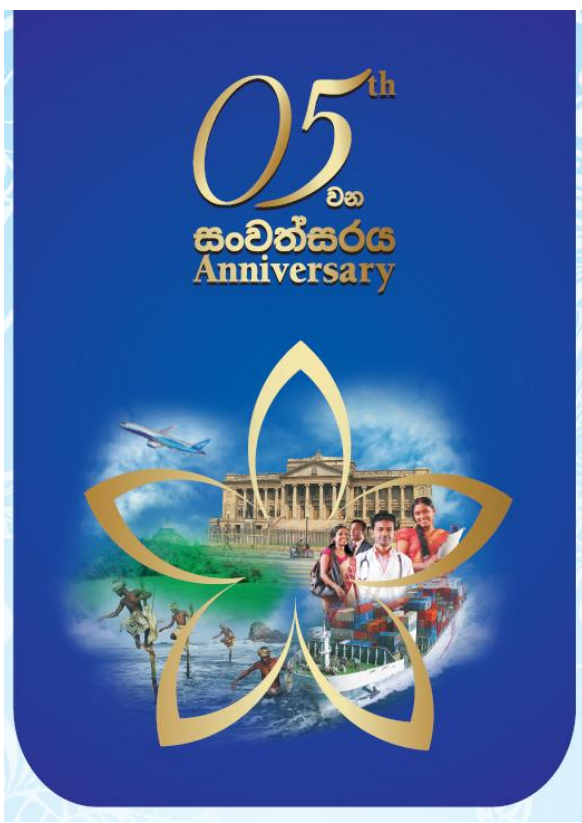


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1. CORPORATE PHILOSOPHY

VISION



***SAFETY-NET AND PROTECTION
FOR ALL NEEDY SECTORS***



MISSION

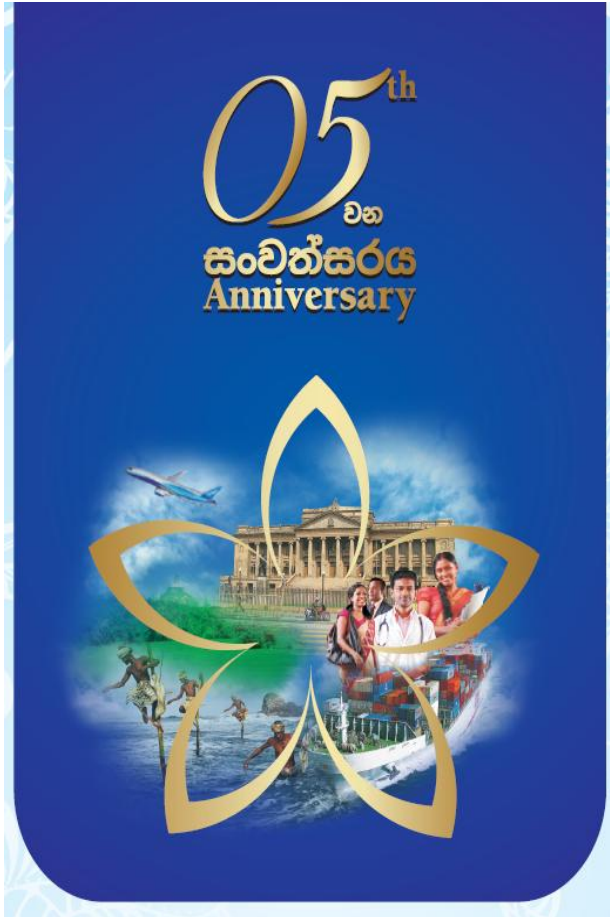
To contribute to the social and economic development of Sri Lanka through:

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



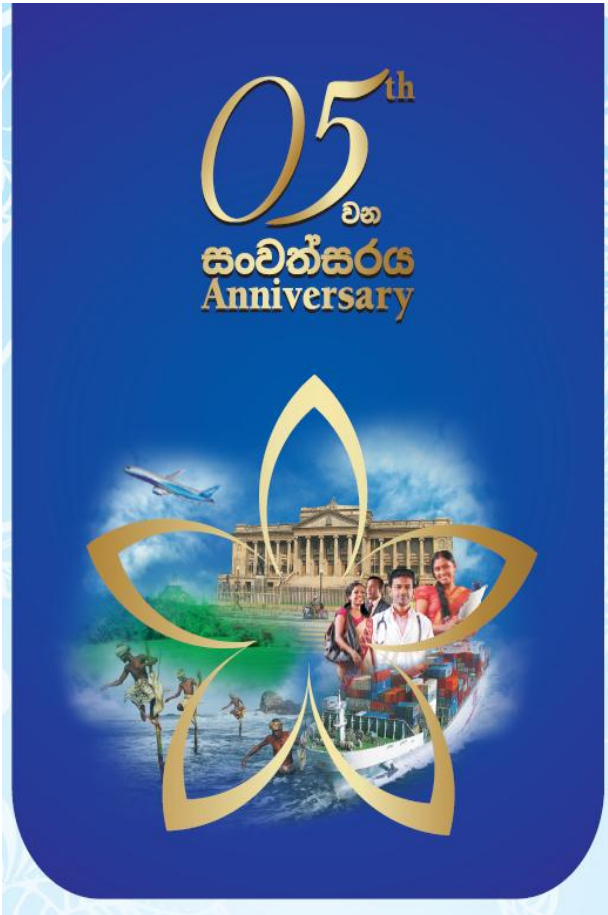
CORPORATE VALUES

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



2. GOALS AND OBJECTIVES

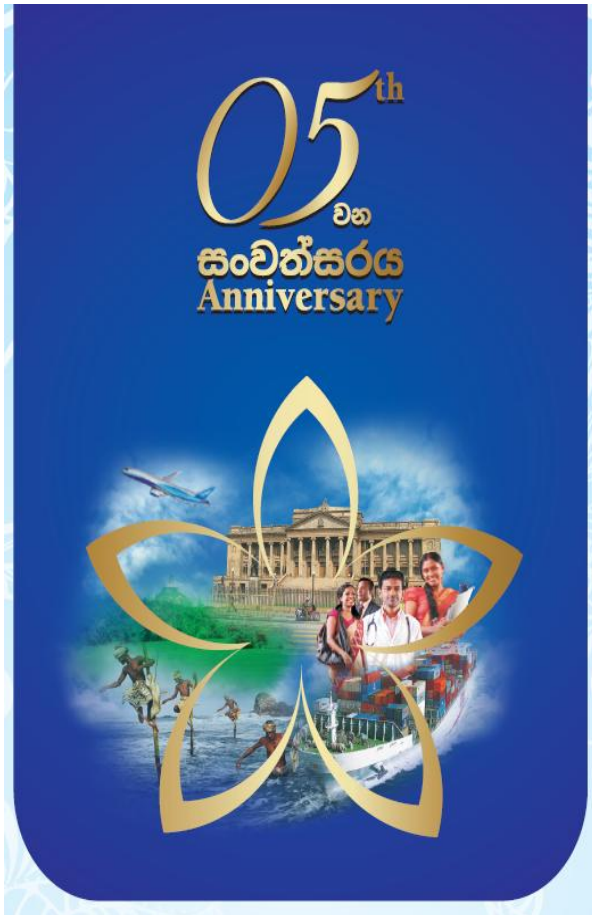
- **Implement insurance schemes for the benefit of intended target groups covering all segments of society.**
- **Design and manage a reinsurance programme to capture minimum of 50% of the reinsurance market.**
- **Automating the management of all schemes implemented by the NITF.**
- **Develop human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



3. MEMBERS OF THE BOARD OF NATIONAL INSURANCE TRUST FUND -2011



- | | |
|-------------------------------------|---------------|
| ❖ Mr. Senaka D. Abeygoonasekera (1) | - Chairman |
| ❖ Dr. Lohitha Samarawickrama (3) | -Board Member |
| ❖ Mr. N. Kulasekera (2) | -Board Member |
| ❖ Mr. J. Dadellage (4) | -Board Member |
| ❖ Mr. A. K. Seneviratne (5) | -Board Member |
| ❖ Mr. W. H. Piyadasa (6) | -Board Member |



4. CHAIRMAN'S REVIEW

**Presentation of Annual Report -2011**

I am privileged to present the Annual Report of National Insurance Trust Fund for the year ended 2011, the year of celebrating its 5th anniversary.

Macro-Economic Perspective

The service sector which includes banking and insurance subsector contributed 61.8% to overall economic growth expanding at 8.6% in 2011. The banking, insurance, real estate sector expanded with increased income from both banking and non-banking sector as well as the insurance subsector reflecting increased demand for financial services with growing economic activities. Banking, Insurance and real estate sector's contribution to GDP is 8.8% in 2011. The

growth in this sector was recorded as 7.9% in 2011. The growth of this sector was supported by the expansion of branch network, services and favorable macroeconomic environment that led to high growth in private sector credit. The performance of insurance subsector was benefited by the expansion in the general insurance businesses including vehicle insurance corresponding to expansion of economic activities. In the year 2011, NITF was brought under purview of Insurance Board of Sri Lanka in addition to 21 insurance companies registered with Insurance Board of Sri Lanka as a result of strengthening regulatory frame-work applicable to insurance sector, consequent to enactment of amendment to the Regulation of Insurance Industry Act. No.3 of 2011.

Segregation of long-term and general insurance businesses into separate companies, introduction of risk-based capital adequacy framework, would be new developments for the insurance industry.

Performance and Contribution

The Net Earned Premium Income of NITF in 2011 amounted to Rs.3.6 billion as against to Rs. 3.9 billion in 2010 which is a slight decrease. The Net Profit in 2011 remained at Rs. 2.3 billion which is same as in 2010's Net Profit of Rs. 2.3 billion. The financial performance of NITF is elaborately illustrated in Performance Review section. NITF continued to implement socially inclined insurance schemes such as "Agrahara" Health insurance scheme, Parliamentary Members insurance scheme and Foreign Employment insurance scheme. The management of the special account in respect of issuance of insurance policies for strike riot, civil commotion and terrorism covers, general insurance businesses undertaken in terms of the Order by His Excellency the president under section 2 of the NITF Act No 28/2006, and accepting 20% mandatory cession on reinsurance placements by the insurance companies, have mainly contributed for performance achieved during the year under review.

Appreciation

I take this opportunity to convey my heartfelt thanks to HE the president as the Minister in Charge of the subject of Finance, Secretary to the Treasury for his unstinted guidance and support, the officials of Ministry of Finance and Planning and officials of IBSL, for their corporation extended to the Board.

My special thanks to the members of the Board for their valuable contributions.

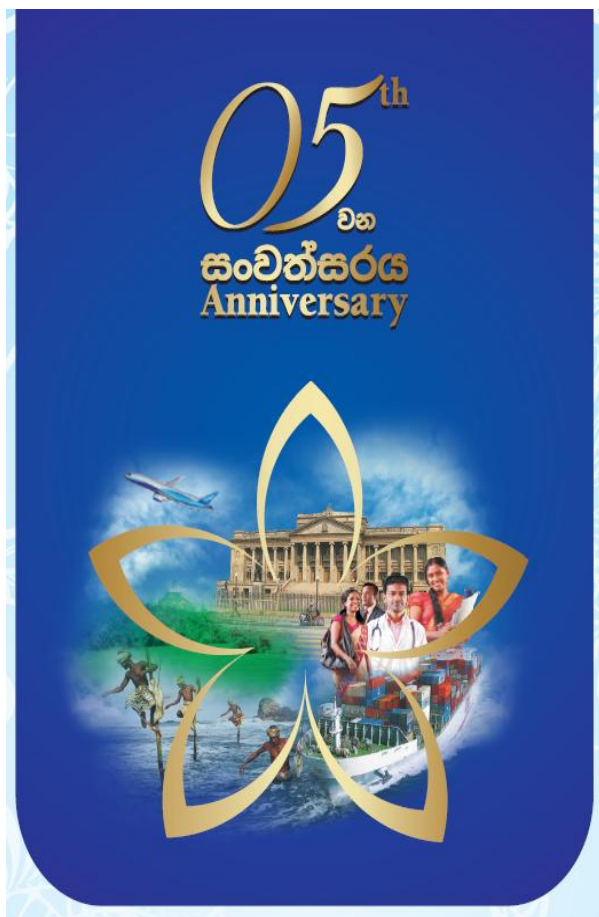
I wish to thank our valued clients and business partners for the trust and confidence placed on us.

Our employees are our foundation. Their dedicated service is the only way forward for the success of NITF Board. I convey my sincere appreciation to the dedicated team led by managers and assistant managers of NITF Board for their commitment.

Sgd,

D. Widanagamachchi

Chairman



5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 GENERAL REVIEW

The management of the NITF is aware that NITF's commercial operations are substantially impacted by macroeconomic dynamics. This is because all the economic developments in Sri Lanka carry a risk of failure and this is mostly countered by obtaining insurance covers taken from insurance companies in Sri Lanka. Consequently the insurance companies transfer their risks by reinsuring 20% with NITF and the rest of the portion with the foreign reinsurer. Hence the NITF considers the macro economic developments in the country when it makes strategic decisions.

Macro-Economic Review

For the first time in history, Sri Lanka recorded over eight percent growth in two consecutive years (2010 and 2011). While the GDP was estimated to exceed USD 59 billion GDP per capita in 2011 was around USD 2,830. His Excellency the President of Sri Lanka has declared that the economy must move towards USD 4,000 per capita income range in 2016, which implies that the economy must grow well in excess of eight

percent, which Sri Lanka maintained during the last two years. Inflation steadied at mid-single digit level while there was also a significant reduction in poverty.

External trade in 2011 remained strong where both exports and imports expanded recording 51.6 percent of GDP, up from 44.4 percent in 2010. Workers' remittances were estimated to be around USD 5.2 billion in 2011, which was a 27 percent increase from the previous year. As a percentage of GDP this was 8.8 percent and as a percentage of total external receipts was 18 percent.

One of the key reasons for this growth was the attention to skilled labor migration and improved arrangements to channel remittances through banking sources.

In 2011, the industrial sector grew 10.3 percent and services rose 8.6 percent while the agriculture sector grew only by 1.5 percent.

During the year, the Employees' Provident Fund reached the one trillion Rupee milestones. The global ranking of Sri Lanka in many areas improved in 2011 with the Global Competitiveness Index increasing from 52nd to 62nd and the Doing Business Index going up to 8 Index placed Sri Lanka at the seventh position.

Tourist arrivals recorded 855,000 for 2011, an increase of 38 percent over the previous year. Earnings from tourism increased by 47 percent and average spending per tourist per night increased to USD 97 from USD 88 in 2010.

The Colombo Stock Exchange (CSE) experienced mixed results in 2011 with growth in the first half of 2011, and a decline in the second half. Funds rose through Initial Public Offerings (IPOs) and Rights Issues increased in 2011.

The net foreign outflow was Rs.19 billion in 2011, which was 0.86 percent of the market

capitalization of Rs.2,214 billion. Net foreign outflows through the stock market were offset by foreign inflows to government securities during 2011, which increased by Rs.25 billion. In addition, the total value of foreign holdings as at end 2011 was Rs.437 billion (about 20 percent of the total market capitalization).

During the year 2011, many macroeconomic projects were commenced such as Colombo Port Expansion Project.



During the year 2011, many macroeconomic projects were commissioned such as Magampura Mahinda Rajapaksa Port, Nelumpokuna Mahinda Rajapaksa Theatre and Norochcholai Coal Power Station.



Insurance Industry Review

The insurance industry was able to achieve significant growth during the year 2011 when compared with the year 2010. There were twenty two (22) Insurance Companies (Insurers) registered with Insurance Board of Sri Lanka at the end of year 2011 and out of

which 21 insurance companies were in operation. Twelve (12) of them are composite companies (dealing in both General and Long Term Insurance businesses), seven (07) of them are registered to carry on General Insurance business and three (03) companies are registered to carry on only Long Term (Life) Insurance business.

The overall Gross Written Premium (GWP) Income for Long Term Insurance and General Insurance businesses was Rs. 78,512 million compared with the previous year amount of Rs. 66,253 million which reflected a growth of 18.50%. The General Insurance Business has demonstrated growth in overall Gross Written Premium Income during 2011 when compared to the year 2010. The Long Term Insurance Business also showed a growth in overall Gross Written Premium Income during 2011 when compared to the year 2010. The overall Gross Written Premium Income of General Insurance Business amounted to Rs. 43,331 million reflecting a growth rate of 23.45% (2010 – Rs. 35,101 million) while the overall Gross Written Premium Income of Long Term Insurance Business amounted to Rs. 35,181 million during the year 2010 reflecting a growth rate of 12.93% (2010 – Rs. 31,152 million).

Role of NITF

When the country has been heading towards the Wonder of Asia, with an accelerated economic growth over 8%, under the visionary leadership of His Excellency the president Mahinda Rajapaksa, the NITF while being the national reinsurer, was able to absorb substantial portion of the risk derived from the economic activities took place in 2011.

NITF contributed towards the objectives of the country by providing various insurance covers such as health insurance schemes, general insurance schemes and reinsurance. The health insurance schemes, which are designed for Government sector work force responsible for the major development activities in Sri Lanka and the foreign employed work force who brings foreign exchange to the country, protect health of large portion of the country's work force. The NITF is also responsible for providing construction and development related insurance covers such as Traders' Combined, Electronic All Risks (EAR), Contractors' All Risk

(CAR), Workers' Compensation Insurance (WCI) etc. as well as absorbing other Sri Lankan general insurance companies' risk through 20% reinsurance program.

