IBNR)	42,567	14,018	28,548
Total	**313,324**	**91,064**	**222,261**

38.1.2 Estimation for claim reserve

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

	2019 Rs. ' 000	2018 Rs. ' 000
(+) 1% in claims ratio		
Net impact to PBT	(13,539)	(11,873)
Impact to Net Assets	(9,748)	(8,548)

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38 FINANCIAL RISK REVIEW (Contd)

38.1.3 Re insurance risk

As at 31 December 2019, 78% 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
Swiss-Re	A+	A.M Best
Partner-Re	A+	A.M Best
ARIG	BB+	A.M Best
Korean-Re	A	A.M Best
Trust-Re	B++	A.M Best
Milli Re	BBB-	A.M Best
Liberity	A	A.M Best
Scor Global	AA-	A.M Best
Saudi Re	BBB+	S & P
GIC	A-	A.M Best
R & V	AA-	S & P
Helvetia	A	S & P
QBE Underwriting Limited	A+	A.M Best
Navigators Underwriting Agency Limited	A+	A.M Best
Chaucer Syndicates Limited	A-	S & P
Sirius International Managing Agency Limited	A	A.M Best
Hannover Re	AA	A.M Best
Antares Managing Agency Limited	A	A.M Best
SCOR Global P&C	AA-	A.M Best
ADNIC international Division Dubai	A-	S & P
Starr International Insurance Singapore Pte Ltd	A	A.M Best
Navigators Underwriting Agency Limited	A+	A.M Best
Hardy (Underwriting Agencies) Limited	A+	A.M Best
Axis	A+	S & P
Hiscox (Nasco Facilities with Lloyds)	a	A.M Best
Novae (Nasco Facilities with Lloyds)	a	A.M Best
Lansforsakringar	a3	Moody's
Canopius Reinsurance Limited	A	A M Best
Echo Re	A-	S & P
Generali	AA+	A.M Best
Gulf Re	A3/A-	Moody's
Arch re	A+	S&p
ACE Insurance Ltd	AA-	S&P
Mapfre Re	A	A.M Best

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38 FINANCIAL RISK REVIEW (Contd)

38.1.4 Concentration Risk

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

Rs. ' 000	2019			
Class	Gross Written Premium	Reinsurance	Net Written Premium	%
Fire	101,588	94,829	6,759	0%
Motor	1,341,700	58,497	1,283,203	89%
Marine	17,188	12,304	4,884	0%
Casualty	101,246	30,614	70,632	5%
Engineering	34,226	29,698	4,528	0%
Medical	68,068	-	68,068	5%
	1,664,016	**225,941**	**1,438,075**	
Motor / Non Motor Composition				
Motor	1,341,700	58,497	1,283,203	89%
Non Motor	322,316	167,444	154,872	11%
	1,664,016	**225,941**	**1,438,075**	

Rs. ' 000	2018			
Class	Gross Written Premium	Reinsurance	Net Written Premium	%
Fire	89,370	86,813	2,557	0%
Motor	1,161,380	53,184	1,108,196	90%
Marine	23,468	15,692	7,776	1%
Casualty	110,163	40,289	69,873	6%
Engineering	26,834	25,089	1,745	0%
Medical	44,166	-	44,166	4%
	1,455,381	**221,067**	**1,234,314**	
Motor / Non Motor Composition				
Motor	1,161,380	53,184	2,557	0%
Non Motor	294,001	167,883	1,231,757	100%
	1,455,381	**221,067**	**1,234,314**	

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38 FINANCIAL RISK REVIEW (Contd)

38.2 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.

38.2.1 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.

		2019			
Rs. ' 000	**Loans and receivables**	**Available for sale financial assets**	**Cash and cash equivalents**	**Total**	**(%)**
Maximum exposure to credit risk	**1,426,470**	-	**54,905**	**1,481,375**	**100%**
Carrying amount	**1,426,470**	-	**54,905**	**1,481,375**	
AAA	-	-	2,385	**2,385**	0%
AA+ to AA -	-	-	7,282	**7,282**	0%
A+ to A-	72,886	-	45,237	**118,123**	8%
BBB+ to BBB-	452,789	-	-	**452,789**	31%
Government guaranteed	223,887	-	-	**223,887**	15%
Not rated	676,908	-	-	**676,908**	46%
Total	**1,426,470**	-	**54,905**	**1,481,375**	
Neither past due nor impaired	**1,426,470**	-	**54,905**	**1,481,375**	
AAA	-	-	2,385	**2,385**	0%
AA+ to AA -	-	-	7,282	**7,282**	0%
A+ to A-	72,886	-	45,237	**118,123**	8%
BBB+ to BBB-	452,789	-	-	**452,789**	31%
Government guaranteed	223,887	-	-	**223,887**	15%
Not rated	676,908	-	-	**676,908**	46%
Total	**1,426,470**	-	**54,905**	**1,481,375**	
Past due but not impaired	**Nil**	**Nil**	**Nil**	**Nil**	
Impaired	**Nil**	**Nil**	**Nil**	**Nil**	