Since the general insurance penetration as a percentage of GDP was 0.66% in 2011 as against to 0.63% in 2010, the NITF was geared to cater to increasing demand.

5.2

PERFORMANCE

REVIEW

5.2.1 SIX YEAR FINANCIAL

REVIEW

Consolidated Net Earned Premium Income recorded an increasing trend over the 4 years till 2009, and thereafter remained more or less constant till 2011.

Chart- 5.01: Past Trend in Net Earned Premium

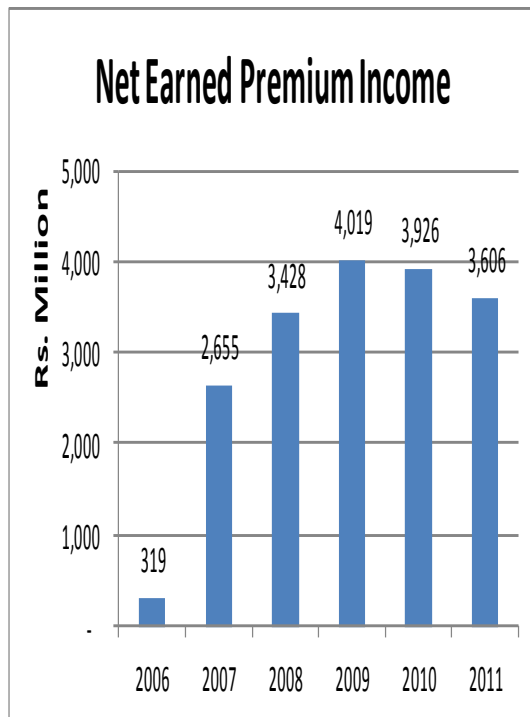
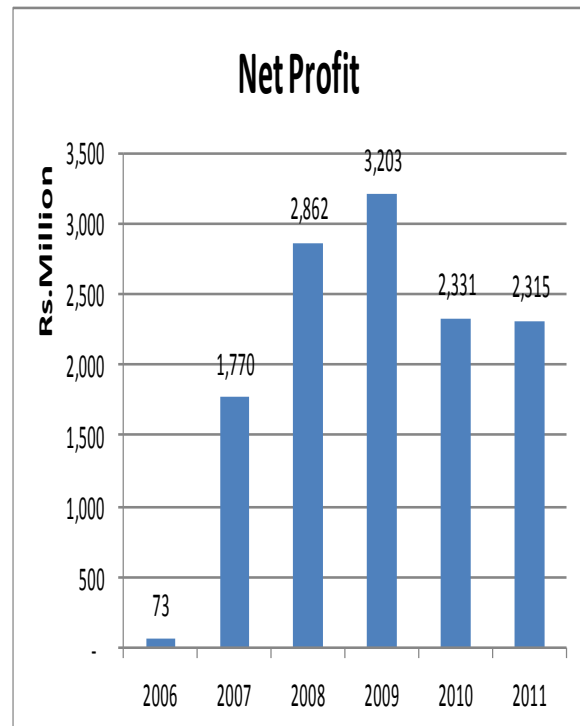
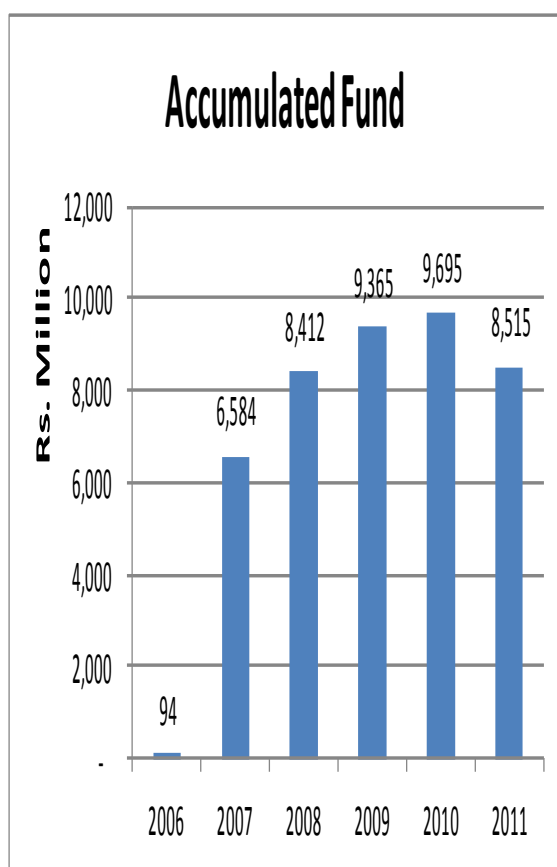


Chart- 5.02: Past Trend in Net Profit



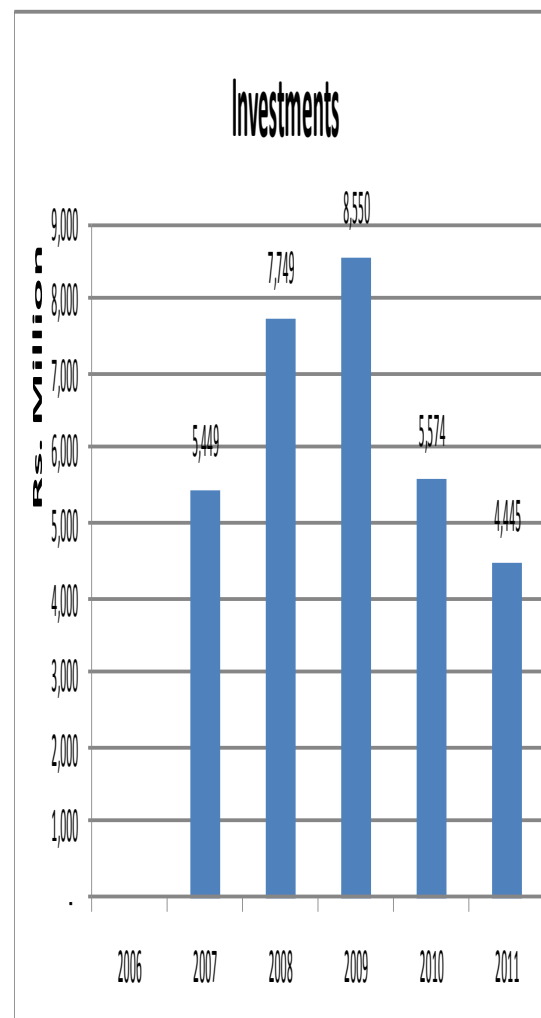
The Net Profit displayed an increasing trend over the 4 years till 2009. Thereafter it reduced substantially in 2010 due to reduction in demand for terrorism cover. In 2011 it has decreased slightly by 7% relative to 2010.

Chart- 5.03: Past Trend in Accumulated Fund



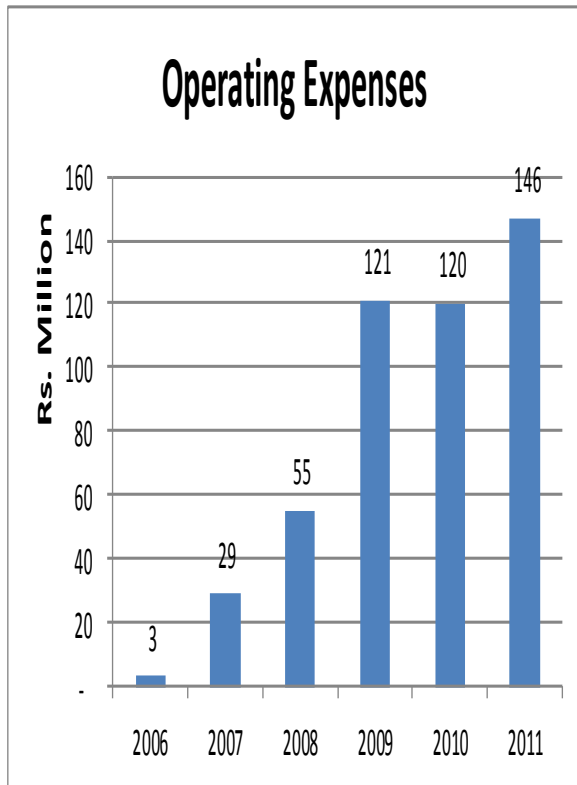
The Accumulated Fund showed a growth till 2010 to a Rs. 9,695 million but reduced by 12% in 2011 compared to 2010.

Chart- 5.04: Past Trend in Investment



Investments illustrated a growing trend till 2009, thereafter decreased substantially in 2010 and slightly reduced in 2011 to Rs. 5,574 million.

Chart- 5.05 : Past Trend in Operational Expenses



Operating Expenses recorded a fluctuating growth trend although in 2010 it is slightly low while in 2011 it is the highest.

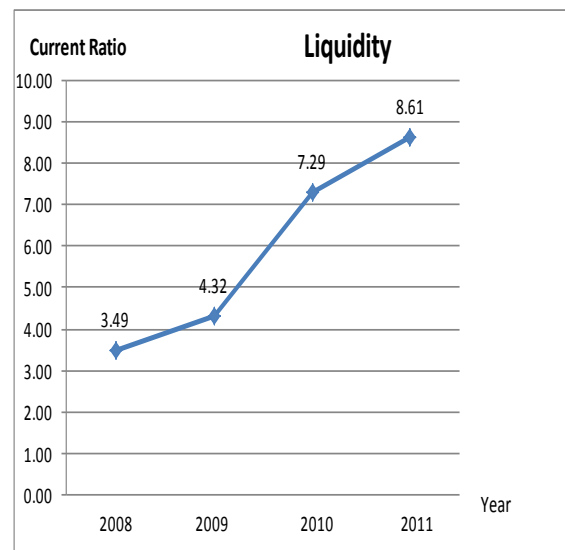
5.2.2 LIQUIDITY AND SOLVENCY ANAYLSIS

Liquidity Ratio Analysis

When considering the liquidity position of the NITF which is measured from the current ratio, it is visible that the current ratio has improved to double over the four years from 2008 to 2011. Improving of liquidity position over the four years indicates the NITF's sound buoyancy for the sudden escalation of claims payment requirements.

In terms of provisions in the NITF Act No. 28 of 2006, excess funds should be invested in Government securities (Treasury Bonds, Treasury Bills and REPOs etc.) which are risk free. In 2011, out of the total accumulated fund of Rs. 8.5 billion a sum of Rs. 7.7 billion Government securities (Treasury Bonds, Treasury Bills, REPOs, and Debentures) represents liquid financial assets. It has led to increased liquidity and to obtain a RAM rating of AAA.

Chart- 5.06 : Liquidity



NITF has adopted a prudent policy in order to manage the possibility of escalated claims by investing Rs. 4.5 billion in REPOs of the total investment in Government securities, which can be converted into cash very quickly.

Solvency Margin Analysis

Chart- 5.07 : Solvency Ratio Analysis

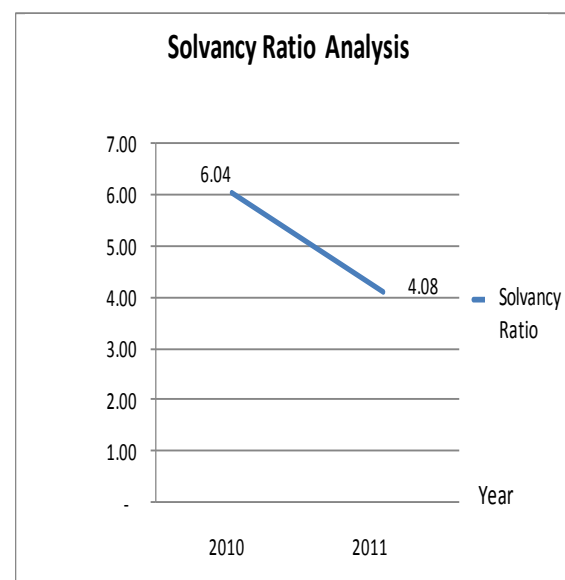


Chart- 5.08: Solvency Margin Analysis

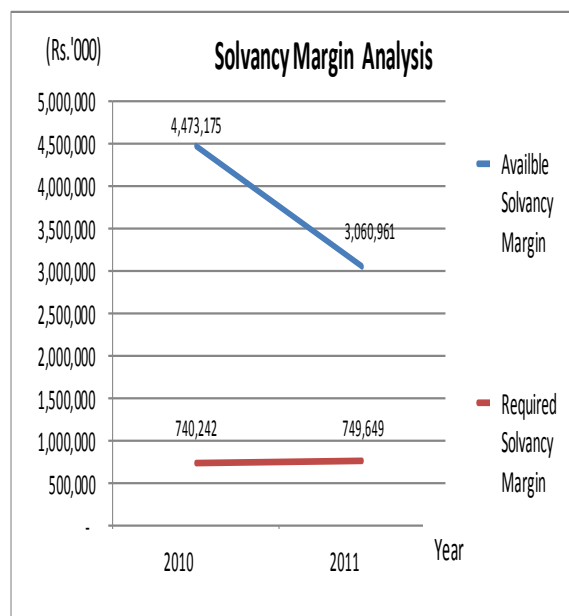


Table -5. 01: Solvency Analysis

	2010	2011
	Rs.'000	Rs.,000
Value of Admissible Assets (Rs.'000)	5927832	4508449
Amount of Total Liabilities (Rs.'000)	1454657	1447488
2.1 Technical Reserves - Net (Gross minus Reinsurance)(Rs.'000)	681820	801957
2.2 Other Liabilities (Rs.'000)	772837	645530
Available solvency margin (Rs.'000)	4,473,175	3,060,961
Required solvency margin (Rs.'000)	740,242	749,649

Solvency margin measures the liquidity of the Company for the purpose of, the ability to pay claims when they arise. The solvency ratio refers to the ratio of the amount of Available Solvency Margin to the amount of Required Solvency Margin.

As per the above graphs during the years of 2010 and 2011 the Available Solvency Margins are well above the Required Solvency Margin.

The above Solvency Margin Trend Analysis graph and Solvency Ratio Trend Analysis graph demonstrate the healthiness of NITF's solvency position.

Minimum Capital Requirement Analysis

In 2009, the Insurance Board of Sri Lanka with the assistance of the World Bank and FIRST undertook the development of a risk, sensitive minimum capital regime (Minimum Capital Model for Insurance Industry Supervision) for the insurance sector in Sri Lanka.

The minimum capital requirement to be satisfied by a company seeking registration in terms of regulations imposed by IBSL was increased during the year from Rs. 100 million per class of insurance business to Rs. 500 million per class of insurance business.

Since, NITF has recorded a Rs. 8,515 million of Accumulated Fund of NITF Board as at end of 2011, minimum capital requirement in terms of the regulation imposed by IBSL has been satisfied.

5.2.3 FINANCIAL PERFORMANCE -2011

Summarized revenue and expenditure figures shown in the Annual Financial Statements - 2011, relating to core businesses of the Fund are classified under different segments and given in table 3.1-3.3 below.

Revenue derived from premium collection under Agrahara members amounted to Rs. 623 m in 2011 increasing the amount in 2010 by Rs. 28 m and correspondingly treasury contribution made towards this scheme has increased.

Similarly values of claims submitted by members and honored by NITF, amounted to Rs. 1,235 million which is 15% higher than what was paid in 2010.

Total investments in government securities at the end of 2011 amounted to Rs. 4,444 million. Interest earned in 2011 is relatively low because of drop in interest rate. Investment portfolio has been managed giving due consideration to liquidity-risk.

Table -5.02: **CATEGORY WISE CLASSIFICATION OF PREMIUM INCOME**

CATEGORY	2011 Rs.	2010 Rs.
01. NET EARNED PREMIUM INCOME		
Contribution from Agrahara Members	623,424,037	595,140,400
Contribution from Treasury	494,229,000	442,790,000
Premium income - Motor	215,199,457	237,386,267
Premium income- Reinsurance	198,551,912	296,078,296
Premium income - Parliamentary members	10,000,000	10,000,000
Premium income - Foreign Employment	208,799,952	231,968,216
Premium income - GI (Fire, Marine & Misc.)	170,876,837	149,796,387
Gross Written Premium - SRCC & Tr	2,006,556,886	1,874,425,103
Premium Refunds	(26,080)	(4,194,863)
Gross Written Premium	3,927,612,001	3,833,389,806
Reinsurance Premium	(179,367,937)	(132,180,421)
Net Written Premium	3,748,244,064	3,701,209,385
Net Change in Reserves for unearned Premium	(141,879,032)	225,260,471
Net Earned Premium	3,606,365,031	3,926,469,856

Table -5.03: CATEGORY WISE CLASSIFICATION OF EXPENDITURE ON INSURANCE

CLAIMS

CATEGORY	As a Percentage (2011)	Amount (in Rs) 2011	Amount (in Rs) 2010
Spectacles-Agrahara	10	180,748,334	171,198,748
Pvt. Hospital Charges- Agrahara	32	592,182,669	497,586,183
Child Birth-Agrahara	6	106,577,025	92,391,681
Accidents-Agrahara	1	21,702,772	21,090,442
Medical Charges-Agrahara	1	23,382,718	33,195,607
Cardiac-Agrahara	7	136,497,358	118,423,376
Cancer-Agrahara	1	11,265,221	25,415,064
Normal & Accidental Death-Agrahara	9	162,837,751	117,405,559
Motor Claims	7	127,633,818	151,555,078
Vedsha Rakiya Claim Expenses	10	182,688,549	160,963,358
Reinsurance Claim Expenses	3	58,145,811	202,732,501
Medical Insurance Claim Parliamentary Members	1	9,419,785	6,951,417
Medical Insurance Claim- General Insurance	5	96,419,651	10,598,492
Net Claims Incurred -SRCC & Tr.	-8	(141,693,868)	303,486,061
Net Commission	17	311,679,100	379,079,417
	100	1,879,486,696.15	2,292,072,983

Table -5.04: **CLASSIFICATION OF PREMIUMS AND CLAIMS OF SRCC & T FUND**

Company	Total Premium Income (Gross)(Rs.)		Claims Honored (Rs.)	
	2010	2011	2010	2011
MBSL Insurance PLC	11,551,010	21,394,755	-	-
Allianz Insurance Lanka Ltd	68,083,011	89,445,031	-	-
Amana Takaful PLC	26,539,015	38,248,905	840,607	43,405
Asian Alliance Insurance PLC	36,060,690	42,765,121	-	1,216,358
Ceylinco Insurance PLC	471,436,563	459,865,307	14,843,143	12,525,576
Co - operative Insurance Co.Ltd	14,425,924	16,895,115	-	-
AVIVA NDB Insurance PLC	187,046,028	170,354,272	8,966,337	-
CHARTIS Insurance Limited	39,058,901	36,501,160	500,000	-
HNB Assurance PLC	88,708,547	89,839,459	558,000	1,408,454
Janashakthi Insurance PLC	194,713,355	219,736,741	92,791,315	96,104,560
Seemasahitha Sanasa Rakshana Samagama	4,826,003	4,890,450	-	-
Sri Lanka Insurance Corporation	376,745,497	399,562,281	285,021,380	82,377,448
Union Assurance PLC	236,695,822	235,607,663	38,796,018	869,977
People's Insurance PLC	85,054,399	128,470,573	510,370	6,275,383
Continental Insurance Lanka PLC	23,901,086	39,610,697	-	-
National Insurance Trust Fund	6,861,462	6,017,775	449,191	-
LOLC Insurance Company Ltd	-	6,677,674	-	-
Orient Insurance Limited	-	62,733	-	-
	1,874,425,103	2,005,945,712	304,594,775	200,821,161

Table -5.05: DISTRIBUTION OF PREMIUM INCOME

	<i>(All figures in Sri Lankan Rupees)</i>				
	2007	2008	2009	2010	2011
<u>PREMIUM INCOME</u>					
Contribution from Members	578,628,923	595,339,833	573,518,510	595,140,400	623,424,037
Contribution from Treasury	346,711,759	480,000,000	440,380,000	442,790,000	494,229,000
Premium income - Motor		130,018,979	244,352,905	237,386,267	215,199,457
Premium income- Reinsurance		341,170,103	473,434,837	296,078,296	198,551,912
Premium income - Parliamentary Members		30,000,000	15,408,460	10,000,000	10,000,000
Premium income - Foreign Employment		118,428,753	200,483,864	231,968,216	208,799,952
Premium income - General Insurance			194,237	149,796,387	170,876,837
Gross Written Premium - SRCC & Tr	2,178,012,010	2,317,492,759	2,420,345,104	1,874,425,103	2,006,556,886
Total Premium Income	3,103,352,692	4,012,450,427	4,368,117,916	3,837,584,670	3,927,638,080

Table -5.06: **PROFITABILITY DISTRIBUTION OF BRANCHES**

Income	HAMBANTOTA BRANCH		ANURADHAPURA BRANCH	
	Cumulative 2011	Average Per Month	Cumulative 2011	Average Per Month
Motor	5,015,702		9,014,188	751,182
Non Motor	5,526,498		715,771	59,648
Gross Income	10,542,200	878,517	9,729,959	810,830
(less) Claims				
Motor	(165,376)	(13,781)	(168,813)	(14,068)
Net Income	10,376,824	864,735	9,561,146	796,762
Overhead Expenses				
Rent	(668,800)	(55,733)	(345,000)	(28,750)
Electricity	(25,886)	(2,157)	(99,665)	(8,305)
Water	(8,432)	(703)	(23,204)	(1,934)
Salaries and Wages	(1,897,448)	(158,121)	(1,433,184)	(119,432)
Telephone - Fixed	(130,626)	(10,886)	(61,824)	(5,152)
Telephone - Mobile	(26,250)	(2,188)	(21,454)	(1,788)
Vehicle Allowance	(360,000)	(30,000)	(375,000)	(31,250)
Travelling	(18,447)	(1,537)	-	-
Petty Cash Expenses	(109,154)	(9,096)	(94,340)	(7,862)
Agent commission	(90,224)	(7,519)	(5,962)	(497)
Branch Opening Expenses	(260,050)	(21,671)	-	-
Assessor Payment	-	-	(15,788)	(1,316)
Transport	(15,000)	(1,250)	-	-
Office Equipment	-	-	(12,200)	(1,017)
Sundry Expenses	-	-	(40,090)	(3,341)
Total Expenses	(3,610,317)	(300,860)	(2,527,711)	(210,643)
Profit/(Loss)	6,766,507	563,876	7,033,435	586,120

5.2.4 PHYSICAL PERFORMANCE -2011

Table -5.07: CLASSIFICATION OF AGRAHARA CLAIMS - YEAR 2011 (IN NUMBERS)

CLAIM TYPE	TOTAL CLAIMS RECEIVED	CLAIMS PAID	OUTSTANDING CLAIMS	CLAIMS REJECTED
Death	1,705	1,512	143	48
Disables	975	800	107	68
Child birth	10,830	9,554	1,052	224
Cancer	583	532	26	25
Cardiac	560	543	9	8
Spectacles	60,189	52,460	2,503	5,226
Other Government hospital charges for other illnesses	30,397	26,795	2,388	1,214
Other Pvt. hospital charges for other illnesses	17,194	13,191	1,751	2,252
Kidney	72	68	1	3
Paralysis	20	17	-	3
TOTAL	122,525	105,472	7,980	9,073

Table -5.08: CLASSIFICATION OF MOTOR INSURANCE UNDERWRITING POLICIES - YEAR 2011

CATEGORY	2011												GRAND TOTAL	
	THIRD PARTY						COMPREHENSIVE							
	GOVT		PVT		TOTAL		GOVT		PVT		TOTAL			
	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)	NO OF VEHICLES	AMOUNT (RS.)
TRACTOR	214	286,340	23	15,250	237	301,590	345	1,648,728	30	169,225	375	1,817,954	612	2,119,543
PRIVATE CAR	342	257,954	858	420,550	1,200	678,504	2,501	112,489,192	126	4,492,119	2,627	116,981,311	3,827	117,659,814
MOTOR CYCLE	262	90,889	1,418	613,152	1,680	704,041	1,911	8,259,927	59	430,410	1,970	8,690,337	3,650	9,394,378
MOTOR COACH	66	99,448	8	9,274	74	108,722	421	12,714,907	5	104,477	426	12,819,384	500	12,928,106
LORRY/LAND VEHICLE	468	624,303	37	44,094	505	668,397	1,028	14,551,019	55	1,561,326	1,083	16,112,345	1,588	16,780,742
LORRY TRAILOR	242	42,151			242	42,151					-	-	242	42,151
DUAL PURPOSE VEHICLE	466	350,935	72	43,594	538	394,528	2,295	69,352,754	45	822,779	2,340	70,175,533	2,878	70,570,062
4W TRACuTrai/AMBU LANCE/HEARSE	3	3,474			3	3,474					-	-	3	3,474
VAN	1	1,505			1	1,505	3	55,226			3	55,226	4	56,731
TRADE PLATE	3	5,563	2	2,596	5	8,159	2	4,526	2	77,060	4	81,586	9	89,745
TRAILOR			32	14,760	32	14,760	308	853,315	6	248,248	314	1,101,563	346	1,116,323
TOTAL	2,067	1,762,561	2,450	1,163,270	4,517	2,925,831	8,469	219,929,593	328	7,905,644	8,797	227,835,238	13,314	230,761,069

Table -5.09: CLASSIFICATION OF MOTOR CLAIMS PAID - YEAR 2011

	2011					
	COMPREHENSIVE					
	GVT		PVT		TOTAL	
	NO OF CLAIMS	AMOUNT (RS.)	NO OF CLAIMS	AMOUNT (RS.)	NO OF CLAIMS	AMOUNT (RS.)
TRACTOR	4	63,136			4	63,136
PRIVATE CAR	575	46,802,545	28	1,102,240	603	47,904,785
MOTOR CYCLE	39	656,210	6	86,323	45	742,533
MOTOR COACH	79	10,291,531			79	10,291,531
LORRY/LAND VEHICLE	92	13,235,926	8	863,383	100	14,099,309
LORRY TRAILOR						-
DUAL PURPOSE VEHICLE	366	30,293,124	13	894,548	379	31,187,672
VAN	1	61,550			1	61,550
TRADE PLATE						-
TRAILOR						-
TOTAL	1,156	101,404,021	55	2,946,494	1,211	104,350,515

Table -5.10: **CLASSIFICATION OF GENERAL INSURANCE POLICIES**

Policy Category		2011		Claim Amount (Rs.)
		No of Policy	No of Claim	
Fire	} Miscellaneous	35	6	2,812,010
Marine		138	4	509,871
Personal Accidents		44	-	
Workers Compansation Insurance		25	75	
Burglary		4	-	
Cash In Transit		18	1	39,645,338
Electronic Equipment		7	1	
Contractors All Risk		15	1	
Plant and Machinery		30	7	
Medical		17	6,342	52,590,723
Total		333	6,437	95,557,942

5.2.5 BUSINESS PORTFOLIO REVIEW -

AGRAHARA

MEDICAL

INSURANCE



Agrahara medical insurance scheme was implemented by the Ministry of Public Administration Circular No: 12 /2005 and this scheme came under the purview of National Insurance Trust Fund from 1st of January 2006

for the benefit of Married Employees - Member, Spouse and Children (only if they are unmarried, unemployed and below 21years old) and Unmarried Employees - Member, Parents (only if the parents below 70 years old).

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

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

Rs. 75 per eligible employees in terms of circular monitory contribution from monthly salary from Government officers towards the Scheme in 2011. Until the Sri Lanka Insurance Corporation was privatized, the scheme was

implemented by Sri Lanka Insurance Corporation. Under this insurance scheme following categories of benefits has been offered

1. Medical benefits against hospital charges:

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

2. Purchase of spectacles

Under these scheme members are eligible to claim a sum of to meet Rs. 3,500/- to meet expenditure on purchase of spectacle once in every 3 years. will be given to members after 3 years.

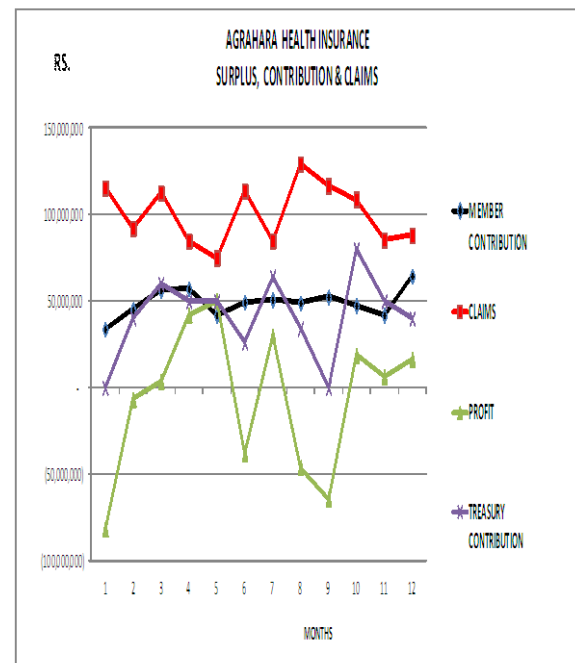
3. "Naya Surakum" loan guarantee scheme:

A loan guarantee for a value of ten times of the monthly salary will be provided and on account of any sickness or total or partial disability, the debtor was to lose his life or his usual means of livelihood the outstanding amount of the loan will be paid.

The figures related to monthly claims, contribution (Government contribution) and surplus during the year 2011 under the

Agrahara Health Insurance Scheme are shown in the under mentioned in chart 5.09.

**Chart- 5.09: Agrahara Insurance-
Surplus, Contribution, Claims**



MOTOR INSURANCE



Every policy of motor insurance scheme is issued by NITF on completion of the proposal form and payment of premium within one day to Government and Semi-Government Institutions. NITF provides complete confidence in an event of an accident, providing the customers with greater convenience in issuing policies and settling claims.

After forming NITF, the Motor Insurance Scheme was developed and in 2011 as per Circular No P/F 437 to insure the vehicles owned by Government institutions (Optional)

and vehicles owned by semi Government institutions (Optional). NITF offers various types motor insurance policies for various categories of vehicles such as Private Car Policies (for private cars, station wagons, jeeps, three wheelers etc.), Commercial Vehicle Policies (for goods carrying vehicles, dual purpose vehicles, used in carrying passengers for a fee or reward, buses (both hiring and private), Agricultural vehicles etc.), Motor Cycle Policies (for Motor Cycles, Scooters, Mopeds etc.).

In addition to the basic covers provided in the Motor Insurance policies issued by NITF additional covers are also provided such as Flood, Third Party Property Damages, PAB-Driver/Passengers, Duty Free Loading, hire Purchase, Air Bag cover, Towing Charges, Windscreen Cover, learner Driver Cover WCI for Driver/Cleaner/Attendant, Legal Liability for Passengers, Goods In Transit –Hazardous and Non hazardous goods, Goods In Transit-SRCC (Motor Cycle) & TC (Motor Cycle), Learner Driver Covers, Hiring Exclusion, Personal Accident Benefits (for Private Cars for drivers & passengers -SRCC/ TC covers; for Commercial Vehicles Drivers/Cleaner/ Attendants SRCC/TC Covers; and Passengers - SRCC/TC Covers; for Motor Cycles Employee/ Rider -SRCC/TC covers).

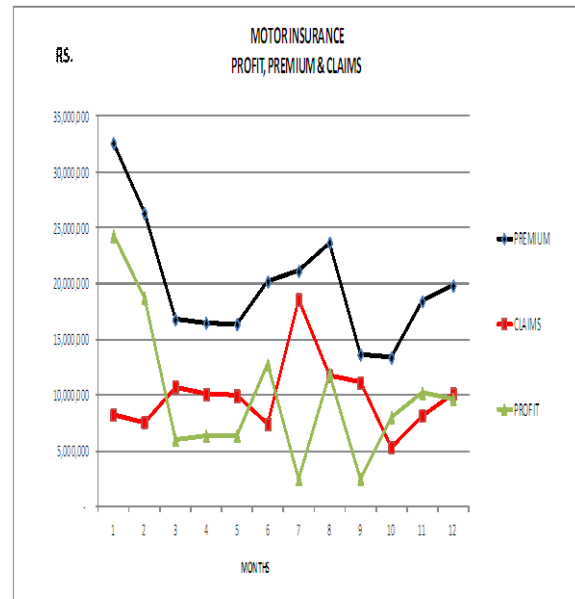
When a vehicle is sold, the Insurance Certificate /Policy cannot be assigned to others. In the event of the insured who has sold his vehicle with a written request to the NITF, the effect of that credit of this unexpired period of insurance will be given to the new owner of the vehicle. The NITF will call fresh proposal from the new owner and the premium will be recalculated and a policy will be issued.

The policy/certificate of insurance of National Insurance Trust Fund can be renewed at the expiry of the term of the policy which may be affected at the same time. This sum insured may be also changed to reflect the present market value of the vehicle.

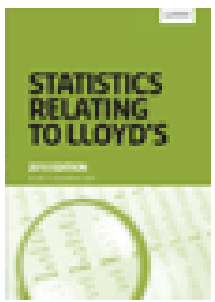
In the event of an insured vehicle meeting with an accident, a statement indicating damages sustained should be made to the nearest police station promptly. The motor insurance scheme provided by the NITF offers the vehicle owners complete coverage against almost all known perils that his/her vehicle may encounter at anytime, anywhere in Sri Lanka.

The monthly cash flows relating to claims and premium earned need cash flows during the year 2011 under the Motor Insurance segment Scheme are shown in chart 5.10.

Chart - 5.10: Motor Insurance-
Profit, Premium & Claims



RE-INSURANCE



The reinsurance is the practice of insurers transferring portions of risk portfolios to other parties by some form of agreement in order to reduce the likelihood of having to pay a large obligation resulting from an insurance claim. There are two main reasons for the insurance companies to obtain reinsurance covers. Firstly, it is necessary to hold a greater individual risk than allowed by the company's value of assets and thereby protecting the insurance company against possible losses. Accordingly, reinsurance allows normal insurance companies to offer higher limits of protection to policy holders than their total assets value. Secondly, reinsurance can help to make the insurance companies to be more predictable by large losses and reducing the amount of capital needed to provide coverage.