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38 FINANCIAL RISK REVIEW (Contd)

38.2.1 Credit Quality analysis (Contd)

	2018				
Rs. ' 000	**Loans and receivables**	**Available for sale financial assets**	**Cash and cash equivalents**	**Total**	**(%)**
Maximum exposure to credit risk	**1,060,749**	**228,615**	**49,235**	**1,338,599**	**100%**
Carrying amount	**1,060,749**	**228,615**	**49,235**	**1,338,599**	
AAA	-	-	44	**44**	0%
AA+ to AA -	128,174	-	11,591	**139,765**	10%
A+ to A-	226,975	-	37,111	**264,086**	20%
BBB+ to BBB-	220,363	-	-	**220,363**	16%
Government guaranteed	485,237	228,615	-	**713,852**	53%
Not rated	-	-	489	**489**	0%
Total	**1,060,749**	**228,615**	**49,235**	**1,338,599**	
Neither past due nor impaired	**1,060,749**	**228,615**	**49,235**	**1,338,599**	
AAA	-	-	44	**44**	0%
AA+ to AA -	128,174	-	11,591	**139,765**	10%
A+ to A-	226,975	-	37,111	**264,086**	20%
BBB+ to BBB-	220,363	-	-	**220,363**	16%
Government guaranteed	485,237	228,615	-	**713,852**	53%
Not rated	-	-	489	**489**	0%
Total	**1,060,749**	**228,615**	**49,235**	**1,338,599**	
Past due but not impaired	**Nil**	**Nil**	**Nil**	**Nil**	
Impaired	**Nil**	**Nil**	**Nil**	**Nil**	

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

	2019		2018	
Rs'000	**Reinsurance receivable**	**Premium receivable**	**Reinsurance receivable**	**Premium receivable**
Maximum exposure to credit risk	**54,590**	**371,980**	**77,045**	**336,740**
Neither past due nor impaired	22,220	279,856	16,220	271,445
Past due but not impaired				
61-90 days	2,385	51,906	1,556	38,147
90-180 days	6,747	32,723	21,922	31,694
180 days +	23,238	12,454	37,347	2,614
Total	**32,370**	**97,083**	**60,825**	**72,455**
Impaired	-	(4,959)	-	(7,159)
Total	54,590	371,980	77,045	336,740

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.

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38 FINANCIAL RISK REVIEW (Contd)

Credit risk relating to reinsurance receivable (contd)

Rs.Mn	2019				2018			
	On paid claims	On reserve	Total	%	On paid claims	On reserve	Total	%
AAA	-	-	-	0%	-	1,481	1,481	2%
AA	156	702	859	2%	-	10,029	10,029	13%
AA -	1,968	6,464	8,432	15%	-	13,639	13,639	18%
A +	3,894	7,536	11,429	21%	-	5,151	5,151	7%
A	2,000	3,743	5,743	11%	-	13,788	13,788	18%
A -	1,363	3,588	4,951	9%	-	3,817	3,817	5%
BBB +	641	1,116	1,756	3%	-	1,400	1,400	2%
BB+	272	1,357	1,630	3%	- -		-	0%
BBB-		932	932	2%	-	1,451	1,451	2%
B+	360	293	653	1%	- -		-	0%
NITF	767	10,459	11,227	21%	-	19,589	19,589	25%
Unrated		6,978	6,978	13%	-	6,700	6,700	9%
Total	**11,423**	**43,167**	**54,590**		-	**77,045**	**77,045**	
IBNR	-	23,234	**23,234**		-	14,018	**14,018**	
Total RI Receivable	11,423	66,401	77,824		-	91,064	91,064	

Credit risk relating to premiums receivable

Rs'000	2019				2018			
	Upto 30 Days	31-60 Days	Above 60 Days	Total	Upto 30 Days	31-60 Days	Above 60 Days	Total
Total Receivables	137,020	101,599	138,320	**376,939**	147,471	124,005	72,423	**343,899**

Credit risk relating to cash anc

The Company held cash and cash equivalents of Rs. 55 million at 31 December 2019. The cash and cash equivalents are held with banks and financial institutional counterparties, which are rated BBB+ or better except for cash in hand of Rs 518,439.