Since Sri Lankan insurance companies are protecting their written values of policies through foreign reinsurance companies, there is

an opportunities for NITF to take a part of the protection through offering such facilities locally.

Since 1st January 2008, the NITF is engaging in reinsurance business by accepting 20% compulsory reinsurance cession of all local general insurance companies, by retaining large portion of the foreign currency within the country.

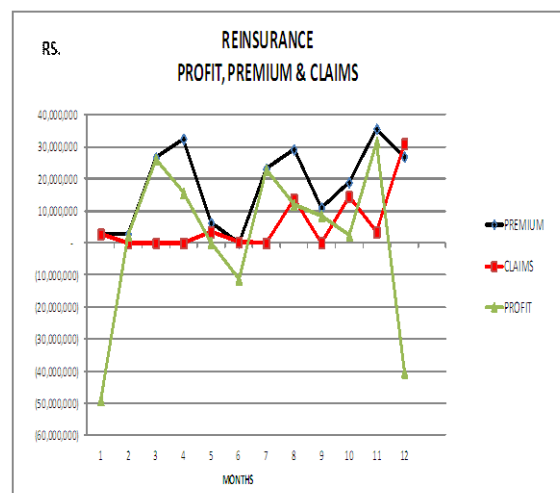
The extra ordinary gazette of Democratic Socialist Republic of Sri Lanka No: 1528 /20 dated December 19, 2007, empowers the National Insurance Trust Fund (NITF) to accept Compulsory reinsurance cession from the local general insurance market. NITF has fixed the compulsory cession at 20% of the general reinsurance program (subject to provisions to be specified) of each insurance company transacting general insurance business. NITF is also empowered to transact direct general insurance according to the Extra Ordinary Gazette No 1615/20 dated 20th August 2009.

Since then NITF is the one & only authorized institution who can engage in reinsurance business in Sri Lanka. Since 1st January 2008, the NITF is engaging in reinsurance business by accepting 20% compulsory reinsurance cession of all local general insurance companies, by retaining large portion of the foreign currency within the country.

The monthly claims, premium and profit analysis for the year 2011 for the Re Insurance Scheme is as follows.

Chart - 5.11: Reinsurance -

Profit, Premium & Claims



Reinsurance Gross Written Premium Breakdown -2011

The breakdown of gross written premium obtained from reinsurance can be analyzed as follow given as follows.

Table -5.11: Gross Written Premium Income Distribution 2011 -

GROSS WRITTEN PREMIUM INCOME ANALYSIS -2011	
	Total Premium(Rs.)
MBSL Insurance PLC	21,394,755
Allianz Insurance Lanka Ltd	89,445,031
Amana Takaful PLC	38,248,905
Asian Alliance Insurance PLC	42,765,121
Ceylinco Insurance PLC	459,865,307
Co-operative Insurance Co.Ltd	16,895,115
AVIVA NDB Insurance PLC	170,354,272
CHARTIS Insurance Limited	36,501,160
HNB Assurance PLC	89,839,459
Janashakthi Insurance PLC	219,736,741
Seemashahitha Sanasa Rakshana Samagama	4,890,450
Sri Lanka Insurance Corporation	399,562,281
Union Assurance PLC	235,607,663
Peoples' Insurance PLC	128,470,573
Continental Insurance Lanka PLC	39,610,697
National Insurance Trust Fund	6,017,775
LOLC Insurance Company Ltd	6,677,674
Orient Insurance Limited	62,733
	2,005,945,712

STRIKE, RIOT, CIVIL COMMOTION & TERRORISM EXTENSION



Consequent to the 1983 civil disturbance which resulted in losses of catastrophic proportions (about Rs. 1600 million), the local state insurers found themselves in an unenviable position of being denied reinsurance protection in respect of Strike, Riot and Civil Commotion (SR and CC) by their Reinsurers from 1985 in certain classes of businesses. As a result of this situation, Government of Sri Lanka established an insurance fund known as the SR and CC Fund in 1987 to meet the claims on insurance policies extended to include cover against Strike, Riot and Civil Commotion, in those classes specified by the Fund. The Strike, Riot and Civil

Commotion Fund's protection is provided to both state and private insurance firms.

Thereafter, due to the escalation of terrorist activities in 1989, the Sri Lankan Government expanded the SR and CC Fund to include coverage of risks due to damage/loss caused by acts of terrorism and subversion. Finally the Fund was renamed as the "Government Fund for Strike, Riot and Civil Commotion and Terrorism".

As per the decision made by the Cabinet of Ministers, the strike, riot, civil commotion and terrorism fund was formed in 1987, with the objective of providing additional insurance cover on insurance policies, extended to cover against loss/damage to properties and or personal death/ bodily injuries occurring due to strike, riot, civil commotion and terrorist activities within the geographical limits of the Sri Lanka, issued by all members of the Fund who are licensed insurance organizations in Sri Lanka. The National Insurance Corporation managed the Strike, Riot, Civil Commotion and Terrorism Fund from the inception in 1987.

Thereafter in 2003, Janashkathi Insurance Co. Ltd. acquired the National Insurance Corporation and subsequently the Strike, Riot, Civil Commotion and Terrorism Fund was administered by Janashkathi Insurance Ltd.

Thereafter the Strike, Riot, Civil Commotion and Terrorism Fund was taken into the Ministry of Finance and Planning from 01.08.2005 onwards from Janashkathi Insurance Co. Ltd. and managed by the Ministry of Finance and Planning.

Ultimately, the Strike, Riot, Civil Commotion and Terrorism Fund was absorbed into the National Insurance Trust Fund in 2007, as per the section 18 (c) of National Insurance Trust Fund Act No. 28 of 2006.

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

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

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

The main activities of SRCC & T Fund includes

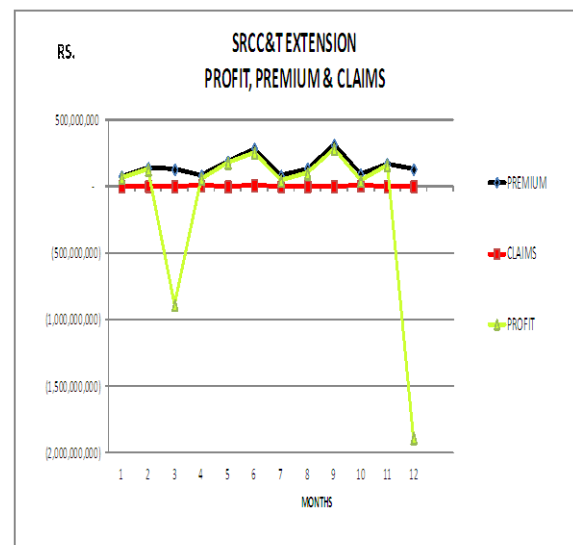
- Collection of premium through Insurance Companies and remitting to the Fund and invest at a higher rate
- Claims to be paid by Insurance Companies and reimbursed by the SRCC & T Fund on the approval of the NITF Board
- The management of the soft loans granted to the institutions damaged due to terrorist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

The objectives of the Strike, Riot, Civil Commotion and Terrorism Fund are:

The monthly claims, premium and profit analysis for the year 2011 for the SRCC & T Fund is as follows.

Chart - 5.12: SRCC & T Extension -

Profit, Premium & Claims



GENERAL INSURANCE



The NITF's General Insurance business is mainly sub divided into Fire Insurance, Marine Insurance, Miscellaneous Insurance and Medical Insurance. As per the gazette notification No. 1615/20 issued on 20.08.2009 the general insurance business was initiated and it grew steadily over the years.

Under General Insurance NITF provides Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies, Personal Accident policies, Burglary policies etc.



Marine Insurance of NITF caters to the needs of importers, exporters and large transporters who carry goods and NITF also covers risks encountered in International Trade.

Marine Cargo Insurance of NITF covers all goods against every insurable risk peril from the time the goods are dispatched from the supplier's warehouse in Sri Lanka or overseas. This insurance cover is available to customers both as an open cover policy that covers shipments during the course of one year or as single voyage policy.

The Marine (Hull) Insurance of NITF protects ocean vessels, short-sea vessels, port and river crafts and yachts, all types of private, leisure and commercial transport aircrafts, private gliders, helicopters, hover crafts, ground equipments and other crafts and it's a form of an all risk covers which protects the ship-owner

from physical loss /damage to the vessel, the hull.



The Fire Insurance of NITF provides financial compensation in the event of fire or other special perils causing loss or damage to the insured property. However property must be adequately and properly insured if the owner of such property is to be placed in a position financially similar after the loss, to what he occupied immediately prior to the occurrence.

The Fire insurance policy of NITF covers dwelling houses. The risks covered under NITF fire policy are Fire & Lighting which includes explosions of domestic boilers and gas installations, which could be extended to cover additional perils such as explosion, malicious damage, impact damage, air craft damage bursting and over flowing of water tanks apparatus or pipes as well as natural perils such as flood, earth quakes, volcanic eruption, hurricane, typhoon, windstorm, thunderstorm, tornado tsunami, and tidal waves. It could also be extended to cover Strikes, Riot, Civil

Commotion and Terrorism and Malicious Damages.

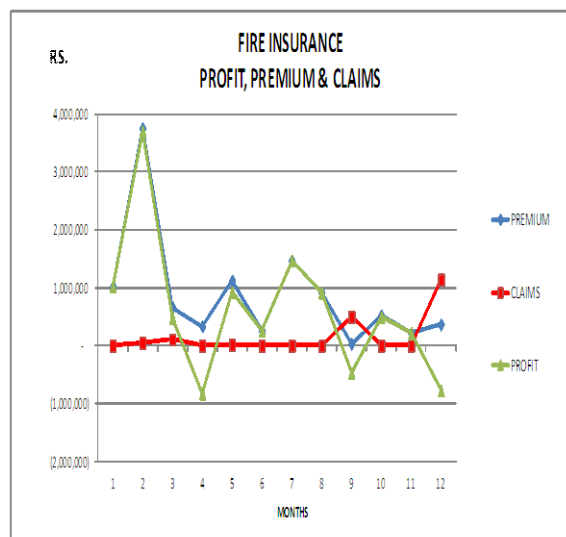
Under the miscellaneous class of insurance scheme it provides covers for Personal Accident Insurance, Surgical & Health Insurance, Money Insurance, Baggage Insurance, Burglary Insurance, Public Liability and other miscellaneous classes of insurance. NITF also includes engineering insurance policies which covers risks related to Electronic Equipment Insurance, Computer Insurance, Boiler and Pressure Insurance, Contractors All Risk (CAR) Insurance, Erection All Risk Insurance (EAR), and Other Engineering Risks.

In addition to the above NITF provides Workmen's Compensation Insurance. In terms of the Workmen's Compensation Ordinance of 1934 and subsequent arrangement an employer is liable to pay compensation in respect of injuries and occupational diseases caused to employees arising out of and in the cause of employment. As per the latest amendments to the Ordinance, workmen include all categories of employees whether they are temporary, permanent or casual irrespective of the salary. Consequently, there is a substantial increase in liability on the part of all Employers. Hence NITF undertakes such liabilities on behalf of employers who are insured for WCI under NITF.

Under the medical insurance schemes of NITF benefits such as hospital accommodation, nursing care drugs, room charges, surgeons' and anesthetists' and physicians' fees, consultants' and specialists' fees, specialist services are provided.

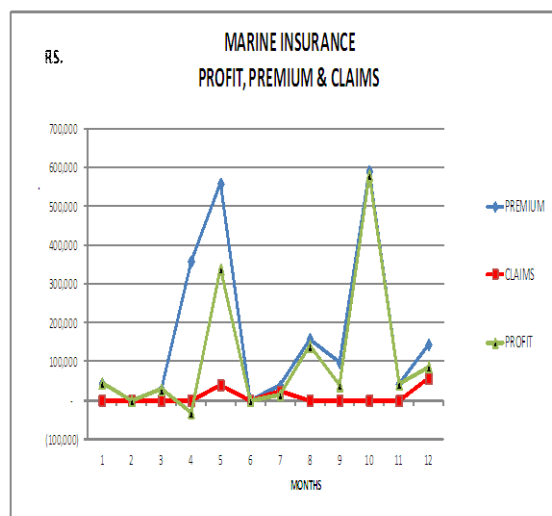
The monthly claims, premium and profit analysis for the year 2011 for the Fire Insurance Scheme is as follows.

Chart - 5.13: Fire Insurance -
Profit, Premium & Claims



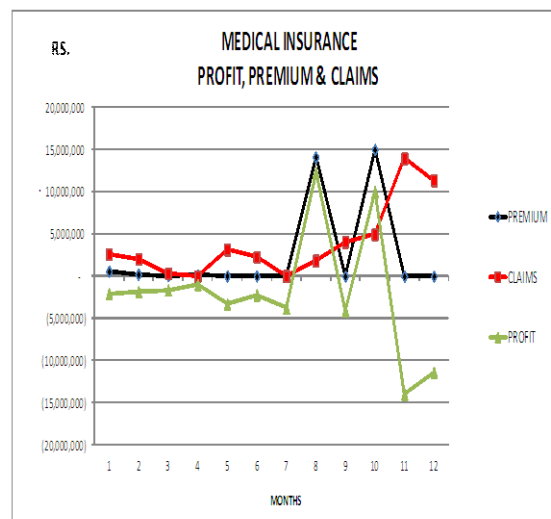
The monthly claims, premium and profit analysis for the year 2011 for the Marine Insurance Scheme is as follows

Chart - 5.14: Marine Insurance -
Profit, Premium & Claims



The monthly claims, premium and profit analysis for the year 2011 for the Medical Insurance Scheme is as follows.

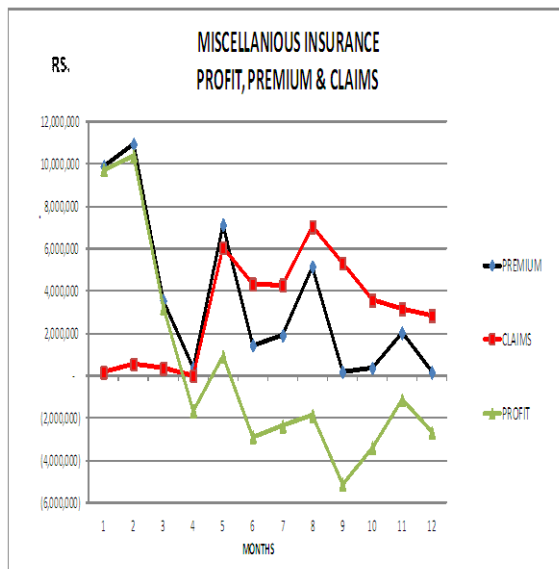
Chart - 5.15: Medical Insurance -
Profit, Premium & Claims



The monthly claims, premium and profit analysis for the year 2011 for the Miscellaneous Insurance Scheme is as follows.

Chart - 5.16: Miscellaneous Insurance -

Profit, Premium & Claims



OVERSEAS

EMPLOYMENT INSURANCE



The “VIDESA REKIYA” overseas employment insurance scheme has been designed to protect the migrant workers after signing a memorandum of Understanding between National insurance Trust Fund and Foreign Employment Bureau of Sri Lanka.

The “VIDESA REKIYA” overseas employment insurance policy issued by National Insurance Trust Fund for Sri Lankan overseas migrant workers covers the Sri Lankans who are in the age of 18 to 65 years leaving Sri Lanka for foreign employment after obtaining the insurance cover from the NITF. It offers the following benefits.

BENEFITS

Event	Benefits
<i>Repatriation due to harassment, illness, accident or injury after leaving employment abroad (The migrant worker will be entitled to these benefits even after 3 months of expiry to the contract period whilst abroad)</i>	<i>Actual Cost of the Air Ticket & Rs.25,000.00 (Medical Expenses incurred after returning to Sri Lanka)</i>
<i>Repatriation due to pregnancy as a result of sexual harassment by a sponsor or his family members whilst working the abroad during the contract period (runaway from sponsors not entitled)</i>	<i>Actual Cost of the Air Ticket & Rs.25,000.00 (Medical Expenses incurred after returning to Sri Lanka)</i>
<i>Death due to any cause whilst working abroad</i>	<i>Rs.400,000.00</i>
<i>Death in Sri Lanka within 3 months of arriving due to a critical illness accident occurred whilst working abroad during the contract period</i>	<i>Rs.200,000.00 & Actual Cost of the Air Ticket</i>
<i>Permanent disablement occurred while working abroad during the contract period (Migrant worker will be entitled to this benefit even after expiry of 3 months)</i>	<i>Rs.200,000.00 (Max) & Actual Cost of the Air Ticket & Rs.50,000.00 (Max) (Medical Expenses incurred after returning to Sri Lanka)</i>
<i>Partial disablement occurred while working abroad during the contract period (Migrant worker will be entitled to this benefit even after expiry of 3 months)</i>	<i>Rs.100,000.00 (Max) & Actual Cost of the Air Ticket & Rs.50,000.00 (Max) (Medical Expenses incurred after returning to Sri Lanka)</i>

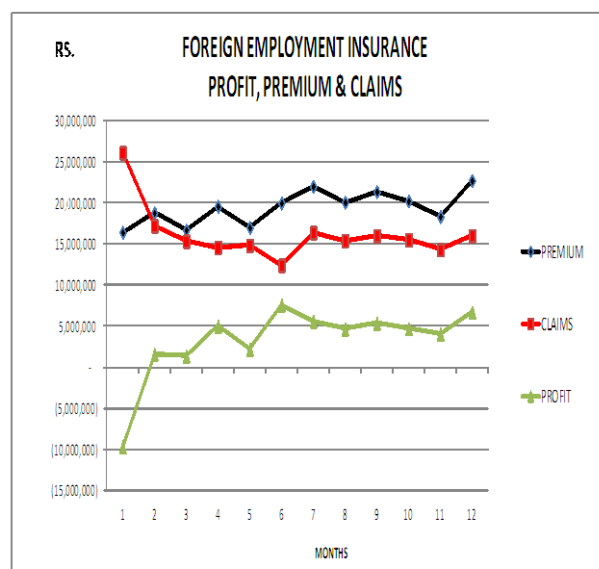
<i>Family Member</i>	<i>Benefits</i>
<i>Cover for family member Medical Expenses Death Expenses If Married - Spouse & Unmarried & Unemployed Children under 18 years If Unmarried - Parents</i>	<i>Rs.25,000 Family Unit per year for treatment in a non-paying ward Rs.150/- per day. (only 2 occasions per year)</i>

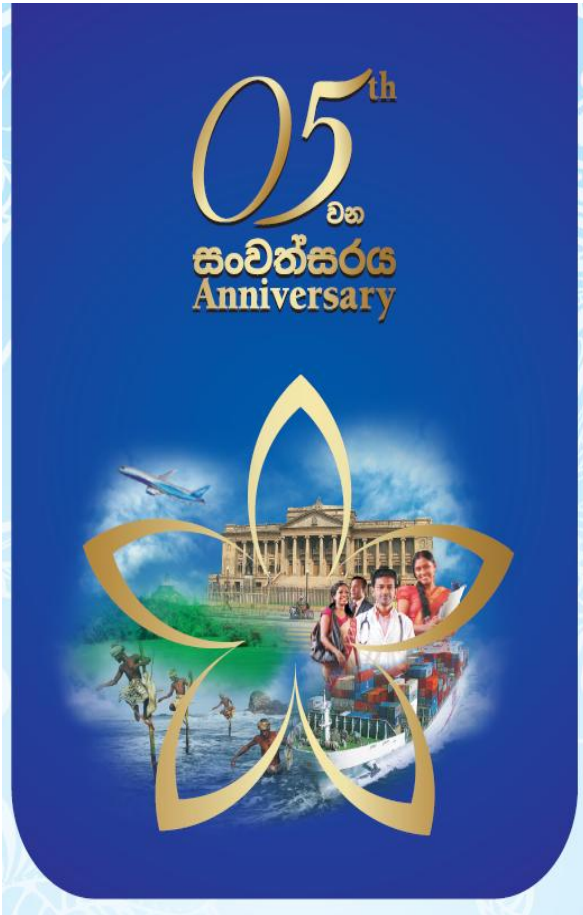
This policy covers the Sri Lankans who are in the range of ages of 18 to 65 years leaving Sri Lanka for foreign employment after obtaining the Insurance cover from the NITF. The premium is Rs.800+VAT for two years contracts and Rs. 850+VAT for three years contracts.

The monthly claims, premium and profit analysis for the year 2011 for the Overseas (Foreign) Employment Insurance Scheme is as follows.

Chart - 5.17: Foreign Employment Insurance -

Profit, Premium & Claims





6. SUSTAINABILITY REPORTING

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. Sustainability reporting aims at providing information on an entities social, environmental, cultural economic performance and impact as well as the initiatives taken to improve its performance of a reporting organization.

Sustainability increasingly preoccupies governments as a result of their greater awareness of threats to their national sustainability. In part due to the resultant governmental regulatory ambitions and also due to threats to their own sustainability and to opportunities for innovation and cost reduction, companies are increasingly adopting the rhetoric of concern with sustainability.

Corporate Sustainability of businesses is becoming a major concern as insurance industry moved into 2011. Accordingly, NITF strives to enhance its business performance through achieving the new performance dimensions of triple bottom line which is economic prosperity, environmental and social quality and strives to be a “Well Responsible Corporate Citizen”, through

embracing the Global Reporting Initiatives Guidelines on organizational, economic, environmental and social performance whenever possible.

Sustainability is deeply embedded into the NITF corporate culture and is an accepted way of life at NITF. We strive to create an impact on society which goes beyond our business objectives and inspire a value system which uplifts our nation. The relationships we forge and the way we do business revolve around the concept of sustainability. The NITF’s activities reflect a sincere and heartfelt objective of contributing meaningfully to our nation, to uplift, support and strengthen all our stakeholders.

NITF adopts a Sustainable Trading System with the objective of preventing destruction of the environment or deteriorate social conditions while promoting economical growth by adopting measures such as reductions in energy consumption, waste, reduction of usage of plastic material, being a responsible employer and improving the well-being of employees, providing training to employees to enhance their career development, paying a fair price to suppliers, sourcing inputs such as stationary and equipments from suppliers which are also trying to be responsible and sustainable in the ways in which they operate, reduction in carbon

emissions by various means such as controlling the use of air conditioners and other power consuming equipments.

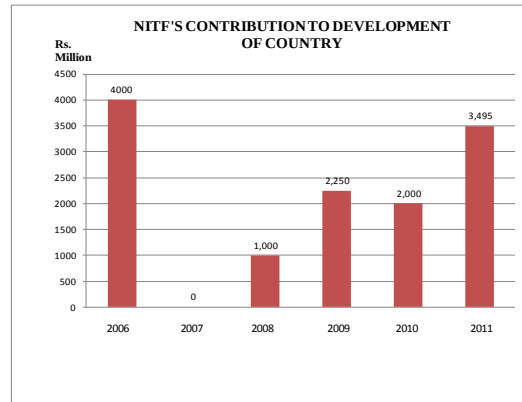
STAKEHOLDER GROUP 1 - GOVERNMENT

NITF has substantially by way of a levy increased its contribution to consolidated fund by giving away Rs. 3,495 million to the consolidated fund in 2011, continuing the past tradition. NITF has contributed Rs. 2,000 million in 2010, Rs. 2,250 million in 2009 and Rs. 1,000 million in 2008.

Table – 6.01:Contribution to the Consolidated Fund

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

Chart –6.01: National Insurance Trust Fund's Contribution to Development of Country



STAKEHOLDER GROUP 2 - CUSTOMERS

In order to serve the customers better by minimizing insolvency and credit risk and enhancing of NITF brand image, NITF has being continuously updating its RAM rating of AAA which is the highest credit rating an insurance institute in Sri Lanka has ever obtained so far.



Under the Foreign Employment Insurance Scheme, the NITF has provided insurance covers for Sri Lankan housemaids who have been working in Middle East countries. For some of the victims, NITF has made ex gratia payments.

In 2011, the fifth anniversary of the National Insurance Trust Fund has been celebrated with pride.

Furthermore, during the fifth anniversary celebrations of the National Insurance Trust Fund, Agrahara electronic card has been introduced to improve the speedier claims payment process.



A project was formulated to issue e –card to each public servant to that database for Agrahara membership can be created and members would be privileged to obtain medical services from hospitals conveniently.



STAKEHOLDER GROUP 3 – SOCIETY

During the Dayata Kirula Exhibition-2011 held in Buttala, National Insurance Trust Fund carried out a free eye clinic and spectacle donation campaign. Also NITF has given the protection of personal accident covers for the Dayata Kirula exhibition -2011.

Furthermore NITF has refurbished the Dambagalla hospital and donated medical equipments, beds and wheel chairs.



A blood donation and a Pirith ceremony were held at our new head office for the second time after the inception of this organization to invoke blessings on our country leader His Excellency the president Mahinda Rajapaksha for his dedicated service to the nation and service personnel of the Sri Lankan forces who laid there precious life to rescue the mother land.



Table – 6.02: Staff Welfare

STAFF WELFARE EXPENDITURE (RS.)

	2007	2008	2009	2010	2011
1.Welfare Expenses	195,420	606,228	233,313	935,912	1,438,399
3. Medical Insurance	94,600			120,825	176,017



The “Annual Bak Maha Ullela” of National Insurance Trust Fund was held in April 2011 at the Royal College grounds with a view to improve the team spirit and the unity of work force.

STAKEHOLDER GROUP 4 – EMPLOYEES

Since the NITF is a service oriented organization thriving on building sustaining relationships with insurance customers NITF identifies the human resource potential as the main competitive edge to thrive in the saturated insurance market. Hence it invest on staff through training and development programs, welfare programs and offer gratifying careers to employees.



The National Insurance Trust Fund was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006. From the inception onwards the following welfare oriented insurance schemes were formulated and implemented by the NITF during the year 2011 to protect various segments of the Sri Lankan society.

i. Medical Insurance Scheme for Public Officers (Agrahara)

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

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

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

Sri Lanka. From 1987 onwards the Fund has been administered by the National Insurance Corporation.

With effect from 01.08.2005, the Fund was administered by the Ministry of Finance and Planning taking over from the Janashakthi Insurance Co. Ltd, the successors of National Insurance Corporation. Subsequently, with incorporation of NITF all monies lying to the credit of the SRCC&T Fund was taken into to the NITF.

Eventually, these money were transferred to the special account of maintained by NITF

iii. Parliamentary Members Insurance scheme

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

1. Accident insurance cover up to Rs. 5 million

Accidental death	Rs. 5,000,000.00
Complete disability due to an accident	Rs. 5,000,000.00

2. Medical Insurance cover per year

	Rs. 200,000.00
--	----------------

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

NITF commenced accepting reinsurance risk in Sri Lanka. Pursuant to the provision of NITF Act. It is mandatory for General Insurance Companies in Sri Lanka to obtain up

to 20% of the total sum of reinsurance business. NITF has reinsured this 20% provision under retrocession programme up to end of October 2011.

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

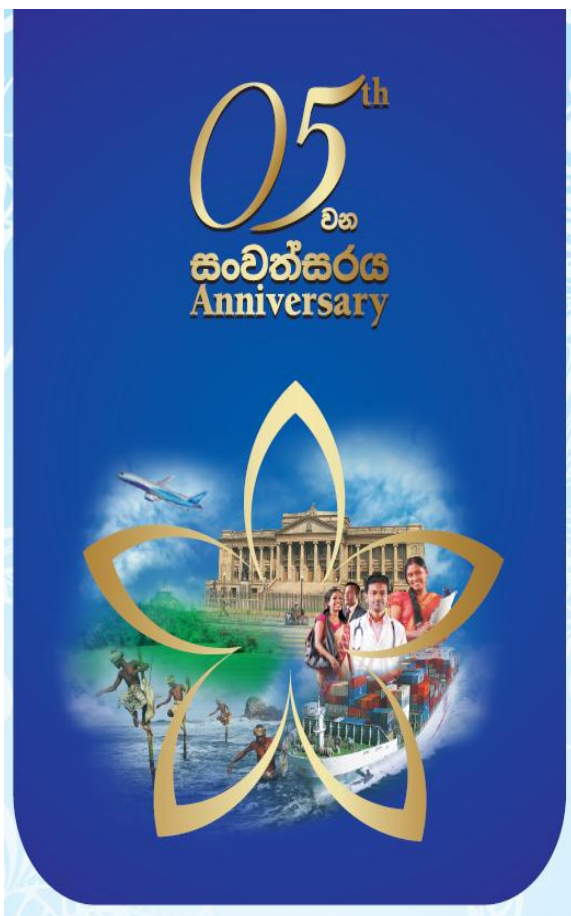
Motor vehicles owned by Government institutions (optional) and Semi-government institutions (optional) are insured against any risk of loss or damages and such losses are borne by the Government. The NITF initially begun to offer Motor Vehicle Insurance to the Government sector and thereafter extended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

vi “VIDESA REKIYA” Overseas Employment Insurance Scheme

From June 2008 onwards the “VIDESA REKIYA” overseas employment insurance policy for Sri Lankan overseas migrant workers covers the Sri Lankans who are in the age of 18 to 65 years leaving Sri Lanka for foreign employment after obtaining the insurance cover from the National Insurance Trust Fund.

vii General Insurance Scheme

Pursuant to according to the gazette notification No. 1615/20 issued on 20.08.2009 NITF provides Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies and Miscellaneous Insurance policies under the General Insurance scheme.



7. GOVERNANCE REPORTING

-CORPORATE GOVERNANCE

➔ INTRODUCTION

Enterprise governance is the set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organization's resources are used responsibly.

Enterprise governance comprises two dimensions of corporate governance: conformance and performance.

Conformance encompasses board structures and roles, and executive remuneration. Codes and/or standards can generally help in this area, with compliance subject to assurance and audit.

Performance oversight, meanwhile, centers on strategy and value creation. A board needs to make strategic decisions while understanding its appetite for risk and the key drivers of performance. This does not fit easily with a regime of standards and audit. It is therefore desirable to develop a range of best practice tools and techniques that can be applied intelligently in different types of organizations.

Well-defined and enforced corporate governance provides a structure that, works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national, and global levels.

In recent years, corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An integral part of an effective corporate governance regime includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of the enterprise.

National Insurance Trust Fund has a proud history of demonstrating high standards of Corporate Governance. Self regulation and pioneering best practices in the industry have been the NITF's 'way of doing business'. NITF's Corporate Governance foundation has been further strengthened by being the only reinsurer to the nation affiliated to the Government.

The National Insurance Trust Fund has recognized the importance of strong corporate governance as the competitive edge in a sound control environment which will ultimately improve operational effectiveness, efficiency and economy, enhance the brand image and maintain public confidence while adopting the salient corporate governance values such as discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

The National Insurance Trust Fund carries out its Corporate Governance practices giving due consideration to the relevant areas of Corporate Governance Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka and the Public enterprises Guidelines for Good Governance and Corporate Governance practices.

➡ **FINANCIAL AND INSURANCE ACUMEN**

During the year 2011, the Board of Management's financial acumen and insurance acumen have been strengthened by the Directors and chairman.

➡ **THE BOARD OF NITF**

The NITF is managed by a Board consisting of eight members appointed by the Minister in charge of the subject of Finance, consisting an officer to represent the Ministry of Finance, Chief Accountant of the Ministry of Finance, An officer representing the Ministry of Health, An officer representing the Ministry of Public Administration, Director General of the Insurance Board of Sri Lanka and three other persons nominated by the Minister to represent expertise in the fields of Finance, Banking, Insurance, Management and Law. The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. The names of the Board of Directors are given in the Board of Directors -2011 of NITF page.

➡ **SUPPLY OF INFORMATION**

The senior management ensures that a set of information which is timely, accurate, relevant and comprehensive is provided to the Directors of the Board before the Board meetings. All financial and non

financial information for the period is included in these analyses.

The Chairman and the Board meets on a monthly basis in order to make Board decisions. During the year 2011 the Board met 17 occasions. During the year 2011, 6 Audit Committee meetings were also held.

➡ BUSINESS CONDUCT AND BUSINESS ETHICS

National Insurance Trust Fund adopted well accepted business conducts and business ethics for the behavior of its employees. Those includes conduct in public, ethical business standards and non fraudulent conduct, protection and proper use of NITF assets, avoiding conflict of interests, fair dealing when dealing with insurance customers and clients of NITF, proper use of computer systems of NITF, customer satisfaction, compliance with laws and regulations.

➡ THE INTERNAL CONTROL

The Audit Committee closely monitors the financial and non financial control systems through various mechanisms such as

Review and agree on Internal Audit and External Audit Plans and the scope, Review of the Internal Audit Reports and discussion and issues concerns and management where necessary, Review of the NITF's risk management strategy and discuss and agree on further actions to be taken to mitigate the risk, Maintain an effective relationship with Internal/ External Auditors at all times, Meet separately with Internal and External Auditors to discuss matters relating to NITF where necessary.

During the year 2011, external audit is done by the Auditor General's department. During the year 2011, internal Audit functions including the internal audit of departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund has been carried out by the Internal Audit Department.

CORPORATE GOVERNANCE COMPLIANCE

Corporate Governance Principle	Level of Compliance by National Insurance Trust Fund
Chairman and CEO	Board has given authority to the Chairman to perform the activities of the CEO.
Division of responsibilities	The Chairman is responsible for leadership of the Board. In particular, he will : • Ensure effective operation of the Board and its committees in conformity with the highest standards of corporate Governance. • Support the Senior Management in the development of the strategy and, more broadly, to support and advice the Senior Management. Heads of the Departments are responsible for leadership of the each division and managing it within the authorities delegated by the board, in particular, he will: • Develop strategy proposals for recommendation to the Board and ensure that agreed strategies are reflected in the business. • Develop annual plans, constant with agreed strategies, for presentation to the board for support. • Plan human resourcing to ensure that the institution has the capabilities and resources required to achieve its plans. • Develop and Organizational structures and establish processes and systems to ensure the efficient organization of resources. • Be responsible to the board for the performance of the business in consistence with agreed plans, strategies and policies. • Lead the executive team, including the development of performance contacts and appraisals. • Oversee the return of the investments.