38.2.2 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 8% is maintained at all times. As at the Reporting date, Company holds treasury bills worth Rs. 727,972,134/- as collateral for reverse repo investments amounting to Rs. 676,907,895/-.

38.2.3 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.

38 FINANCIAL RISK REVIEW (Contd)

38.2.3 Concentrations of credit risk (Contd)

By instrument:

As at 31 December	2019 Rs. ' 000	%	2018 Rs. ' 000	%
Government securities and related institutions	676,908	47%	713,852	55%
Fixed deposits & Others	749,562	53%	575,512	45%
Total	1,426,470	100%	1,289,364	100%

38.3 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.

38.3.1 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.

	2019					
Rs'000	**Carrying amount**	**Up to one year**	**1 - 5 years**	**Over 5 years**	**No Maturity Date**	**Total**
Financial assets						
Loans and receivables	1,426,470	1,426,470	-	-	-	1,426,470
Available for sale	-	-	-	-	-	-
Reinsurance receivable	77,824	55,748	17,241	4,835	-	77,824
Premiums receivable	371,980	376,024	(4,020)	(24)	-	371,980
Other financial assets	5,512	5,512	-	-	-	5,512
Cash and cash equivalents	84,000	84,000	-	-	-	84,000
Total undiscounted assets	**1,965,786**	**1,947,754**	**13,221**	**4,811**	-	**1,965,786**
Financial liabilities						-
Insurance contract liabilities	1,030,070	1,030,070	-	-	-	1,030,070
Reinsurance payable	26,396	26,396	-	-	-	26,396
Other financial liabilities	89,663	89,663	-	-	-	89,663
Bank overdraft	28,578	28,578	-	-	-	28,578
Total undiscounted liabilities	**1,174,707**	**1,174,707**	-	-	-	**1,174,707**
Total liquidity excess	**791,079**	773,047	13,221	**4,811**	-	791,079

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38 FINANCIAL RISK REVIEW (Contd)

38.3.1 Maturity analysis for financial assets and financial liabilities (Contd)

	2018					
Rs'000	Carrying amount	Up to one year	1 - 5 years	Over 5 years	No Maturity Date	Total
Financial assets						
Loans and receivables	1,060,749	1,060,749	-	-	-	1,060,749
Available for sale	228,615	228,615	-	-	-	228,615
Reinsurance receivable	91,064	62,679	23,550	4,835	-	91,064
Premiums receivable	336,740	338,260	(1,520)	-	-	336,740
Other financial assets	5,245	5,245	-	-	-	5,245
Cash and cash equivalents	51,808	51,808	-	-	-	51,808
Total undiscounted assets	**1,774,221**	**1,747,356**	**22,030**	**4,835**	-	**1,774,221**
Financial liabilities						-
Insurance contract liabilities	920,681	920,681	-	-	-	920,681
Reinsurance payable	75,156	75,156	-	-	-	75,156
Other financial liabilities	110,647	110,647	-	-	-	110,647
Bank overdraft	2,572	2,572	-	-	-	2,572
Total undiscounted liabilities	**1,109,057**	**1,109,057**	-	-	-	**1,109,057**
Total liquidity excess	**2,883,278**	**2,856,413**	**22,030**	**4,835**	-	**2,883,278**

Financial assets pledged as collateral

There were no financial assets pledged as collateral during the year ended 31 December 2019.

38.4 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 three categories namely;

i. Currency risk

ii. Interest rate risk

The table below sets out the allocation of assets and liabilities subject to market risk.

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38.4.1 Exposure to interest rate risk

The following is a summary of the Company's interest rate gap position on non-trading portfolios.

Rs'000	2019					
	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Loans and receivables	1,426,470	578,910	65,364	782,196	-	-
Available for sale	-	-	-	-	-	-
Cash and cash equivalents	84,000	84,000	-	-	-	-
Bank overdraft	28,578	28,578	-	-	-	-

Rs'000	2018					
	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
Loans and receivables	1,060,750	660,335	58,814	341,601	-	-
Available for sale	228,615	228,615	-	-	-	-
Cash and cash equivalents	51,808	51,808	-	-	-	-
Bank overdraft	2,572	2,572	-	-	-	-

38 FINANCIAL RISK REVIEW (Contd)

Sensitivity analysis

The table below shows the estimated impact on profitability and equity due to fluctuation of interest rates on the fixed rate available for sale financial assets.