Procurement Committees	There was no standing Procurement Committee set up at departmental level. Depending on value of the procurement minor or major procurement committee were appointed, on case by case basis.
Audit Committee	The Audit Committee comprises of three non – executive directors. The Audit Committee plays a vital role in the finance and administration where it has the responsibility. • THE AUDIT COMMITTEE During the year 2011, the Audit Committee established following scope of the Audit. 1. Determination of the responsibilities of the internal audit unit and review of the annual audit plans. 2. Review and evaluate internal control system for all activities of the entity 3. Review performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc. 4. Liaise with external auditor and follow up with an Auditor General's/ External auditor's management letters. 5. Ascertain whether statutes, regulations, rules and circulars are complied with. 6. Review financial statements to ensure compliance with Accounting Standards 7. Review internal audit / external audit reports, management letter for remedial action. 8. Review implementation of recommendation / directives of the committee on public enterprises The Audit Committee met 6 occasions during the year 2011. The Audit Committee

	has performed practices to ensure compliance with laws and regulations, the management and monitoring of effectiveness of insurance schemes with the focus of Financial Reporting, External Audit, Compliance and Litigation, Risk Management, internal Control and Internal Audit.																					
Board Meetings	During the year 2011, there were 17 Board Meetings and the Board has maintained an excellent records of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows; <table><thead><tr><th></th><th>Date of Appointment</th><th>No. of Meetings attended</th></tr></thead><tbody><tr><td>Mr. S D Abeygoonesekera Chairman</td><td>10.05.2010</td><td>17</td></tr><tr><td>Dr. L. Samarawickrama Board Member</td><td>11.06.2010</td><td>17</td></tr><tr><td>Mr. A K Seneviratne Board Member</td><td>08.07.2011</td><td>17</td></tr><tr><td>Mr. N Kulasekara Board Member</td><td>18.07.2011</td><td>08</td></tr><tr><td>Mr. J. Dadallage Board Member</td><td>23.06.2010</td><td>16</td></tr><tr><td>Mr. W.H. Piyadasa Board Member</td><td>10.07.2010</td><td>14</td></tr></tbody></table>		Date of Appointment	No. of Meetings attended	Mr. S D Abeygoonesekera Chairman	10.05.2010	17	Dr. L. Samarawickrama Board Member	11.06.2010	17	Mr. A K Seneviratne Board Member	08.07.2011	17	Mr. N Kulasekara Board Member	18.07.2011	08	Mr. J. Dadallage Board Member	23.06.2010	16	Mr. W.H. Piyadasa Board Member	10.07.2010	14
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	The Board Meetings were conducted on a formal agenda which covers the main functions and responsibilities of the Board. The Board reviewed and approved and five year Corporate Plan providing strategic direction to the management.
Accountability and Audit	The Board is accountable to the stake holders of the institution to ensure that the business is conducted in an appropriate manner based on approved business plan and financial and nonfinancial targets of the institution achieved.
Financial Report	The Board ensures that the Financial Statements of the NITF Board are prepared in compliance with relevant Sri Lanka Accounting Standards and the requirements of the Government, as stipulated in the Treasury circulars. • THE ANNUAL REPORT 2011 The Annual Report 2011 of National Insurance Trust Fund has been prepared with the objective of providing an overall assessment of NITF's affairs during the year 2011 in order to make informed decisions. • FINANCIAL STATEMENTS The National Insurance Trust Fund presented its Financial Statements in compliance with the Sri Lanka Accounting Standards and other applicable laws and regulations.



8. GOVERNANCE REPORTING

RISK MANAGEMENT

INTRODUCTION

Broadly, “risk” is defined as any event or uncertainty which impacts the achievement of business objectives including failure to exploit opportunities. Risk is inherent to any business entity and is further enhanced through the surrounding business environment.

Risk management of NITF is a central part of its strategic management. The risk management process of NITF methodically addresses the risks attached to the activities of NITF. The successful risk management initiative of NITF is designed to the level of risk in the NITF and aligned with other corporate activities, comprehensive in its scope, embedding into routine activities and dynamics by being responsive to changing circumstances. The focus of risk management of NITF is the assessment of significant risks and the implementation of suitable risk responses. The objective of NITF is to achieve maximum sustainable value from all the activities of the organization. Risk management of NITF enhances the understanding of the potential upside and downside of the factors that can affect an organization. It increases the probability of success and reduces both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization.

Enterprise Risk Management is the process ongoing and flowing through an entity effected by people at every level of an organization, applied in strategy setting across the enterprise, at every level and unit and includes an entity level portfolio view of risk, designed to identify potential events. The main objectives of Enterprise Risk Management are to manage risk within its risk appetite, to provide reasonable assurance to an entity’s management and board of directors as well as to gear towards achievement of objectives in one or more separate but overlapping categories.

NITF’s Enterprise Risk Management strategy focuses on following interrelated components.

Internal Environment –Internal environment of NITF has been analyzed initially. Internal environment of National Insurance Trust Fund encompasses the tone of an organization structure and culture of NITF and sets the basis for how risk is viewed and addressed by an entity’s people, including risk management philosophy and risk appetite, integrity and ethical values and the environment in which the NITF operate.

Objective Setting – Then the objectives of the NITF have been set accordingly. The objectives must exist before management can identify potential event affecting achievement. Enterprise risk management strategy which ensures that management of NITF has in place a process to set objectives and that the chosen objectives support and align with the NITF’s mission.

Event Identification – Internal and external events affecting achievement of the NITF’s objectives have been identified, distinguishing between risk and opportunities.

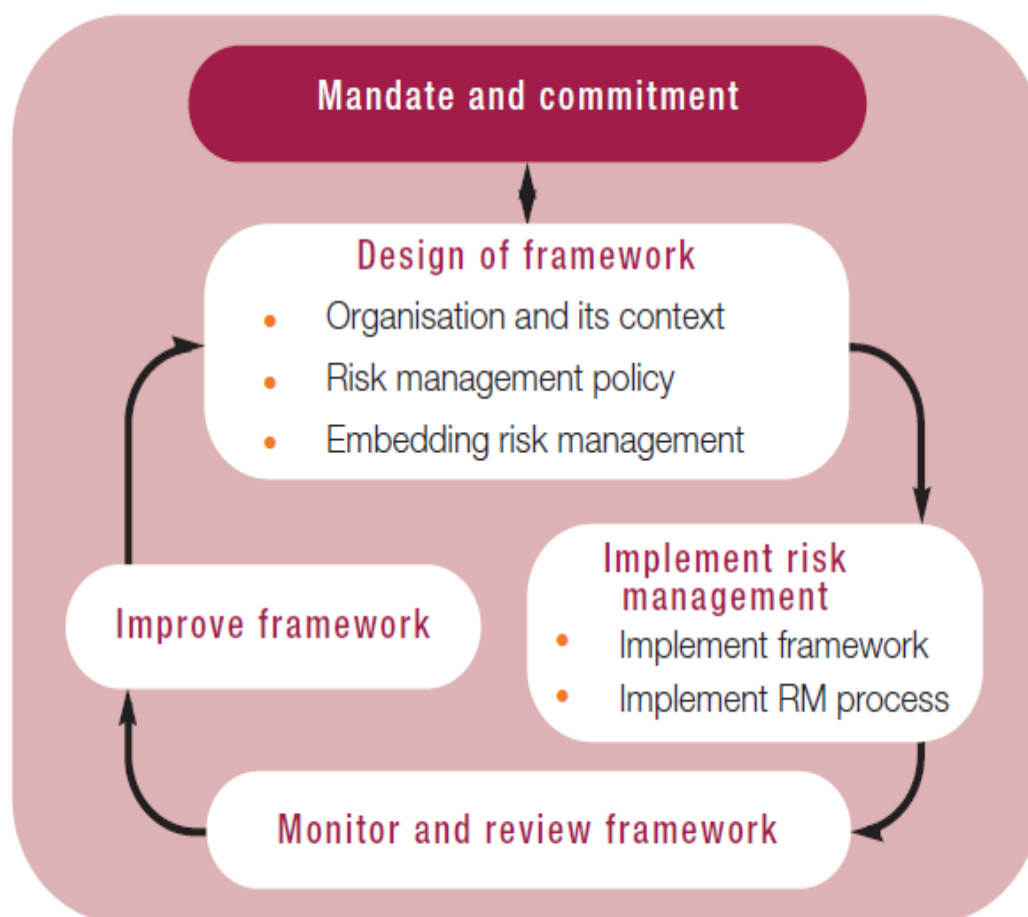
Risk Assessment – Risks of NITF have been analyzed considering likelihood and impact, as a basis for determining how they should be managed

Risk Response – Management of NITF appropriately have selected risk responses – avoiding, accepting, reducing, or sharing risk –a set of actions are developed to align risks with the entity’s risk tolerances and risk appetite.

Control Activities – Policies and procedures of NITF have been established and implemented to help ensure the risk responses are effectively carried out.

Information and Communication – Relevant information of NITF is identified, captured, and communicated in a form and time frame that enable people to carry out their responsibilities. Effective communication also has been occurred in a broader sense flowing down, across, and up the entity.

Monitoring – The strategy of NITF has been monitored and modifications have been made as necessary. Monitoring has been accomplished through ongoing management activities, separate evaluation or both.



THE RESPONSIBILITY OF RISK MANAGEMENT

The Board of Directors and the Audit Committee is responsible for determining the risk management strategy as part of its responsibilities. It is also responsible for monitoring risk and internal controls and communicating the organization's strategy to employees.

The identified risks are prioritized according the assessment of likelihood (frequency) and impact (consequence) quantification.

❖ **R01 -STRATEGIC RISK**

The inability to achieve the strategic objectives is referred to as the strategic risk. This is managed by observing the political, technological, socio- cultural, economic developments in the general environment as well as the competitor and customer dynamics in the task environment of Sri Lanka related to insurance sector which may impact the strategic intent of the National Insurance Trust Fund.

❖ **R02 -COMPLIANCE TRADE RISK**

Compliance risk is defined as the risk of business discontinuity, interruption to business operations and damage to NITF's reputation as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards, which would adversely impact customers, staff and other stakeholders of NITF. The NITF has mitigated the compliance risk by adhering to laws, rules and regulations stipulated by various governing bodies such as Ministry of Finance and Planning.

❖ **R03 -INTERNATIONAL TRADE RISK**

Since NITF is engaged in reinsurance and foreign employment insurance, international politics and trade affects the NITF. Hence the National Insurance Trust Fund minimizes this risk by monitoring trends in the Middle-East countries

in which the Sri Lankan migrant workers are concentrated in and by monitoring the international business trends related to reinsurance sector of NITF.

❖ **R04 -UNDERWRITING RISK**

In 2011, in order to mitigate the burden from escalated claims costs due to possible occurrence of catastrophic events, the reinsurance agreements were entered till the end of October 2011.

❖ **R05- CORPORATE IMAGE RISK**

Corporate image risk occurs if the brand equity of the National Insurance Trust Fund depletes due to a particular event or behavior. NITF minimizes reputational risk by abiding all laws and regulations applicable to NITF. NITF also carries out few marketing activities such as advertorial, participating exhibitions and providing customer satisfaction through service which in turn enhances the NITF corporate image. It also provides releasing financial information to public with the approval of the Board, requiring all employees to show compliance with laws and regulations.

❖ **R06- HUMAN RESOURCE RISK**

The main risk of human resource area is the lack of professionally qualified personnel in the industry. NITF has responded to manage the HR risk by supporting continuous education and development for employees at all levels, providing every opportunity for training. NITF has invested in staff training and staff welfare substantially in 2011.

❖ **R07 –MARKET/BUSINESS RISK**

Business risk occurs when concentrate only in few businesses. This has been mitigated through diversifying into many strategic business units such as Strike, Riot, Civil Commotion and Terrorism insurance, Motor insurance, Agrahara insurance, Foreign Employment insurance General Insurance and Reinsurance etc.

❖ **R08 –FOREIGN EXCHANGE****FLUCTUATION RISK**

Foreign Exchange Transaction Risk occurs due to foreign trade. The Reinsurance Agreements have been contracted in the home currency values for the payment of the reinsurance premium to mitigate this risk.

❖ **R09 –INFORMATION STRATEGY, TECHNOLOGY AND MANAGEMENT RISK**

IT risk derives from data of NITF and current information. NITF counters this by implementation of IT risk mitigation plan. Information security, redundancy and availability is achieved by both infrastructure and database aspects. To provide our clients accurate and current IT services IT department implemented services such as antivirus and backup solutions together implemented with small scale disaster recovery plan.

❖ **R10 - CREDIT RISK**

The Investment Credit Risk is the inability to recover the invested capital and interest. This risk is minimized by risk free investments in Treasury Bills, REPOs and Treasury Bonds which are made only in state banks since the NITF Act restricts NITF to invest in Government securities.

❖ **R11 -OPERATIONAL RISK**

Operational Risk is mitigated by computerization of operations. Internal Audit function of Strike, Riot, Civil Commotion and Terrorism Fund and other department of NITF has being carried out by the Internal Audit

Department in order to minimize the errors and discrepancies of premium collection and claims payments. Furthermore most of the office operations have been automated in order to minimize errors and discrepancies.

❖ **R12 -CONCENTRATION RISK**

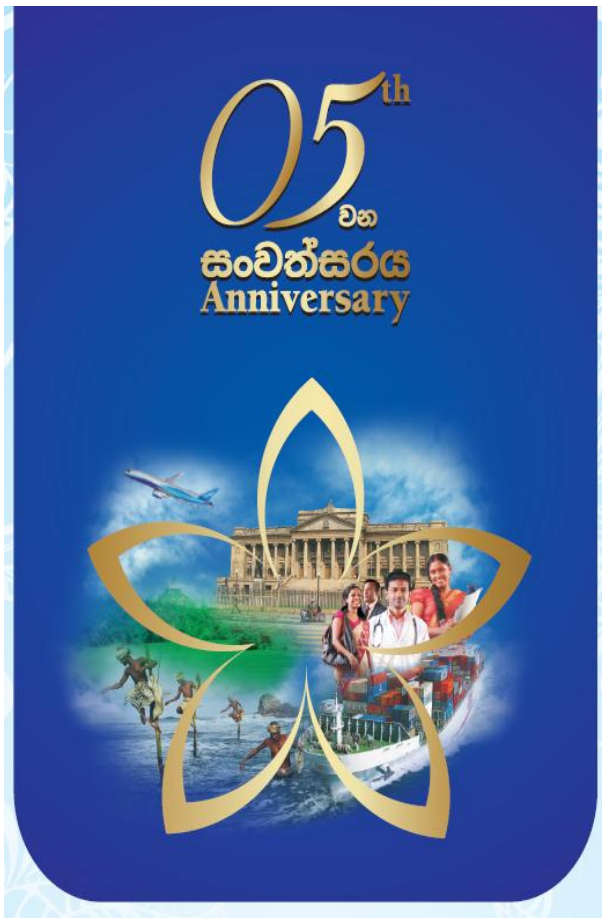
Concentration risk is mitigated through diversification of investments into many banks such as Peoples Bank, Bank of Ceylon and National Savings Bank.

❖ **R13 -LIQUIDITY RISK**

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

❖ **R14 -CLAIMS SETTLEMENT RISK**

Risk of potential disputes arising due to fraudulent, legal and technical factors is controlled through taking initiatives to impose stringent regulations in approving claims and segregation of duties in processing of claims



9. FINANCIAL STATEMENTS-2011

STATEMENT OF INCOME AND EXPENDITURE

STATEMENT OF INCOME AND EXPENDITURE

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	Notes	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010 Total
Revenue					
Net Earned Premium Income	01	1,741,713,258	1,864,651,774	3,606,365,031	3,926,469,856
Benefits, Losses and Expenses					
Insurance claims and benefits	02	(1,717,209,789)	(162,276,907)	(1,879,486,696)	(2,292,072,983)
		24,503,468	1,702,374,867	1,726,878,335	1,634,396,873
Other Revenue					
Investment Income		106,516,361	616,895,880	723,412,241	798,117,037
Interest on Loans		-	10,163,846	10,163,846	16,982,331
Other income		555,784	187,830	743,614	1,006,353
		107,072,145	627,247,556	734,319,701	816,105,721
Expenditure					
Staff related Expenses	03	54,748,938	1,251,916	56,000,854	43,873,415
Administrative Expenses	04	60,373,264	8,542,286	68,915,550	43,588,622
Finance & Other expenses	05	6,144,596	15,437,330	21,581,925	32,425,697
Total expenditure		121,266,798	25,231,532	146,498,329	119,887,735
Income over expenditure		10,308,816	2,304,390,891	2,314,699,707	2,330,614,859

BALANCE SHEET

NATIONAL INSURANCE TRUST FUND

BALANCE SHEET

(All figures in Sri Lankan Rupees)

As at December 31,

	Notes	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010 Total
Assets					
Non-current assets					
Property, plant and equipment	06	22,994,316	6,612,561	29,606,877	36,096,011
Investments		1,260,159,657	3,184,386,606	4,444,546,262	5,574,107,464
		1,283,153,973	3,190,999,167	4,474,153,140	5,610,203,475
Current assets					
Receivables	07	363,301,018	1,564,513,547	1,927,814,565	1,945,815,895
Cash and cash equivalents	08	285,279,676	3,257,690,270	3,542,969,945	3,594,104,553
		648,580,693	4,822,203,817	5,470,784,510	5,539,920,448
Total assets		1,931,734,666	8,013,202,983	9,944,937,649	11,150,123,923
Equity and liability					
Equity					
Accumulated Fund	09	1,713,638,127	6,783,811,580	8,497,449,707	9,695,467,155
		1,713,638,127	6,783,811,580	8,497,449,707	9,695,467,155
Technical Reserves					
Unearned Premium	10	-	963,443,837	963,443,837	821,564,804
Deferred Commission	11	-	(161,486,715)	(161,486,715)	(139,745,300)
		-	801,957,122	801,957,122	681,819,505
Liability					
Non-Current Liabilities					
Government grant		142,150	-	142,150	284,330
Profit Commission payable	12	-	12,287,375	12,287,375	12,287,375
		142,150	12,287,375	12,429,525	12,571,705
Current Liabilities					
Claim Payable	13	160,441,865	231,968,907	392,410,772	518,000,207
Other payables	14	57,512,524	183,177,998	240,690,522	242,265,350
		217,954,389	415,146,905	633,101,294	760,265,557
Total equity and liability		1,931,734,666	8,013,202,983	9,944,937,649	11,150,123,923

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

Daeerapin

Finance Manager

The Board of Directors are responsible for the Preparation and Presentation of Financial Statements

Sign on behalf of the Board

1. *[Signature]*
2. *[Signature]*

STATEMENT OF CHANGES IN ACCUMULATED FUND

(All figures in Sri Lankan Rupees)

As at December 31, 2011

	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010 Total
ACCUMULATED FUND				
Accumulated Fund as at 31.12.2010	1,721,046,466	7,974,420,689	9,695,467,155	9,364,852,296
Prior Year Adjustment	(17,717,155)			
Less: Contribution to Consolidated Fund		(3,495,000,000)	(3,495,000,000)	(2,000,000,000)
Income over Expenditure	10,308,816	2,304,390,891	2,314,699,707	2,330,614,859
Accumulated Fund as at 31.12.2011	1,713,638,127	6,783,811,580	8,515,166,862	9,695,467,155

CASHFLOW STATEMENT

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	2011	2010
<u>Cash flow from operating activities</u>		
Net profit for the period	2,314,699,707	2,338,275,128
Less: Prior year adjustments	(17,717,155)	-
Less: Contribution to Consolidated Fund	(3,495,000,000)	(2,000,000,000)
	(1,198,017,448)	338,275,128
<u>Adjustments for:</u>		
Depreciation	12,182,858	12,348,990
Investment income	(723,412,241)	(798,117,037)
Unearned Premium Income	141,879,032	(225,260,471)
Deferred Commission	(21,741,415)	60,394,237
Operating profit before working capital changes	(1,789,109,214)	(612,359,154)
Decrease /(Increase) in receivables	18,001,331	133,754,524
Decrease in Claim payable	(125,589,435)	(51,474,775)
Decrease in Government Grant	(142,180)	188,500,287
Decrease in Other payables	(1,574,828)	56,571,218
Net cash from operating activities	(1,898,414,326)	(285,007,900)
<u>Cash flows from investing activities</u>		
Purchases of property, plant and equipment	(5,693,724)	(4,841,497)
Withdrawal of (Investment in) Government Securities	1,129,561,201	2,975,663,910
Investment income	723,412,241	798,117,037
Net cash used in investing activities	1,847,279,718	3,768,939,450
Net increase/ (decrease) in cash and cash equivalents	(51,134,608)	3,483,931,550
Cash and cash equivalents at beginning of the period	3,594,104,553	110,173,003
Cash and cash equivalents at end of the period	3,542,969,945	3,594,104,553
<u>Analysis of cash and cash equivalents</u>		
Cash in hand and balances with banks	303,644,906	53,631,851
Short-term investments	3,239,325,039	3,540,472,702
Cash and cash equivalents	3,542,969,945	3,594,104,553

ACCOUNTING POLICIES

1.0 CORPORATE INFORMATION

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

2.0 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements have been prepared under historical cost convention in accordance with generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountant of Sri Lanka.

The financial statements are presented in Sri Lankan Rupees (Rs.)

No adjustment for inflationary factors has been made in these accounts.

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

2.2 Comparative Figures

The accounting policies have been consistently applied by the Fund and are consistent with those used in the previous year. Previous year's figures have been rearranged wherever necessary to the year's presentation

2.3 Capital Commitments

There were no capital commitments as at Balance Sheet date.

ACCOUNTING POLICIES

2.4 Cash Flow Statement

Cash Flow Statement is prepared using “indirect method”

2.5 Related Party Transactions

There were no related party transactions.

2.6 Post Balance Sheet Events

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

2.7 Assets and bases of their valuation

2.7.1 Property, Plant & Equipments

The Property, Plant & Equipments are recorded at cost

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

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

Depreciation

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

Plant & Machinery	Over 10 years
Furniture & Fitting	Over 08 years
Office Equipments	Over 06 Years
Motor Vehicles	Over 05 years

ACCOUNTING POLICIES

2.7.2 Investments

Investment are shown at Cost

2.7.3 Receivables

Collect ability of premiums, interest and other receivables is reviewed on an ongoing basis. Debtors other Receivables which are known to be uncollectible are written off.

2.7.3 Cash & Cash Equivalents

Cash & Cash Equivalents are defined as cash in hand, demand deposit banks for the purpose of cash flow statement, Cash and Cash Equivalent consists of cash in hand deposit in bank net of outstanding bank over draft.

2.8 Liabilities & Provision

2.8.1 Unearned Premiums

Unearned premiums are those proportions of the premium written in a year that related to the period of risk subsequent to the Balance Sheet date. The unearned Premiums are calculated on the 24th basis of Gross Premium.

2.8.2 Deferred Commission

Deferred Commission represents net commission relates to unearned premium

2.8.3 Profit Commission

Profit Commission is calculated and paid in two installments. First installment is paid after six months after end of the accounting period and the second installment after twelve months after end of the accounting period.

2.8.4 Claims Payable

Claims comprise of approved claims which are not paid during the relevant financial year and the provision for outstanding claims which are declared by the members of the fund together with the related expenses and deductions made for reinsurance and salvage recoveries if available.

ACCOUNTING POLICIES

2.8.5 Other Payables

Other payables are stated at their cost

2.8.6 Other Provisions

All known provisions as at the Balance Sheet date have been fully provided for in the accounts.

2.9 Revenue & Expenses

2.9.1 Revenue

Revenue is recognized to the extent that it is probable that economic benefit will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a. Premium Contributions

Premium Contributions are recognized when they fall due.

b. Interest Income

Interest income is recognized as the interest accrues unless future collection is in doubt.

2.9.2 Expenditure Recognition

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

2.10 Contingencies

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT

(All figures in Sri Lankan Rupees)

For the for the year ended December 31,

	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010
01. NET EARNED PREMIUM INCOME				
Contribution from Members	623,424,037	-	623,424,037	595,140,400
Contribution from Treasury	494,229,000	-	494,229,000	442,790,000
Premium income - Motor	215,199,457	-	215,199,457	237,386,267
Premium income- Reinsurance	198,551,912	-	198,551,912	296,078,296
Premium income - Parliamentary members	10,000,000	-	10,000,000	10,000,000
Premium income - Foreign Employment	208,799,952	-	208,799,952	231,968,216
Premium income - GI (Fire, Marine & Misc.)	170,876,837	-	170,876,837	149,796,387
Gross Written Premium - SRCC & Tr	-	2,006,556,886	2,006,556,886	1,874,425,103
Premium Refunds	-	(26,080)	(26,080)	(4,194,863)
Gross Written Premium	1,921,081,195	2,006,530,806	3,927,612,001	3,833,389,806
Reinsurance Premium	(179,367,937)	-	(179,367,937)	(132,180,421)
Net Written Premium	1,741,713,258	2,006,530,806	3,748,244,064	3,701,209,385
Net Change in Reserves for unearned Premium	-	(141,879,032)	(141,879,032)	225,260,471
	1,741,713,258	1,864,651,774	3,606,365,031	3,926,469,856
02. BENEFITS LOSSES & EXPENSES				
Spectacles	180,748,334	-	180,748,334	171,198,748
Pvt Hospital Charges	592,182,669	-	592,182,669	497,586,183
Child Birth	106,577,025	-	106,577,025	92,391,681
Accidents	21,702,772	-	21,702,772	21,090,442
Medical Charges	23,382,719	-	23,382,719	33,195,607
Cardiac	136,497,358	-	136,497,358	118,423,376
Cancer	11,265,221	-	11,265,221	25,415,064
Normal & Accidental Death	162,837,751	-	162,837,751	117,405,559
Motor Claims	127,633,818	-	127,633,818	151,555,078
Vedesharakiya Claim Expenses	182,688,549	-	182,688,549	160,963,358
Reinsurance Claim Expenses	58,145,812	-	58,145,812	202,732,501
Medical Insurance Claim Parliamentary Members	9,419,786	-	9,419,786	6,951,417
Medical Insurance Claim- General Insurance	96,419,651	-	96,419,651	10,598,492
Net Claims Incurred -SRCC & Tr.	-	(141,693,868)	(141,693,868)	303,486,061
Net Commission	7,708,325	303,970,775	311,679,100	379,079,417
	1,717,209,789	162,276,907	1,879,486,696	2,292,072,983
03. STAFF RELATED EXPENSES				
Gross salary	37,855,354	928,197	38,783,551	33,144,287
EPF - 12%	5,597,277	104,184	5,701,461	3,241,705
ETF -3%	1,448,310	26,046	1,474,356	718,647
Overtime and holiday pay	397,571	-	397,571	553,393
Annual Bonus & Incentives	3,020,817	-	3,020,817	2,440,000
Other allowances	2,304,515	193,489	2,498,004	1,218,283
Casual wages	893,414	-	893,414	1,009,717
Gratuity Expense	1,003,705	-	1,003,705	-
Staff Training	789,575	-	789,575	611,471
Staff welfare Expenses	1,438,399	-	1,438,399	935,912
	54,748,938	1,251,916	56,000,854	43,873,415

NOTES TO FINANCIAL STATEMENT

NOTES TO THE INCOME STATEMENT

(All figures in Sri Lankan Rupees)

For the for the year ended December 31,

	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010
04. ADMINISTRATION EXPENSES				
Traveling	314,312	3,220	317,532	177,773
Depreciation	8,959,343	3,322,265	12,281,608	12,348,990
Rent	3,491,492	3,000,000	6,491,492	2,989,145
Water	466,522	-	466,522	301,218
Electricity	3,696,368	-	3,696,368	3,131,932
Telephone	1,522,672	28,053	1,550,725	1,092,359
Printing and stationary	5,284,550	-	5,284,550	3,770,600
Office Repair & maintenance	6,705,080	2,631	6,707,712	5,424,755
Janitorial maintenance	276,326	-	276,326	1,795
Inspection & Assessing	2,799,405	697,846	3,497,251	2,827,975
Dayata Kirula Expenses	3,649,979	-	3,649,979	579,500
Donation	7,846,862	-	7,846,862	3,764,373
Entertainment	225,668	19,793	245,461	18,891
Professional fee	1,350,563	-	1,350,563	1,121,175
Meeting Expenses	548,189	-	548,189	143,897
Ecard printing	4,364,000	-	4,364,000	-
5th Anniversary	724,083	-	724,083	-
Legal Expense	820,206	-	820,206	-
Consultancy fee	644,716	356,200	1,000,916	68,200
Internet & Email expenses	759,809	-	759,809	469,583
Fuel Expenses	468,467	-	468,467	560,964
Vehicle Insurance	272,191	413,445	685,636	313,774
Medical Insurance	161,950	14,067	176,017	120,825
Newspaper and periodicals	68,681	-	68,681	64,937
Annual fees paid to IBSL	400,000	-	400,000	-
Security Charges	1,558,056	-	1,558,056	492,066
Branch opening expenses	-	-	-	472,175
Postage	2,503,743	4,755	2,508,497	2,599,136
Vehicle Maintenance	490,032	680,012	1,170,044	732,585
	60,373,264	8,542,286	68,915,550	43,588,622

05. FINANCE & OTHER EXPENSES

Bank Charges	227,443	307,779	535,221	3,036,418
Audit Fee	-	115,650	115,650	100,000
Nation Building Tax Expenses	-	14,584,151	14,584,151	23,001,951
Stamp Duty	56,150	217,500	273,650	42,223
Technical Advisory Committee Attendance fees	-	117,000	117,000	138,000
Working Committee Attendance fees	-	95,250	95,250	106,500
Exchange Loss	-	-	-	1,540,072
Pannel Attendance fee	-	-	-	6,000
Miscellaneous Expenses	572,804	-	572,804	373,496
Sales Promotion Expenses	323,883	-	323,883	-
Advertising Expenses	4,964,316	-	4,964,316	3,215,018
	6,144,596	15,437,330	21,581,925	31,559,678

NOTES TO FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees)

Note 6: PROPERTY PLANT AND EQUIPMENT

	<u>Motor Vehicles</u>	<u>Office Equipment</u>	<u>Furniture & Fittings</u>	<u>Software</u>	<u>Misc. Assets</u>	<u>Total</u>
<u>Cost:</u>						
Balance as at 01/01/2011	32,722,183	22,390,920	7,964,740	6,542,073	46,398	69,676,383
Additions	1,748,071	3,751,862	168,201	-	25,590	5,693,724
Disposals	-	-	-	-	-	-
Balance as at 31/12/2011	34,470,255	26,142,782	8,132,941	6,542,073	71,988	75,370,107
<u>Depreciation:</u>						
Balance as at 01/01/2011	16,912,387	8,619,070	2,954,874	5,060,633	23,338	33,580,372
Charge for the year	6,123,337	3,941,524	1,004,353	1,113,643	-	12,182,858
Disposals for the year	-	-	-	-	-	-
Balance as at 31/12/2011	23,035,725	12,560,594	3,959,227	6,174,277	23,338	45,763,230
Written Down Value as at 31/12/2011	11,434,530	13,582,187	4,173,714	367,797	48,650	29,606,877

NOTES TO FINANCIAL STATEMENTS

NOTES TO THE BALANCE SHEET

(All figures in Sri Lankan Rupees)

As at December 31,	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010
07. RECEIVABLES				
Premium receivable from BFE	19,032,832	-	19,032,832	34,140,364
Receivable from Treasury	174,321,548	-	174,321,548	174,321,548
Premium Receivable other	7,610,513	1,500	7,612,013	1,952,173
Interest Receivable	26,976,237	131,064,182	158,040,419	219,397,556
Premium Receivable SRCC & Tr	-	338,879,954	338,879,954	234,261,889
Economic Service Charge	21,169,387	-	21,169,387	16,194,393
Receivable from Reinsurance Dept	-	4,262,442	4,262,442	4,262,442
Advances receivable	789,116	6,000,000	6,789,116	1,423,097
Receivable Reinsurance Premium	110,153,464	-	110,153,464	87,440,599
Soft Loans	-	1,054,801,014	1,054,801,014	1,159,234,472
WHT receivable	-	11,611,080	11,611,080	-
Refundable Deposit	974,103	9,000,000	9,974,103	1,693,218
Staff loans	-	8,887,446	8,887,446	9,672,555
Prepaid Expenses	-	5,929	5,929	154,270
Cheque return Receivable from members	2,273,818	-	2,273,818	1,667,318
	363,301,018	1,564,513,547	1,927,814,565	1,945,815,895
08. CASH AND CASH EQUIVALENTS				
Cash at bank	285,132,466	18,361,262	303,493,729	53,485,132
Cash in Hand	147,209	3,968	151,177	146,719
Short term Investments	-	3,239,325,039	3,239,325,039	3,540,472,702
	285,279,676	3,257,690,270	3,542,969,945	3,594,104,553
09. ACCUMULATED FUND				
Accumulated fund	1,721,046,466	7,974,420,689	9,695,467,155	9,364,852,296
Prior year adjustments	(17,717,155)	-	-	-
Less: Contribution to Consolidated fund	-	(3,495,000,000)	(3,495,000,000)	(2,000,000,000)
Income over expenditure	10,308,816	2,304,390,891	2,314,699,707	2,330,614,859
	1,713,638,127	6,783,811,580	8,515,166,862	9,695,467,155
10. UNEARNED PREMIUM				
Balance as at the beginning of the year	-	821,564,804	821,564,804	1,046,825,276
Provision for the year	-	141,879,032	141,879,032	(225,260,471)
Balance as at the end of the year	-	963,443,837	963,443,837	821,564,804

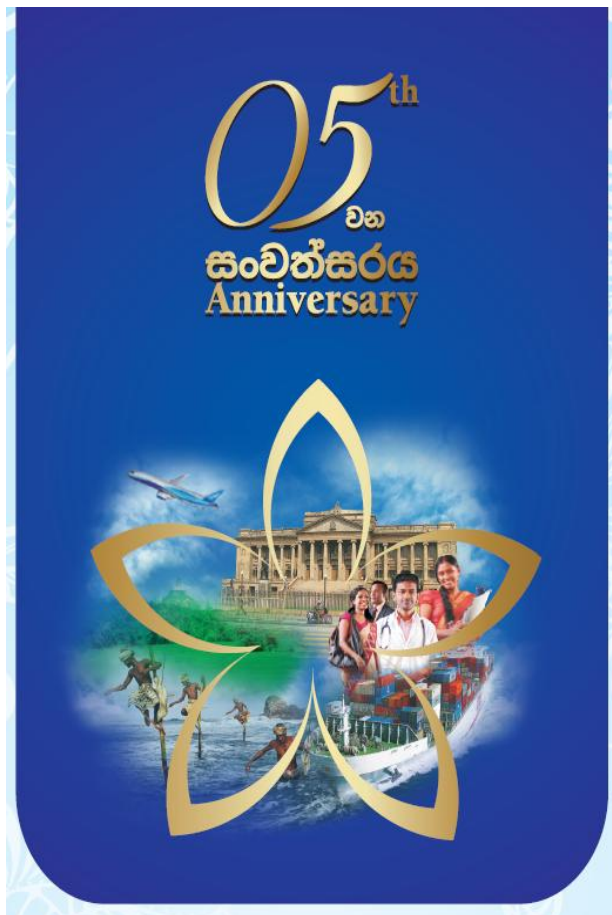
NOTES TO FINANCIAL STATEMENTS

NOTES TO THE BALANCE SHEET

(All figures in Sri Lankan Rupees)