Sensitivity of PBT and equity to changes in interest rates

	2019				
Change in variables	**Impact on profit before tax**	**Impact on equity**			
Rs'000		**Up to one year**	**1 - 5 years**	**Over 5 years**	**Total**
(+) 100 basis points	-	-	-	-	-
(-)100 basis points	-	-	-	-	-

	2018				
Change in variables	**Impact on profit before tax**	**Impact on equity**			
Rs'000		**Up to one year**	**1 - 5 years**	**Over 5 years**	**Total**
(+) 100 basis points	6,289	6,289	-	-	6,289
(-)100 basis points	(6,303)	(6,303)	-	-	(6,303)

38.4.1 Exposure to interest rate risk (Contd)

The Company's investment portfolio is analyzed based on the types of interest rates are as follow:

	2019			2018		
Instruments Rs'000	**Fixed Interest Rate**	**Variable Interest Rate**	**Non-Interest bearing**	**Fixed Interest Rate**	**Variable Interest Rate**	**Non-Interest bearing**
Government Securities	676,908	-	-	713,852	-	-
Fixed deposits	749,562	-	-	575,512	-	-
Total	**1,426,470**	**-**	**-**	**1,289,364**	**-**	**-**

38.4.2 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	2019		2018	
Rs'000	**Amount in Foreign Currency**	**LKR amount**	**Amount in Foreign Currency**	**LKR amount**
USD Deposits	228	40,698	212	38,176

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39 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.

39.1 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 19 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.

39.2 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.

39.3 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.

39 DETERMINATION OF FAIR VALUES (Contd.)

39.4 Valuation methodologies of financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

As at 31 December 2019 Rs. ' 000	Note	Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
Available for sale financial assets:					
Government Securities	19.2	-	-	-	-
		-	-	-	-

As at 31 December 2018 Rs. ' 000	Note	Fair value hierarchy			
		Level 1	Level 2	Level 3	Total
Available for sale financial assets:					
Government Securities	19.1	228,615	-	-	228,615
		228,615	-	-	228,615

Whenever available, quoted prices in active markets are obtained for identical assets at the reporting date to measure fixed maturity securities at fair value in trading and available for sale portfolios.

39.5 Fair values of financial assets and liabilities not carried at fair value

As at 31 December		2019		2018	
Rs. ' 000	Note	Fair Value	Carrying Value	Fair Value	Carrying Value
Loans and receivables :					
Fixed term deposit	19.1	749,562	749,562	575,512	575,512
Reverse repos	19.1	676,908	676,908	485,237	485,237
		1,426,470	1,426,470	1,060,749	1,060,749

39.5.1 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.

39.5.1 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.

39.6 Other Financial Assets

Other financial assets which are not recorded at fair value in the statement of financial position are listed below.

	Note	2019		2018	
		Fair Value	Carrying Value	Fair Value	Carrying Value
Other financial assets :					
Reinsurance receivables	22	77,824	77,824	91,064	91,064
Premium receivables	23	371,980	371,980	336,740	336,740
Refundable deposits	24	5,512	5,512	5,245	5,245
Cash and cash equivalent	27	84,000	84,000	51,808	51,808
		539,316	539,316	484,857	484,857

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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.

39 DETERMINATION OF FAIR VALUES (Contd)

39.7 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	2019 Fair Value	2019 Carrying Value	2018 Fair Value	2018 Carrying Value
Other financial liabilities :					
Reinsurance payables	31	26,396	26,396	75,156	75,156
Agency commission payables	33	73,385	73,385	81,480	81,480
Other financial liabilities	33	16,278	16,278	29,168	29,168
Bank overdraft	27	28,578	28,578	2,572	2,572
		144,637	**144,637**	**188,376**	**188,376**

40 Comparative figures

The presentation and classification in the financial statements have been amended where appropriate to ensure comparability with the current year.

41 Commitments

There were no significant capital commitments as at the reporting date.

42 Events after the reporting date

There have been no material events occurring after the reporting date which require disclosure or adjustment in the financial statements.

43 Contingencies

There have been no material Contingent liabilities outstanding as at the reporting date except for the below;

43.1 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 24 March 2020.

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.

44 Director's Responsibility

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

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