As at December 31,

	2011 Agrahara & Other	2011 SRCC & Tr.	2011 Total	2010
11. DEFERRED COMMISSION				
Balance as at the beginning of the year	-	139,745,300	139,745,300	200,139,536
Provision for the year	-	21,741,415	21,741,415	(60,394,237)
Balance as at the end of the year	-	161,486,715	161,486,715	139,745,300
12. PROFIT COMMISSION PAYABLE				
Profit Commission payable (Payable in 2010)	-	12,287,375	12,287,375	12,287,375
	-	12,287,375	12,287,375	12,287,375
13. CLAIM PAYABLES				
Claims Payable	160,441,865	231,968,907	392,410,772	518,000,207
	160,441,865	231,968,907	392,410,772	518,000,207
14. OTHER PAYABLES				
Accrued Expenses	7,683,966	-	7,683,966	1,840,569
Other Payables	719,582	397,468	1,117,051	476,584
Payable to SRCC & Tr	4,791,126	-	4,791,126	266,298
Gratuity Payable	1,003,705	-	1,003,705	-
Road Safety tax payable	534,523	-	534,523	514,746
Premium Refund Payable	-	11,810,290	11,810,290	11,784,210
Contribution payable to welfare society	54,477	-	54,477	307,807
Claim cheques/SLIP returned payable	2,733,700	-	2,733,700	2,197,021
Audit fee Payable	-	280,000	280,000	325,000
VAT & NBT Payable	39,991,444	20,376,173	60,367,618	50,577,142
Reinsurance Payable	-	150,314,066	150,314,066	173,975,973
	57,512,524	183,177,998	240,690,522	242,265,350



10. AUDITOR'S REPORT



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கணக்காளர் துறை அறிவு திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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 Your No }

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 திகதி
 Date }

30 September 2013

The Chairman,
 National Insurance Trust Fund

Report of the Auditor General on the Financial Statements of the National Insurance Trust Fund for the year ended 31 December 2011 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement and statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 17 of the National Insurance Trust Fund Act, No.28 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Fund on 30 May 2013.

1.2 Management's Responsibility for the Financial Statements

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

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1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Subsections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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

1.4 Basis for Qualified Audit Opinion

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

2. Financial Statements**2.1 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements**2.2.1 Sri Lanka Accounting Standards**

The provision made for gratuity had not been invested in a separate fund in terms of Sri Lanka Accounting Standards No.16.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A sum of Rs.80,575 paid later for the office equipment valued at Rs.275,231 purchased in the year under review had been debited to the Printing Agrahara Expenditure Account instead of debiting the Office Equipment Account.
- (b) Out of the value of tables and chairs purchased in the year under review amounting to Rs.482,541 a sum of Rs.168,200 had been brought to account under the Furniture and Fixtures and the balance sum of Rs.314,341 had been brought to account under the Office Equipment, thus resulting in the understatement of the Furniture and Fixtures by a sum of Rs.314,341 and the overstatement of the Office Equipment by a sum of Rs.314,341. Therefore, the depreciation on Furniture and Fixtures for the year had been understated by a sum of Rs.18,525 and the depreciation of Office Equipment had been overstated by a sum of Rs.15,439 in the financial statements.

- (c) The computers and accessories valued at Rs.1,130,316 not received by the institution and not paid as at 31 December 2011 had been shown as assets in the balance sheet.
- (d) Publication expenditure amounting to Rs.412,916 payable in respect of the year under review had not been brought to account.
- (e) The contingent liability amounting to Rs.218,354,555 relating to 94 cases filed against the Fund claiming compensation had not been disclosed in the financial statements.

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

The following non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.	Non-compliance
(a) Financial Regulations 757(2) and 757(4)	The Board of Survey Reports for the year under review had not been furnished to audit.
(b) Government Procurement Guidelines - Guideline 5.4.4	Even though an advance of 20 per cent of any contract can be paid against the submission of an acceptable advance payment guarantee, contrary to that, 70 per cent or Rs.194,656 had been paid as an advance for the purchase of office equipment.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 8.3.3 (iii)	Incentive allowances amounting to Rs.2,073,317 had been paid in the year under review without the approval of the Treasury.

- (d) Treasury Circular No. 1AI/2002/02 of 28 November 2002
- (i) Even though the particulars of computer assets filled by the supplier in the Forms 02 to 10 should be obtained in the purchase of computer accessories and software, those had not been so obtained.
- (ii) The Internal Audit Division had not supervised the computer assets and submitted the report to the Chairman.
- (iii) Discussion on computer fixed assets which is a compulsory item in the agenda of the Audit and Management Committee, had not been discussed.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the working of the Fund for the year ended 31 December 2011 had resulted in a surplus of Rs.2,314,699,707 as compared with the corresponding surplus of Rs.2,330,614,859 for the preceding year. A decrease of Rs.15,915,152 was observed in the financial results for the year under review as compared with the preceding year due to the decrease in the net insurance premiums earned.

4. Operating Review
-----**4.1 Management Inefficiencies**

The following observations are made.

- (a) Even though the Technical Evaluation Committee had recommended and the Procurement Committee had approved the private company which had submitted the lowest price, out of the bids invited for the purchase of 12 computers in the year under review, that procurement had been awarded on urgent basis to another private company which had quoted a higher price. As such the institution had incurred a loss of Rs.85,980.
- (b) The Procurement awarded to the private company which quoted the lowest price for the purchase of 18 computers in the year under review had been cancelled subsequently and awarded to another institution. As such the institution had incurred a loss of Rs.170,820.
- (c) Even though provisions of Rs.3,000,000 had been made for donations in the budget of the Fund for the year under review, the expenditure incurred on donations amounted to Rs.7,846,862 and exceeded the provisions by a sum of Rs.4,846,862.

4.2 Operating Inefficiencies

The following observations are made.

- (a) Even though an Administration Manual should be prepared in terms of Section 7 of the Public Enterprises Circular No. PED/12 of 02 June 2003, that manual had not been prepared despite the elapse of 06 years after the establishment of the Fund. As such it had not been possible to use such Manual as a guideline for administration.

- (b) The income expected by the Fund from fire, marine and sundry insurance activities amounted to Rs.1,300 million comprising Rs.250 million, Rs.50 million and Rs.1,000 million respectively. But, in view of the restriction of general insurance activities, the income earned during the year amounted to Rs.65.15 million comprising Rs.19.73 million, Rs.2.12 million and Rs.43.3 million respectively and that represented 5 per cent of the expected income.

4.3 Apparent Irregularities / Irregular Transactions

Instead of issuing cheques in the names of the officers for the payment of transport allowances to the Branch Managers, cheques had been issued in the name of another officer and the money had been deposited to the accounts of the Branch Managers subsequently.

4.4 Uneconomic Transactions

The uniforms (sarees) purchased for Rs.952,500 in the year under review did not conform to the specifications, but a higher price had been paid in that connection. That expenditure had become fruitless as many of the female employees do not use uniforms.

4.5 Delayed Projects

An order had been placed with a company on 04 November 2011 for the purchase of 650,000 magnetic cards for Rs.21,450,000 for use by the Agrahara beneficiaries for transactions and for the purchase of 20 magnetic card readers for Rs.370,000. Even though a company had agreed to complete the supply in one month 250,000 only cards had been supplied during that period. Even though a period of 17 months had elapsed by 30 April 2013 after handing over the order with the payment of a sum of Rs.10,389,000, the balance 400,000 cards and the 20 machines had not been supplied. The Bank Guarantee produced by the company had expired by 22 April 2012. The conditions relating to the recovery of the loss to the Fund, liquidated damages for the delay or the loss had not been included in the agreement.

4.6 Staff Administration

The Organization Structure of the Fund assigning powers and responsibilities from top to bottom (pyramidally) had not been prepared. The organization structure of the Fund had been prepared in the form of two Managers and two Assistant Managers in charge of respective Branches directly responsible to the Chairman and the Board of Directors.

4.7 Motor Vehicles Utilization

A motor vehicle insured by the Fund which had met with an accident and condemned and taken over by the Fund had been repaired at a cost of Rs.1,975,222. Only repair cost had been shown as the value of the motor vehicle in the Register of Fixed Assets.

5. Accountability and Good Governance
-----**5.1 Presentation of Financial Statements**

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the financial year. But the financial statements had been presented after a delay of 10 months.

5.2 Internal Audit

The Fund did not have a methodology to obtain the contribution of the Internal Audit for the execution of the activities of the Fund properly and effectively and as such deficiencies were continuously observed. A suitable officer in the approved cadre had not been appointed as the Manager for Internal Audit.

5.3 Procurement Plan

The Fund had not prepared the Master Procurement Plan in terms of Guideline 4.2 of the Government Procurement Guidelines.

5.4 Budgetary Control

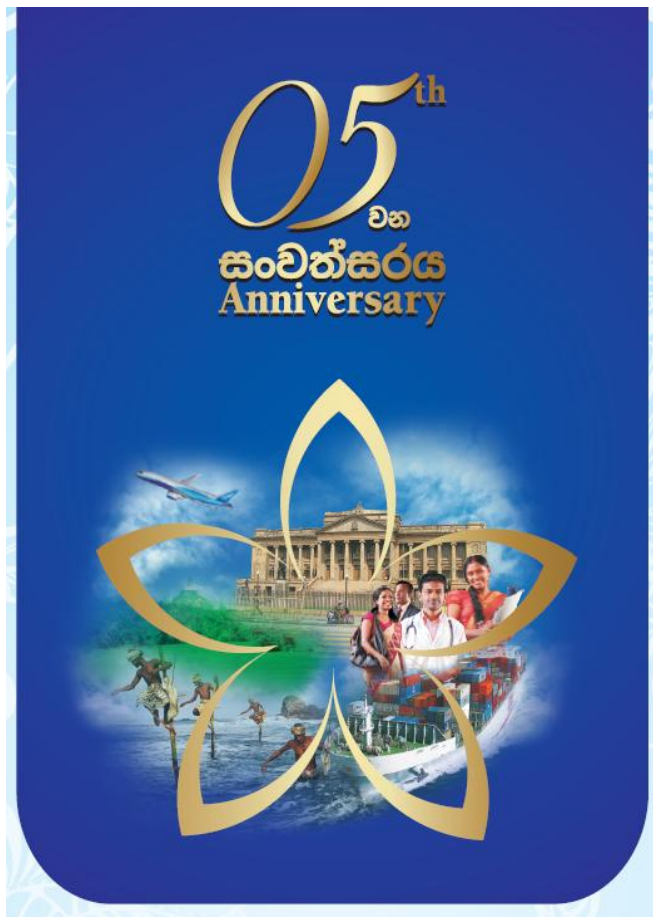
Significant variances were revealed between the budgeted amounts and the actual amounts, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

- (a) Purchase of Goods and Services
- (b) Human Resources Management
- (c) Accounting
- (d) Budgetary Control
- (e) Payment of Advances
- (f) Stores Control

H.A.S. Samaraweera
Auditor General



11. SIX YEARS AT A GLANCE

SIX YEAR SUMMERY-FINANCIAL PERFORMANCE

STATEMENT OF INCOME AND EXPENDITURE

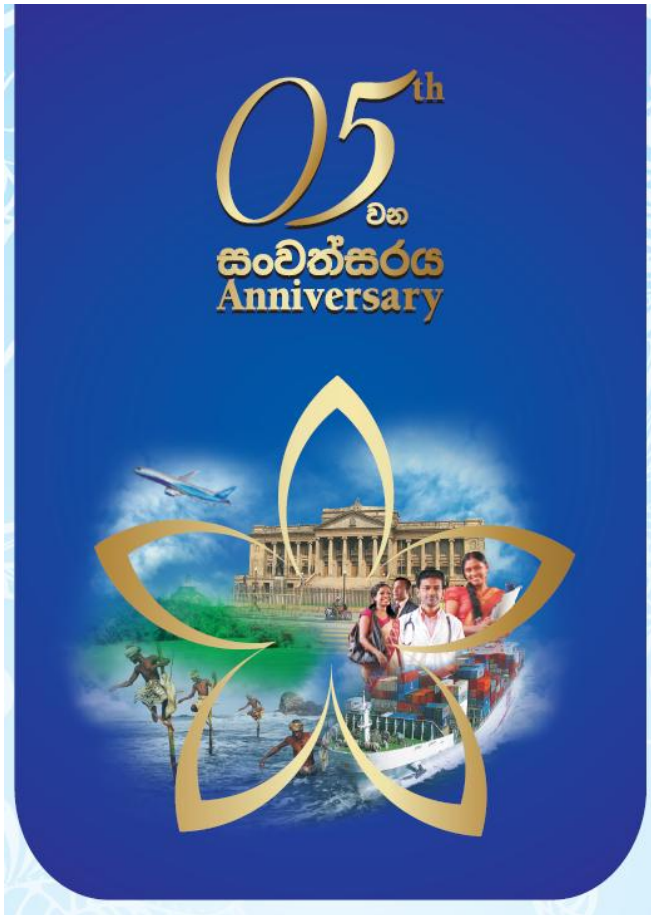
(All figures in Sri Lankan Rupees)

For the year ended December 31,

	2011	2010	2009	2008	2007	2006
Revenue						
Net Earned Premium Income	3,606,365,031	3,926,469,856	4,019,486,220	3,427,950,662	2,654,902,681	318,902,642
Benefits, Losses and Expenses						
Insurance claims and benefits	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)	(1,736,355,732)	(1,423,044,038)	(242,465,993)
	1,726,878,335	1,634,396,873	1,943,549,415	1,691,594,930	1,231,858,643	76,436,649
Other Revenue						
Investment Income	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
Interest on Soft Loans	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
Other income	743,614	1,006,353	471,787	917,841		
	734,319,701	816,105,721	1,380,055,889	1,225,806,111	1,798,837,006	76,436,649
Expenditure						
Staff related costs	56,000,854	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
Administration Expenses	68,915,550	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
Finance & Other expenses	21,581,925	32,425,697	38,401,103	5,380,035	3,385,205	138,170
Total expenditure	146,498,329	119,887,735	120,772,099	55,114,528	29,029,109	2,980,916
Income over expenditure	2,314,699,707	2,330,614,859	3,202,833,204	2,862,286,514	1,769,807,897	73,455,733

SIX YEAR SUMMERY-FINANCIAL POSITION

BALANCE SHEET		<i>(All figures in Sri Lankan Rupees)</i>				
<i>As at December 31,</i>						
	2011	2010	2009	2008	2007	2006
Assets						
<u>Non-current assets</u>						
Property, plant and equipment	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465	1,461,388
Investments	4,444,546,262	5,574,107,464	8,550,206,721	7,749,178,616	5,449,343,240	-
	4,474,153,140	5,610,203,475	8,593,810,225	7,793,838,397	5,474,583,705	1,461,388
<u>Current assets</u>						
Receivables	1,927,814,565	1,945,815,895	2,079,570,419	1,988,501,988	2,221,955,826	511,844,970
Cash and cash equivalents	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122	13,357,202
	5,470,784,510	5,539,920,448	2,189,743,421	2,228,297,246	2,782,214,948	525,202,172
Total assets	9,944,937,649	11,150,123,923	10,783,553,646	10,022,135,643	8,256,798,653	526,663,560
<u>Equity and liability</u>						
<u>Equity</u>						
Accumulated Fund	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
<u>Technical Reserves</u>						
Unearned Premium	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727	
Deferred Commission	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)	
	801,957,122	681,819,505	846,685,740	856,318,432	716,378,499	-
<u>Liability</u>						
<u>Non-Current Liabilities</u>						
Government grant	142,150	284,330	719,190	719,190	719,190	719,190
Profit Commission payable	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257	719,190
<u>Current Liabilities</u>						
Claim Payable	392,410,772	518,000,207	329,499,921	333,321,632	602,777,397	
Other payables	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	633,101,294	760,265,557	507,533,784	639,442,967	872,469,968	431,842,361
Total equity and liability	9,944,937,649	11,150,123,923	10,783,553,647	10,022,135,643	8,256,798,653	526,663,560



12. CORPORATE INFORMATION

❖ ***Name of the Institution:***

National Insurance Trust Fund

❖ ***Legal Form***

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

❖ ***Office Address***

National Insurance Trust Fund

No. 97, Maradana Road,

Colombo 10

❖ ***Auditors:***

The Auditor General

❖ ***Bankers:***

Peoples Bank, Bank of Ceylon, National Savings Bank

